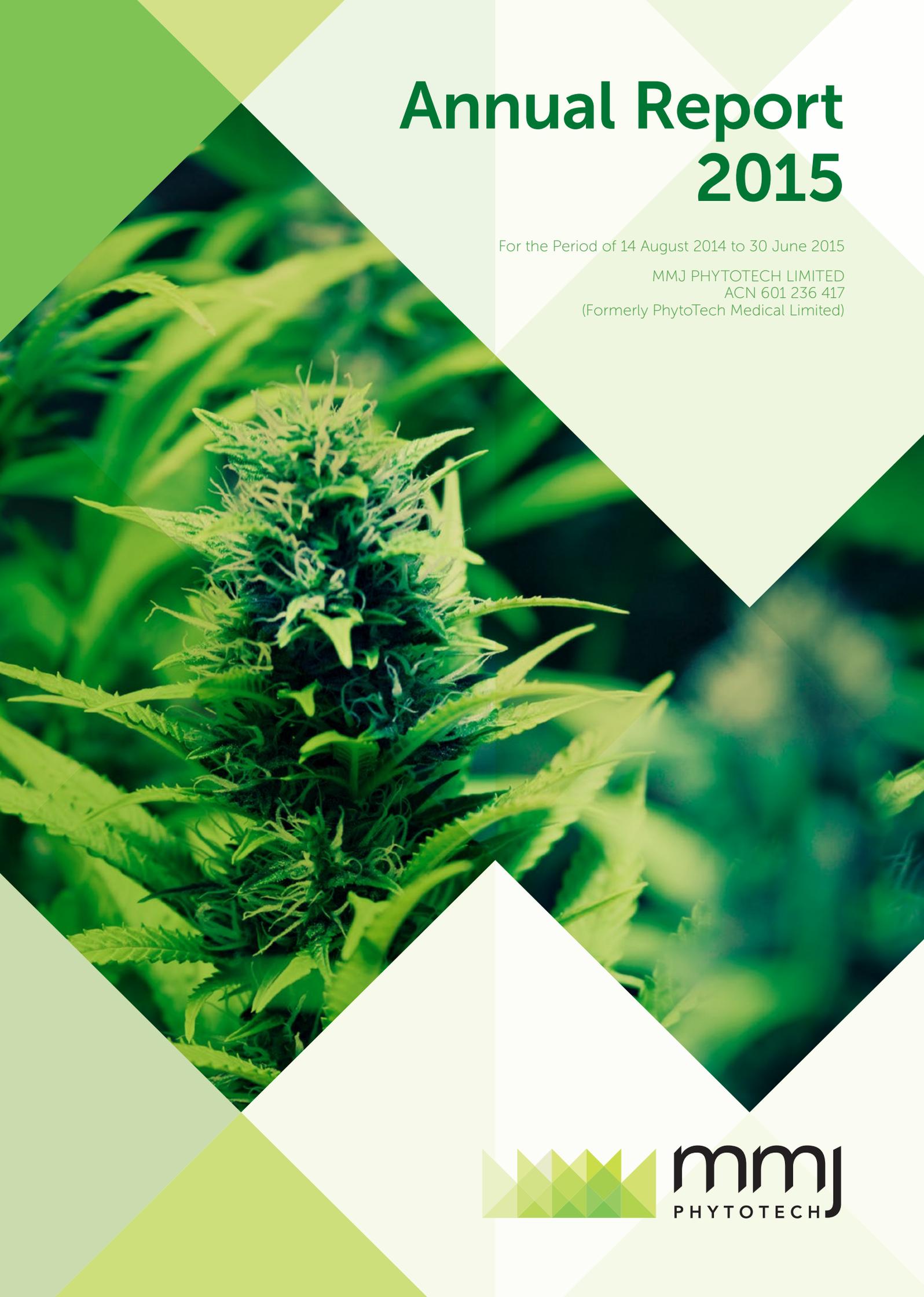


Annual Report 2015

For the Period of 14 August 2014 to 30 June 2015

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



mmj
PHYTOTECH

Corporate Directory

Directors

Peter Wall

Non-executive Chairman

Andreas Gedeon

Managing Director

Winton Willesee

Non-executive Director

Jason Bednar

Non-executive Director

Ross McKay

Non-executive Director

Company Secretary

Erlyn Dale

Auditor

BDO Audit (WA) Pty Ltd

38 Station Street
Subiaco WA 6008

Solicitor

Steinepreis Paganin

Level 4, 16 Milligan Street
Perth WA 6000

Bankers

National Australia Bank

1232 Hay St
West Perth WA 6005

Share Registry

Automatic Registry Services

Suite 1a, Level 1
7 Ventnor Avenue
West Perth WA 6005

Securities Exchange Listing

Australian Securities Exchange

ASX Codes: MMJ, Ordinary fully paid shares

Principal registered office in Australia

Suite 25
145 Stirling Highway
Nedlands WA 6009

Website

www.mmjphytotech.com.au

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Directors' Report

Your Directors present their report on the Consolidated Entity (Group) consisting of MMJ PhytoTech Limited ("MMJ PhytoTech" or the "Company") (formerly PhytoTech Medical Ltd) and the entities it controlled at the end of, or during, the period ended 30 June 2015.

Directors

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

Peter Wall	Non-executive Chairman (<i>appointed 14 August 2014</i>)
Andreas Gedeon	Managing Director and CEO (<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</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>)
Ross Smith	Executive Director (<i>appointed 14 August 2014, resigned 2 February 2015</i>)
Loren Jones	Non-executive Director (<i>appointed 14 August 2014, resigned 21 October 2014</i>)

Principal activities during the period

The Company was registered on 14 August 2014 and was admitted to the Official List of Australian Securities Exchange on 20 January 2015 following a successful raising of \$5.9 million in an Initial Public Offering.

The Company was established with the goal to supply medical grade cannabis based therapeutics products to the rapidly growing international market, with regulated medical cannabis legislation. The Company's core focus was initially to research, develop and commercialise cannabis products for the administration of Medical Grade Cannabis (MGC) as well as to seek further acquisitive opportunities within the global cannabis market in line with the Company's overall goal to become a vertically integrated enterprise that is able to service all parts of the medical cannabis industry.

The Directors are pleased to confirm that the cash assets of the Company have been used in a way that is consistent with the above business objectives. Further details on the activities of the Company during the reporting period are set out in the **Review of Operations** section below.

Significant changes in the state of affairs

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

- **United Greeneries** – the Group's Canadian-based cultivation division which owns and operates the Group's two growing facilities, the Duncan Facility and the Lucky Lake Facility, both of which have pending applications to become Licensed Producers under the MMPR.
- **Satipharm** – the Group's European cannabis-based, pharmaceutical, nutraceutical and cosmetics processing and distribution division which holds a number of key international partnerships for the production and distribution of cannabinoid-based pharmaceutical, nutraceutical and wellness products.
- **PhytoTech Therapeutics** – the Group's 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.

Directors' Report

Financial Overview

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

	Period of 14 August 2014 to 30 June 2015 \$
Revenue	48,082
Loss before income tax expense	(4,882,396)
Income tax benefit/(expense)	-
Loss attributable to members of MMJ PhytoTech Limited	(4,882,396)

Financial Position

The Group has a total contributed equity of \$5,827,617 at the end of the reporting period.

During the period the Group had an increase in contributed equity of \$6,892,606 excluding share issue costs as a result of the issue of 15,000,000 seed and promoter shares at incorporation and the completion of an Initial Public Offering issuing a total of 29,662,050 fully paid ordinary shares.

At the end of the period the Group had a net cash balance of \$1,909,808 and net assets of \$3,593,879.

Total liabilities (being trade and other creditors and provisions) amounted to \$220,692.

Losses during the period are attributable primarily to share-based payments to directors and consultants, research and development expenditure as well as legal, corporate advisory, and other fees paid in connection with the Company's Initial Public Offering and the Company's merger with MMJ Bioscience Inc.



Directors' Report

Review of Operations

Our Company was incorporated as PhytoTech Medical Limited on 14 August 2014 with the vision to become Australia's first ASX-listed, vertically integrated medical cannabis (MC) company.

In December 2014, the Company released a Prospectus under which it sought to raise up to \$5 million through the issue of up to 25,000,000 shares under its Initial Public Offering (IPO).

The Company's IPO received a significant level of support from the investor community, with the Company successfully raising \$5.9 million at \$0.20 per share under the significantly oversubscribed offer.

Upon its admission to the official list of the Australian Stock Exchange (ASX) on 20 January 2015, the Company had sufficient resources to pursue its stated business objectives which included the research and development (R&D) of non-smoking MC delivery systems and entry into the legal MC cultivation space. The Company quickly identified the potential value of vertical integration in the MC market and the synergies that could be realised by combining an MC-related R&D business with a cultivation business. The Company felt the long-term value creation potential of the R&D activities combined with the near-term cash flow potential of a cultivation operation would result in a unique and compelling investment proposition and was the best way to utilise the Company's recently raised capital.

To this end, the Company commenced work on the establishment of its R&D operations in Israel, securing the appointments of Dr Benad Goldwasser and Dr Daphna Heffetz as Chairman and Chief Executive Officer, respectively, of the Company's Israeli subsidiary, PhytoTech Therapeutics Limited.

The Company then subsequently secured an exclusive licensing agreement with Yissum Research Development Company ("Yissum"), a leading technology transfer company based in Israel. Under this licensing agreement, the Company intends to develop oral capsule and buccal patch products containing a combination of Cannabinoid (CBD) and Tetrahydrocannabinol (THC).

Shortly after, on 27 February 2015 the Company announced that it had executed a heads of agreement with Canigma A.L. Ltd to develop a capsule based vaporiser device for administering MC, potentially adding a third product to the Company's portfolio.

The Company commenced entry into the cultivation space by performing an extensive review of global opportunities. The review concluded that the quickest, lowest risk and lowest cost entry point into the space would be through an acquisition of a Canadian late stage Marijuana for Medical Purposes Regulations (MMPR) applicant. Further, the Company identified MMJ Bioscience Inc. (MMJ) as an ideal candidate within the defined subset of cultivation opportunities.

MMJ Bioscience Inc. was a very suitable match with complementary assets and timing of expected cash flows, 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. had already begun vertically integrating by establishing R&D operations in Canada and Europe and created a European subsidiary, Satipharm, which had designed a CBD supplement that was expected to launch in the near-term. MMJ Bioscience Inc. had also established key relationships with suppliers, universities and other related players globally that would be valuable to any future pharmaceutical initiatives. MMJ Bioscience Inc.'s existing assets would fit with the Company's expertise on the pharmaceutical end of the spectrum. MMJ Bioscience Inc. also had several potential near-term revenue streams which matched up well with the long term cash flow profile of the R&D pursuits of PhytoTech Therapeutics. Further, the combined entity would have a global footprint with an active presence in several key MC markets worldwide. MMJ Bioscience Inc. and the Company would produce a unique vertically integrated, global MC company with near term revenues.

On 24 March 2015 the Company announced that it had entered into a binding heads of agreement for a "merger of equals" transaction with MMJ Bioscience Inc. MMJ Bioscience Inc. had three fully owned subsidiaries, which joined the merged entity as part of the deal. These included, United Greeneries Ltd (horticulture entity, late stage MMPR applicant in Canada), Satipharm (pharmaceutical and nutraceutical developer and distributor in Europe), AgriChem Analytical (Canadian quality control and testing laboratory for MC, water, soil etc.). The merger sought to capitalise on the significant synergies between the two companies.

On 29 June 2015 shareholders of the Company approved the merger transaction which provided for the issue

of up to 68,000,000 shares to the vendors of MMJ Bioscience Inc as follows:

- (a) up to 51,000,000 Shares upon settlement of the merger;
- (b) up to a total of 8,500,000 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; and
- (c) up to a total of 8,500,000 Shares in the event that MMJ Bioscience Inc and its subsidiaries generate in aggregate at least CDN\$5,000,000 in revenue from operating activities within 36 months of Settlement.

Subsequent to the end of the financial period, the Company completed its merger with MMJ Bioscience Inc on 27 July 2015 and is now operating as one entity under the name, MMJ PhytoTech Limited (ASX:MMJ). Further details on the settlement of the merger transaction are set out under Note 25 to the Financial Statements.

Further details on the activities of the Group, both during and subsequent to the end of the reporting period are set out in the **Post-Merger Group Overview** section below.

Subsequent Events

Subsequent to the end of the financial period, the Company completed its provisionally accounted merger with MMJ Bioscience Inc on 27 July 2015 and is now operating as one entity under the name, MMJ PhytoTech Limited (ASX:MMJ). Further details on the settlement of the merger transaction is set out under Note 25 to the Financial Statements.

Board and Management Changes

Upon the completion of the merger, Messrs Andreas Gedeon, Jason Bednar and Ross McKay joined the Board of the Company. 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 Ltd, the Company's Israeli subsidiary.

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

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

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

- Michael Hinam as CEO United Greeneries, the Canadian horticultural operations;
- Tomas Edvinsson 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.

With its strong board and management team in place, the Company also advised that it had dissolved its Scientific Advisory Committee, which was initially established to support the Company during its initial public offering. Former Chairman of the Scientific Advisory Committee, Professor Donald Abrams, will continue to consult with the Company in an informal capacity, as and when required.

Other events after reporting date

In addition to the above, the Company also made the following announcements:

- On 13 July 2015 the Company announced that its subsidiary, Satipharm, had executed an agreement with Ai Fame GmbH for the exclusive right to market and distribute all Ai Fame medical cannabis

Directors' Report

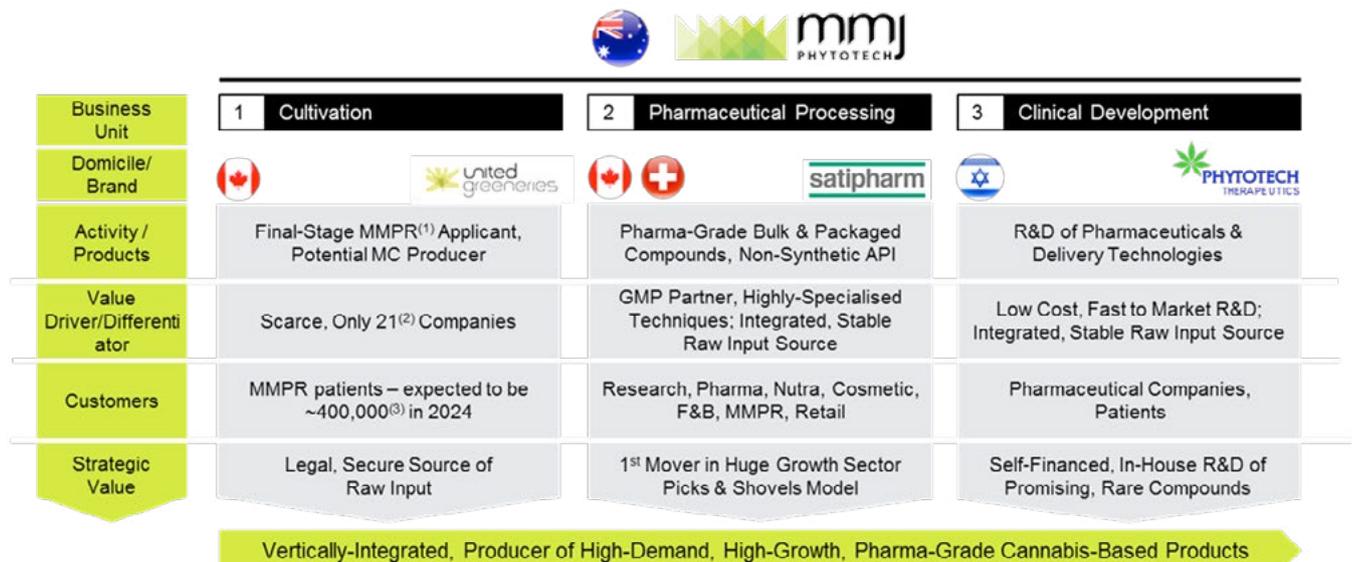
products globally, significantly expanding the Company's medical cannabis product portfolio with the addition of five new Active Pharmaceutical Ingredients (API) which can be sold externally to other products and R&D companies for use in clinical research and pharmaceutical products.

- On 28 July 2015, the Company announced that it had issued the following securities:
 - 51,000,000 Shares issued to the vendors of MMJ Bioscience Inc in connection with the merger of the two companies, subject to various escrow conditions as noted above.
 - 1,530,000 Shares issued as an Introducers Fee to parties who facilitated the introduction of the Company and MMJ Bioscience Inc, 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 current directors, Mr Willesee, Mr Bednar and Mr McKay as approved by shareholders at the General Meeting held on 29 June 2015.
 - 1,500,000 Class E Options issued to the Chairman of the Company's Israeli subsidiary, PhytoTech Therapeutics Ltd, Mr Goldwasser as approved by shareholders at the General Meeting held on 29 June 2015.
- On 5 August 2015, the Company announced that it had completed the issue of 16 million Shares under an oversubscribed placement to sophisticated investors which raised \$4.8 million (before costs) to accelerate the growth of the Company's European operations. On the same date the Company issued 313,333 Shares in lieu of capital raising fees in connection with the Placement.
- On 24 August 2015, the Company confirmed that it had received the necessary regulatory approvals to undertake its first clinical study to assess the safety and performance of its proprietary oral capsule formulations in Israel. The Company intends to commence the study by November 2015 with initial results expected as early as Q1, 2016.
- On 26 August 2015, the Company announced that it had issued 3,750,000 Shares to certain Class A & B Performance Rights holders upon the vesting of those performance rights.
- On 31 August 2015, the Company announced first revenues from sales of its Gelpell CBD capsules by its Swiss-based subsidiary, Satipharm. The Company also announced the official launch of its online direct sales platform, Satipharm.com to facilitate online sales of the capsules to retail customers in the European Union.

Post-Merger Group Overview and Likely Developments

MMJ PhytoTech Limited (ASX:MMJ) is a unique, vertically-integrated medical cannabis company, which aims to commercialise Medical Grade Cannabis (MGC) and high potential cannabis based therapeutics products to the rapidly growing international market with regulated medical cannabis laws.

Following the completion of the Company's merger with MMJ Bioscience Inc on 27 July 2015, the Company now controls operations across the entire Medical Cannabis value chain through three business units:



Notes: (1) 'Marihuana for Medical Purposes Regulations'. Federal Canadian regulations overseen by Health Canada governing quality, security, supply and access to medical marijuana in Canada. MMJ received a letter From Health Canada April 1st, 2015, known as the 'Confirmation of Readiness Letter' which is the final communication prior to Health Canada booking and performing a pre-licensing inspection. to the knowledge of the Company and its advisors, no group has received a "Confirmation of Readiness Letter" and not been subsequently licensed. (2) Pro Forma for Tweed's Acquisition of Bedrocan Canada. In total there are 25 licenses (6 cultivation, 19 cultivation and sale) that have been granted but there are 21 companies that possess them. Tweed owns two licensed facilities as does Bedrocan and Mettrum. (3) Company estimate based on Health Canada estimates (<http://gazette.gc.ca/rp-prp/1/2012/2012-12-15/html/reg4-eng.html>), industry reports and equity research

Cultivation

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

United Greeneries owns and operates the Group's two growing facilities, the Duncan Facility and the Lucky Lake Facility, both of which have pending applications to become Licensed Producers under the MMPR.

The Duncan and Lucky Lake Facilities have a combined area of 78,000 ft² and potential production capacity of 11,700 kg of dried cannabis per year. Additionally, United Greeneries owns 18 acres of land at the Lucky Lake Facility site which is available for organic expansion that could support up to an additional 800,000 ft² of cultivation area in custom two storey structures.

In addition to its growing operations, United Greeneries also manages AgriChem Analytical, a fully compliant in-house quality assurance and quality control laboratory.

(a) Duncan Facility

The Duncan Facility is a 16,000ft² state-of-the-art MC facility on Vancouver Island, BC. The facility has roughly 10,000ft² of cultivation area, a 1,000ft² cleaning area, and is also home to AgriChem Analytical's fully compliant QA/QC laboratory. The facility has a level 8 vault which, once licensed, will allow for the storage of up to 600 kg of MC (with an estimated worth of approximately \$6 million). With cultivation capacity of between 700-1,000kg/year, Duncan has significant excess processing capacity that can be potentially utilised later by United Greenies to process internal or third party materials. The market price for most medical cannabis sold in Canada has tended down slightly from the CAD\$7-\$10 per gram averages seen earlier in the year as more supply comes online MMJ PhytoTech is evaluating other potential customers or uses of the MC produced at Duncan but this evaluation is at a preliminary stage.

Directors' Report

The Duncan Facility is currently leased to MMJ PhytoTech 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).

The MMPR application for the Duncan Facility was submitted very early in the process, with the details of the MMPR being announced on 10 June 2013, and the Duncan Facility's application being submitted on 12 July 2013. The Duncan Facility is now in the final stages of license approval under the MMPR, having received all required clearances and awaiting a final inspection by Health Canada.

On April 1, 2015, United Greeneries received a 'confirmation of readiness letter' from Health Canada regarding the Duncan Facility. Very few letters of this nature are issued by Health Canada and to the knowledge of MMJ PhytoTech and its advisors, a 'confirmation of readiness letter' has never been issued regarding a facility without that facility subsequently being licensed in some form under the MMPR. The receipt of this letter was welcomed by the Group as it significantly de-risks the operation of the business going forward.

United Greeneries is now focusing all of its efforts on the Duncan Facility in an attempt to move the licensing along as quickly as possible. Upon MMJ PhytoTech confirming that the site has been fully built and security measures are in place, a pre-licence inspection will be scheduled with Health Canada.

With the assistance of best-in-class consultants and the continued hard work of the onsite crew at the Duncan Facility, MMJ PhytoTech management predict a likely timeline to becoming an authorised Licensed Producer is as follows (assuming all licensing steps are satisfied):

- (i) pre-licence inspection in mid October 2015; and
- (ii) license to cultivate to be granted by December 2015.

(b) *Lucky Lake*

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 spring of 2015 and the company is awaiting more advanced communications before deciding how quickly to build the facility out.

Strong community support for the project combined with the 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. The land and infrastructure at the property are capable of accommodating another 800,000ft² of cultivation area in custom two storey structures in the future (each of which would need to be licensed.)

The application for licensing of the Lucky Lake facility under the MMPR was submitted in March 2015 and is in the initial phase of review.

(c) *The MMAR*

The Medical Marijuana Access Regulations (**MMAR**) came into effect across Canada on 30 July 2011. The objective of the MMAR was to provide seriously ill persons residing in Canada with a means to obtain an authorisation to possess marijuana and/or a licence to produce marijuana for medical purposes.

Further to court decisions that took place in 2013, Health Canada was mandated to provide a framework under the MMAR for authorised persons to gain access to a legal supply of marijuana seeds and/or dried marijuana for medical purposes. This was undertaken so that authorised persons would not have to use the illicit market. In December 2013, Health Canada released its policies, which provided the framework by which authorised persons could access Health Canada's supply of marijuana seeds and/or dried marijuana for medical purposes.

In order to deal with the unintended consequences of diversion, quality control issues and safety concerns in respect to a number of Canadian communities, Health Canada refined its approach with the development of the MMPR.

The MMPR was designed to develop minimal production and distribution conditions for the commercial industry. The MMPR provide access to quality-controlled dried marijuana for medical purposes, produced under secure and sanitary conditions, to those Canadians who need it, while strengthening the safety of Canadian communities.

Under the MMPR:

- (i) the process for applicants and health care practitioners is streamlined, eliminating the need for individuals to provide Health Canada with their personal information or apply to the department;
- (ii) personal and designated production by individuals in their homes was eliminated on March 31, 2014, however as indicated below, the effect of some interim injunctions allows certain individuals to continue to produce;
- (iii) dried marijuana and now cannabis oil, fresh marijuana buds and leaves can be distributed for medical purposes through regulated, commercial Licensed Producers who produce a variety of strains;
- (iv) Licensed Producers must demonstrate compliance with regulatory requirements such as quality control standards, record-keeping of all activities, as well as inventories of marijuana, and physical security measures to protect against potential diversion;
- (v) storefronts or retail outlets are not permitted; and
- (vi) physicians and nurse practitioners, if permitted within their respective province or territory, may enable patients to purchase the appropriate amount for their medical condition from a Licensed Producer.

The MMAR were repealed on 31 March 2014, however, as a result of a Federal Court interim injunction granted on 21 March 2014, individuals who were previously authorised to grow marijuana under the MMAR, and who meet the terms of the Court order, will be able to continue to do so on an interim basis until the Court reaches a final decision. As ordered by the Court, individuals who had a valid "Authorisation to Possess" on 21 March 2014 may continue to hold a maximum quantity of dried marijuana as specified by their Authorisation to Possess up to a maximum of 150 grams.

On 8 July 2015 in a response to a Supreme Court of Canada decision, Health Canada announced that licensed producers are now permitted to produce and sell cannabis oil and fresh marijuana buds and leaves in addition to dried marijuana. This landmark change in the MMPR policy is very good news for MMJ PhytoTech as many opportunities to utilise our highly specialised extraction techniques and growing supply of extracts to potentially service the market exist.

The process of becoming a Licensed Producer under the MMPR has been refined and made more comprehensive since its introduction. For example, after passing the pre-license inspection applicants are no longer granted a fully authorised license but a cultivation only license. The cultivation license does not allow for distribution or sale of marijuana to the public. Applicants are granted the full distribution license and become a "Fully Authorised Licensed Producer" after demonstrating the ability to cultivate marijuana properly and safely and once they have built sufficient inventory.

In Canada, the following activities require a fully authorised commercial production licence under the MMPR:

- (i) possessing, producing, selling, providing, shipping, delivering, transporting, and destroying marijuana;
- (ii) possessing and producing cannabis, other than marijuana, solely for the purpose of conducting in vitro testing that is necessary to determine the percentages of cannabinoids in dried marijuana; and
- (iii) selling, providing, shipping, delivering, transporting, and destroying cannabis that was obtained or produced solely for the purpose of conducting in vitro testing that is necessary to determine the percentages of cannabinoids in dried marijuana.

Directors' Report

It is necessary for a Licensed Producer to submit separate applications for each physical site where they propose to undertake activities licensed under the MMPR.

A Licensed Producer may sell or provide dried marijuana to another Licensed Producer, a licensed dealer under the MMPR, the Minister, or a person or class of persons to whom the Minister has exempt under section 56 of the Controlled Drugs and Substances Act 1996 (S.C.).

A Licensed Producer may also import and export marijuana if they do so in accordance with an import permit issued under section 75 and an export permit issued under section 83 of the MMPR.

(d) *Application process steps for becoming an MMPR Licensed Producer (as per Health Canada)*

Step 1: Preliminary Screening:

The application is screened for completeness. If complete, an application number is assigned. Otherwise, the application is returned.

Step 2: Enhanced Screening:

Once an application has been assigned an application number, it will be reviewed to ensure:

- (i) that the location of the proposed site does not pose a risk to public health, safety and security;
- (ii) that the proposed security measures outlined in the application meet the requirements of the MMPR; and
- (iii) the proposed quality assurance person has the appropriate credentials to meet the good production requirements outlined in Division 4 of the MMPR.

Step 3: Security Clearance

Security clearance forms for key personnel are sent for processing. The time required to conduct mandatory security checks varies with each application. Applicants should expect that security clearances will take several months at a minimum. Applications do not advance until clearances for the key personnel are completed. Health Canada will not communicate with you until results of security checks are received.

Step 4: Review

Once all security clearances are obtained, an application will be thoroughly reviewed to validate the information provided. Given the extensive review process, applicants should anticipate communicating with the Office of Controlled Substances multiple times to provide clarifications on the application.

Step 5: Ready to build letter (if required by applicant)

Upon successful completion of the review stage, applicants may request that Health Canada issue a "ready to build letter". The "ready to build letter" is a notice informing the applicant that, if the Licensed Producer's site is built to the specifications outlined in their application, the physical security measures will meet the requirements of the MMPR. The "ready to build letter" is not a guarantee that a licence will be issued.

Step 6: Pre-licence inspection

Upon confirmation from the applicant that the site has been built and security measures are in place, a pre-licence inspection will be scheduled. If any deficiencies are identified, they will be communicated to the applicant and must be addressed prior to a licence being issued.

Step 7 (& 8): Licensing

If the pre-licence inspection is passed, a license will be issued. Health Canada has introduced a staged process for the issuance of licences. Applicants will first be issued a licence to produce only. This will enable Health Canada inspectors to confirm that the first batch of dried marijuana produced meets the

good production practices and record keeping requirements outlined in the MMPR. It also allows Health Canada to verify the test results of the dried marijuana (e.g. for microbial and chemical contaminants) to ensure that the dried marijuana meets all quality control requirements before it is made available for sale.

(e) *MMPR Licences Today*

As at the date of this Annual Report, Health Canada has a total of 25 LPs listed on its list of Licensed Producers. Of these Licensed Producers, 19 are fully authorised to cultivate and sell finished product to registered customers, 4 have a license restricted to the cultivation of medical marijuana only and 2 have a license restricted to the sale of finished product to customers only. Further, there are 3 companies (Tweed, Mettrum, Bedrocn) that own 2 licenses. So there are currently 22 unique companies with some form of licensing under the MMPR. If Tweed's acquisition of Bedrocan Canada is completed that number is reduced to 21.

(f) *Post-Licence Strategy for Growing Operations*

For pre-licensing inspection, facilities have to be fully operational so the transition from pre-license inspection to first crop is not an extended period of time assuming the inspection has no negative outcomes.

Pharmaceutical Processing

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

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

It is through these partnerships with Ai Fame and Gelpell that Satipharm has developed its Good Manufacturing Practice (GMP) produced, proprietary CBD food supplement is to be distributed and sold throughout the European Union with the first sales of the product announced in August 2015. Demand for these pills is expected to be robust as they are of a quality that is unmatched and sold at a reasonable price.

In addition to the above, Ai Fame has also appointed Satipharm as its exclusive marketing and distribution agent for all medical cannabis products manufactured and developed by Ai Fame.

(a) *Gelpell CBD Pill*

The Company began production of its Satipharm CBD Gelpell® Microgel Capsules ("Capsules") on 25 May 2015. Large inventory was built in anticipation of high initial demand that would not be able to be met with current capacity which is being upgraded in the near-term.

The extract is processed by Gelpell, under an exclusive technology use agreement with Satipharm, into gastro resistant micro gel capsules which significantly enhance the bioavailability of the CBD.

The GMP produced, proprietary CBD food supplement which commenced sales throughout the European Union in August 2015 is expected to create an immediate and significant revenue source for the group.

The CBD pill was developed over several years and its purity and enhanced bioavailability of the CBD within the pills are expected to generate high levels of demand.



Directors' Report

The pills are being sold online to retail consumers in 30 x 10mg and 30 x 100mg micro-gel capsules. A large portion of the sales is expected to come from wholesale clients where the product is offered packaged or in bulk with a white labelling service for the packaged product. Revenues are expected to reach several million within the first 12 months of sale.

Ai Fame Exclusive Marketing and Distribution Agent

On 13 July 2015 the Company announced that its subsidiary, Satipharm, had executed an agreement with Ai Fame GmbH for the exclusive right to market and distribute all Ai Fame medical cannabis products globally, significantly expanding the Company's medical cannabis product portfolio.

The Agreement covers up to 20kg of Tetrahydrocannabinol (THC), Tetrahydrocannabinolic Acid (THC-A), Cannabidoil (CBD), Cannabidiolic Acid (CBD-A) and Cannabichromene (CBC) - Active Pharmaceutical Ingredients (API) grade compounds per month.

Following the Supreme Court of Canada's decision that Licenced Producers can produce and sell cannabis oil/extracts and fresh marijuana buds and leaves in addition to dried marijuana, the Group intends to take advantage of this development with the additional supply of API compounds in Canada post MMPR license approval at United Greeneries, which will enable United Greeneries to supply these APIs in substantial quantities externally to other producers and R&D companies for use in clinical research and pharmaceutical products.

Clinical Development

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

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

The Group's existing therapeutic product portfolio covers research and development on the following delivery devices:

- **Yissum Project:** Involves research and development into prescription oral drugs for various clinical indications.

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

The second is a buccal (inner cheek) patch (clinical indication has yet to be selected).

Both technologies are backed by issued and pending patents and under an exclusive research and licensing agreement with prestigious research, development and technology transfer company, Yissum.

- **Canigma Project:** a capsule based vaporiser device under agreement with Canigma A.L. Ltd.

In addition to the above, PhytoTech Therapeutics is assisting Satipharm with the clinical evaluation of its CBD pill to explore opportunities to develop the pills as prescription medications.

Further, upon listing on the ASX, the Company owned intellectual property rights to a Disposable Smart Vapour Technology and also had intentions to undertake a research project in collaboration with Professor Reuven Or and the Hadassah University Hospital into the influence of cannabinoids on rehabilitation of blood cells after bone marrow transportation and graft versus host disease in the murine model. Shortly after listing, the Company undertook a strategic review of its planned research and development expenditure and resolved to abandon both of these projects in favour of other business opportunities that have the potential to generate near term cash flows and/or greater return for shareholders.

(a) *Yissum Project*

PhytoTech Therapeutics has entered into an exclusive research and licensing agreement with the prestigious research, development and technology transfer company of Hebrew University in Israel, Yissum, for the development for the use of Yissum's state-of-the-art, proprietary drug delivery technologies and formulations to develop cannabinoid based products for a variety of highly potential clinical indications.

Yissum was founded in 1964 to protect and to commercialise the Hebrew University's intellectual property. Yissum is ranked among the top technology transfer companies in the world with 8300 registered patents, over 700 technology licenses and over 80 companies have been spun out. Products based on the University technologies and commercialised by Yissum currently generate US\$2Billion in annual sales.

The partnership with Yissum includes three patent applications licensed to PhytoTech Therapeutics, including:

- Two oral capsule formulations & methods provide delivery systems for increasing oral bioavailability of water insoluble substances like cannabinoids (e.g. THC and CBD).
- An inner cheek Buccal mucos adhesive patch (clinical indication yet to be selected).

Oral Capsule: Phase I Clinical Study

On 24 August 2015, the Company announced that it intends to commence its Phase 1 Clinical Study on its two oral capsule formulations, following confirmation of the Tel Aviv Sourasky Medical Center Institutional Review Board (Helsinki Committee), Clinical Trial Department and the Medical Marijuana Unit at the Israeli Ministry of Health to begin the study.

The Phase 1 Clinical Study will test two oral capsule Tetrahydrocannabinol (THC) and Cannabidoil (CBD) formulations licensed from Yissum and will be performed in Sourasky Medical Clinical Research Center, one of the largest and highly regarded clinical sites in Israel.

The Phase 1 study will be a single-center, randomised, crossover study to assess the safety, tolerability and pharmacokinetics of the two new oral THC and CBD formulations, when administered as single doses, in healthy volunteers.

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

Initial stability studies have been very encouraging and indicated the capsule formulations have a potential of a long shelf life, when stored at room temperature. This indicates that the formulations contain components that are able to maintain the THC and CBD integrity at various storage temperatures.

One of the Yissum formulations to be used in the trial is already commercially available in combination with a different drug-molecule and has therefore been shown to be safe and efficacious. PhytoTech Therapeutics, using the above and additional new formulation, is therefore working towards significantly enhancing the oral bioavailability of cannabinoids. The ability to increase the cannabinoids oral bioavailability could be a game-changing event and create a new and viable method of consumption of these compounds as medication.

Oral Capsule: Phase 2 Clinical Study

Subject to the outcome of its Phase 1 Clinical Study, the Company will select the optimal THC:CBD formulation for delivering THC and CBD, and advance it to a Phase 2 study which will assess the drugs capability to relieve pain and spasticity in Multiple Sclerosis (MS) patients, of which there are over 2.3 million worldwide (Source: National MS Society).

Multiple Sclerosis is a disabling neurological lifelong condition affecting young adults. Spasticity is one of the most common and most disabling symptoms, affecting up to 84% of patients (World Health

Directors' Report

Organisation). One of the most successful treatments for Multiple Sclerosis pain and spasticity was found to be the use of a safe and tolerable combination of THC and CBD as 1:1 ratio. The therapeutic rationale for the THC and CBD combination has been established, however an optimal oral dosage form is yet to be available due to the substantial "first pass" metabolic effect of the cannabinoids (THC and CBD) in the gastrointestinal tract leading to very limited oral bioavailability of ~6%.

(b) *Canigma Project*

On 2 March 2015, the Company announced that it had entered into a Heads of Agreement (HOA) with Israeli company, Canigma A.L. Ltd to develop a capsule based vaporiser to administer medical cannabis (**Canigma Project**).

Under the terms of the agreement, the Company will fund the development and commercialisation of the vapouriser device which is protected by various intellectual property interests held by Canigma, The funding provided by the Company will be applied towards the granting process of a patent for the device, the proof of concept and the development of the prototype.

In the event that Canigma is successfully granted a patent in respect of the device, PhytoTech Therapeutics will subscribe for 50% of the issued fully paid shares in Canigma in consideration for investing up to US\$1 million (less the funds expended by the Company prior to this date). These investment funds will be used to develop the device and move it towards full commercialisation. Thereafter, PhytoTech Therapeutics has an option to acquire the remaining 50% of the shares in Canigma, with the valuation based on achieving a number of commercialisation milestones, structured over a four-year period.

The device to be developed is a capsule based vaporiser with a unique and innovative delivery method for administering MGC, offering an all in one product, with ready to use cannabis capsules. The capsule provides minimal contact between the consumer and the raw material and will be focused on increasing the efficiency, above the industry standard, through conduction and convection heating technologies. The innovative delivery method will provide the patients a clean, measurable and constant experience.

The Canigma device capsule strategy is based on the "Nespresso" model. The intention being that dispensaries will stock different capsules to treat different indications and Doctors will then provide prescriptions to patients for a MGC capsule that has a defined ratio of THC and CBD. This will prevent abuse of the system and will also allow Doctors to monitor the use of MGC by patients more closely.



THE INNOVATIVE
DELIVERY METHOD WILL
PROVIDE THE PATIENTS A
CLEAN, MEASURABLE AND
CONSTANT EXPERIENCE



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The key points of difference the Canigma device has to existing vaporisers on the market are:

- It is smaller and easier to use than existing devices.
- The vaporiser itself will include an innovative way of inhaling, suitable for the needs and habits of medical cannabis consumers.
- It is clean and convenient—no handling medical cannabis leaves, bud or ash.
- Delivers a higher dose of the active ingredient and is more efficient than the industry standard, thereby delivering significant health benefits.
- Significantly lower levels of smoke and carcinogen vapor emission.

The product is currently patent pending. Canigma is now progressing the development and testing of its R&D prototype.



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 Laws 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 MMJ PhytoTech Ltd (appointed 14 August 2014 to current)

Non-Executive Chairman of Minbos Resources Ltd (appointed 21 February 2014 to current)

Non-Executive Chairman of Global Metals Exploration NL (appointed 30 April 2015 to current)

Non-Executive Chairman of MyFiziq Ltd (appointed 25 May 2015 to current)

Non-Executive Chairman of Activistic Ltd (appointed 15 June 2015 to current)

Non-Executive Chairman of Galicia Energy Corporation Ltd (appointed 29 February 2012 to current)

Non-Executive Director of Dourado Resources Limited (appointed 9 January 2015 to current)

Non-Executive Chairman of Aziana Ltd (appointed 30 September 2014, resigned 3 August 2015)

Non-Executive Chairman of Discovery Resources Ltd (appointed 28 June 2012, resigned 8 November 2013)

Non-Executive Chairman of NSL Consolidated Limited (appointed 11 April 2007, resigned 20 December 2012).

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 Federal Armed Forces Munich. He is an experienced business man with proven expertise in large-scale and HR intensive projects. His previous areas of work include media production, the food industry, horticulture and commercial construction. As the founder of MMJ Bioscience Inc, Mr. Gedeon currently oversees the global expansion strategy of the MMJ Bioscience group and is the designated Managing Director of MMJ PhytoTech Limited post-merger.

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

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.

Directors' Report

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

Executive Chairman Cove Resources Ltd (appointed Non-Executive Director 4 Jun 2008; appointed Executive Chairman 8 Apr 2015 to current)

Non-Executive Chairman of Birimian Gold Ltd (appointed 31 Jan 2013 to current)

Non-Executive Director of Metallum Ltd (appointed 14 Mar 2011 to current)

Non-Executive Director of Basper Ltd (appointed 27 October 2014, resigned 3 Jul 2015)

Non-Executive Director of Coretrack Ltd (appointed 4 October 2010, resigned 6 Mar 2015)

Non-Executive Director of Otis Energy Ltd (appointed 18 January 2008, resigned 22 Dec 2014)

Non-Executive Director of Newera Resources Ltd (appointed 31 March 2007, resigned 31 Jul 2014)

Non-Executive Director of Torrens Energy Ltd (appointed 21 March 2012, resigned 2 May 2014)

Non-Executive Director of Base Resources (appointed 23 May 2007, resigned 26 Nov 2013)

Non-Executive Director of Bioprospect Ltd (appointed 16 September 2011, resigned 15 Sep 2013)

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.

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

Director, Canacol Energy Ltd (appointed 30 October 2008 to current)

Director, Tilting Capital Corp. (appointed 5 March 2014 to current)

Director, Sintana Energy Inc (appointed 23 April 2014, resigned 13 May 2015)

Director, Charlotte Resources Ltd (appointed 25 February 2014, resigned 9 February 2015)

Director, Solimar Energy Limited (appointed 14 November 2011, resigned 13 December 2014)

Director, MENA Hydrocarbons Inc (appointed 20 May 2011, resigned 3 February 2014)

Director, Petromanas Acquisitions Ltd (appointed 5 October 2010 to 31 December 2012)

Ross McKay

Independent Non-executive Director (appointed 27 July 2015)

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 organization 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

Directors' Report

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 listed public companies.

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 Legalization 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 listed public companies.

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



Directors' Report

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)

Ross Smith

Executive Director (appointed 14 August 2014, resigned 2 February 2015)

Mr Smith was the founder of the Company and is an entrepreneur with over 21 years of experience in company promotion, finance, development and management of various technology and resource projects.

He has undertaken financing activities in Australia, Canada, United States of America, Hong Kong and London.

Mr Smith is extensively travelled and maintains an extensive international network within the investment, stock broking and investment banking community.

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

Loren Jones

Non-executive Director (appointed 14 August 2014, resigned 21 October 2014)

BPsych, BIA Accredited Bookkeeper, Cert IV Financial Services (Bookkeeping)

Miss Loren Jones has worked in finance and back office administration roles with ASX listed companies, stockbroking and corporate advisory services for the past 9 years. During this time she has gained invaluable experience in dealing with all aspects of corporate governance and administration, specialising in Initial Public



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Offering (IPO) Project Management and Backdoor Listings. Her strengths in corporate governance and compliance, transaction negotiation and management, merger and acquisition, Initial Public Offering (IPO) and private capital raising and business development have served several boards well.

Miss Jones is a Partner at and Company Secretary of corporate administration firm Cicero Corporate Services Pty Ltd, a Non-Executive Director and Company Secretary of Brookside Energy Limited (ASX:BRK) and a Non-Executive Director of Red Fox Capital Pty Ltd. She also currently serves as the Company Secretary of ASX listed company VTX Holdings Limited (ASX: VTX) and Aphex Minerals Pty Ltd.

Miss Jones is a BIA Accredited Bookkeeper and a member of the Institute of Certified Bookkeepers, holds a Certificate IV Financial Services (Bookkeeping), has a Bachelor of Psychology from Curtin University and is currently completing her Graduate Diploma of Applied Corporate Governance with the Governance Institute of Australia.

Over the past three years Miss Jones has held directorships with the following listed public companies:

Non-Executive Director of Brookside Energy Limited (appointed 5 June 2015 to current)

Information on Company Secretaries

Eryln 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.

Loren Jones

Company Secretary (appointed 14 August 2014, resigned 1 February 2015)

Details of Miss Jones' skills, qualifications and experience are noted above.

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:

Director	Board Meetings	
	Attended	Eligible to attend
Peter Wall	8	8
Boaz Wachtel	6	6
Winton Willesee	7	7
Benad Goldwasser	6	6
Ross Smith	4	4
Loren Jones	1	1

The Board have elected not to establish separate audit, remuneration and nomination committees at this stage. The roles and responsibilities ordinarily assigned to such committees are currently undertaken with full board participation.

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	-	3,000,000	-	-	-	1,000,000
Andreas Gedeon ²	-	5,626,212	-	-	-	-
Winton Willesee ³	-	-	-	1,000,000	-	-
Jason Bednar	879,876	-	1,500,000	-	-	-
Ross McKay	84,873	-	1,000,000	-	-	-
Boaz Wachtel ⁴	-	6,500,000	-	-	-	5,000,000
Benad Goldwasser ⁵	-	-	-	1,500,000	-	-
Ross Smith ⁶	-	1,500,000	-	-	-	7,500,000
Loren Jones	-	-	-	-	-	-

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 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.

⁵ – Securities held as at the date of resignation were held by ESOP Management & Trust Services Ltd, an entity associated with Mr Goldwasser.

⁶ – Held at resignation, shares and Performance Rights are held by Marian Stuart-Eyres <The Mohaka Capital Trust>, an entity associated with Mr Smith.

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 shares and options:

- 12,000,000 fully paid ordinary shares were issued to seed capital investors;
- 3,000,000 fully paid ordinary shares were issued to promoters in connection with the initial public offering;
- 29,662,050 fully paid ordinary shares were issued to investors in the initial public offering;
- 2,500,000 Class A options to brokers in connection with the initial public offering;
- 4,500,000 Class B options to a senior employee of the Group;
- 350,000 Class C options to an employees of the Group.

Subsequent to the end of the reporting period, the Company issued the following additional shares and options:

- 51,000,000 Shares 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 issued as an Introducers Fee to parties who facilitated the introduction of the Company and MMJ Bioscience Inc, 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 current directors, Mr Willesee, Mr Bednar and Mr McKay as approved by shareholders at the General Meeting held on 29 June 2015.

Directors' Report

- 1,500,000 Class E Options issued to the Chairman of the Company's Israeli subsidiary, PhytoTech Therapeutics Ltd, Mr Goldwasser as approved by shareholders at the General Meeting held on 29 June 2015.
- 16,000,000 Shares issued under a placement to sophisticated investors
- 313,333 Shares issued in lieu of capital raising fees in connection with the above placement.
- 3,750,000 Shares to certain Class A & B Performance Rights holders upon the vesting of those performance rights.

As a result of the above issues, as at the date of this report, the Company a total of 129,338,715 fully paid ordinary shares (including 78,563,332 fully paid ordinary shares which are subject to various escrow restrictions) and 12,350,000 options over ordinary shares on issue, as follows:

Type	Date of Expiry	Exercise Price AUD	Number
Unlisted Options – Class A	8 January 2018	\$0.20	2,500,000
Unlisted Options – Class B	6 May 2019	\$0.20	4,500,000
Unlisted Options – Class C	6 May 2019	\$0.31	350,000
Unlisted Options – Class D	27 July 2018	\$0.40	3,500,000
Unlisted Options – Class E	27 July 2018	\$0.20	1,500,000

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

Performance Rights granted during the period

During the period 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 (\$)
Class A & B	10,000,000	28/08/2014	Subject to vesting conditions ¹	18/11/2016	0.038	379,999	-	0.08
		28/08/2014			0.037	92,500	35%	0.08
Class C	10,000,000	29/6/2015	Subject to vesting conditions ¹	18/11/2018	0.285	285,000	95%	0.30
		29/6/2015			0.225	562,500	75%	0.30
Class D	10,000,000	28/08/2014	Subject to vesting conditions ¹	18/11/2017	0.037	753,000	15%	0.08
		29/6/2015			0.240	240,000	80%	0.30
		29/6/2015			0.030	112,500	10%	0.30

¹Details on the vesting conditions attaching to the Performance Rights are set out in Note 19.

All Class A, B, C and D performance rights are subject to escrow restrictions which expire on 21 January 2017.

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

Each of the Class B, C and D Performance Rights vest into 1 fully paid ordinary share upon satisfaction of the attaching conversion restriction.

During the reporting period 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.

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 2015:

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>)
Loren Jones	Non-executive Director (<i>appointed 14 August 2014, resigned 21 October 2014</i>)

ii) Executive Directors

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>)
Ross Smith	Executive Director (<i>appointed 14 August 2014, resigned 2 February 2015</i>)

iii) Key Management Personnel

Daphna Heffetz	CEO – PhytoTech Therapeutics Ltd (Israel) (<i>appointed 15 January 2015</i>)
Hagit Sacks	VP of Research & Development – PhytoTech Therapeutics Ltd (Israel) (<i>appointed 1 April 2015</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; and
- (e) 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. It examines terms and conditions for employee incentive schemes benefit plans and share plans. Independent advice may also be obtained to confirm that executive remuneration is in line with market practice and is reasonable in the context of Australian executive reward practices.

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 are subject to the discretion of the Board and can be changed to reflect competitive market and business conditions where it is in the interests of the Company and shareholders to do so.

Executive remuneration and other terms of employment are reviewed annually 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'

Directors' Report

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.
 - In most instances and unless otherwise agreed by the Board, reward in the form of options are set with exercise prices materially above the share price at the time of grant;
 - Conversion restriction attaching to Performance rights are linked to value accretive milestones.
- 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 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, with any option/performance right issues generally being made in accordance with thresholds set in plans approved by shareholders. The Board however, considers it appropriate to retain the flexibility to issue options/performance rights to executives outside of approved employee option/performance right plans in exceptional circumstances; 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 full Board recommends the actual payments to Directors and the Board is responsible for ratifying any recommendations, if appropriate. The maximum aggregate remuneration approved for Non-Executive Directors is currently \$200,000.

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.

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:

	2015
EPS (cents)	(16.3)
Dividends (cents per share)	-
Closing share price (cents)	32.0
Change in share price during the period (cents)	12.0

Directors' Report

(b) Executive service agreements

Name	Base Salary	Performance-Based Incentives	Term	Notice period
Andrea Gedeon <i>Managing Director</i>	CAD \$330,000 per annum.* <i>*as at 30 June 2015 equivalent to AUD\$346,748</i>	Cash or non-cash performance-based bonus of up to 50% of base salary, at the discretion of the Board	3 years effective from 27 July 2015	3 months
Daphna Heffetz <i>CEO PhytoTech Therapeutics Ltd (Israel)</i>	NIS 720,000 per annum.* <i>*as at 30 June 2015 equivalent to AUD\$247,402</i>	4,500,000 Class B Options (0.20, 6 May 2019)	Effective from 15 January 2015 until termination of the agreement.	6 months
Hagit Sacks <i>VP - Research & Development PhytoTech Therapeutics Ltd (Israel)</i>	NIS 360,000 per annum.* <i>*as at 30 June 2015 equivalent to AUD\$123,701</i>	350,000 Class C Options (0.31, 6 May 2019)	Effective from 1 April 2015 until termination of the agreement.	90 days
Boaz Wachtel <i>Executive Director</i>	US\$180,000 per annum.* <i>*as at 30 June 2015 equivalent to \$234,375 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 from 20 August 2015
Benad Goldwasser <i>Executive Director</i>	US\$1,000 per day for executive services in addition to director fees totalling AUD\$72,000 per annum.	1,500,000 Class E Options (0.20, 27 July 2018)	Effective from 27 January 2015 to 20 August 2015.	None
Benad Goldwasser <i>PhytoTech Therapeutics Ltd (Israel)</i>	AUD\$6,000 per month	-	Effective from 20 August 2015 until termination of the agreement.	None
Ross Smith <i>Executive Director</i>	US\$120,000 per annum* along with an upfront one-time sign-on bonus of AU\$130,000 <i>*as at 30 June 2015 equivalent to \$156,250 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 2 February 2015. Upon resignation, the Company and Mr Smith also entered into a Confidential Deed of Termination and Release.	6 months

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 (\$)	Superannuation (post-employment benefit) (\$)	Termination payments (\$)	Other benefits (\$)		Share-based payments (Options and performance rights) (\$)	Total (\$)	% of Remuneration which is performance based
					Annual Leave	Long Service Leave			
Directors									
P Wall	2015	36,000	-	-	-	-	603,532	639,532	94.4%
B Wachtel	2015	115,769	-	-	-	-	832,031	947,800	87.8%
W Willesee	2015	24,000	-	-	-	-	61,827	85,827	72.0%
B Goldwasser	2015	50,974	-	-	-	-	116,539	167,513	69.6%
R Smith	2015	198,396	-	126,326	-	-	196,330	521,052	50.2%
L Jones	2015	-	-	-	-	-	-	-	-
Executives									
D Heffetz	2015	119,363	13,343	-	-	-	191,300	324,006	59.04%
H Sacks	2015	30,555	-	-	-	-	20,916	51,471	40.64%
Total	2015	575,057	13,343	126,326	-	-	2,022,475	2,737,201	

(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 2015.

(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:

2015	Number granted	Vesting terms	Value each at grant date (\$)	Exercise price (\$)	Total Value (\$)	Exercise date on or before
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.

Directors' Report

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 2015 are set out below:

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

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. During the current period \$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. During the current period \$116,539 was expensed.

i) Performance Rights issued as remuneration to Key Management Personnel

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 (Admission Date);
 - Class B Performance Rights: 3 years from the Admission Date;
 - Class C Performance Rights: 3 years from the Admission Date; and
 - 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:**
 - Class A Performance Rights: if the 5 day volume weighted average price of Shares on the ASX is \$0.40 or higher;
 - Class B Performance Rights: if the 5 day volume weighted average price of Shares on the ASX is \$0.60 or higher;

Directors' Report

- (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.

2015	Balance at the start of the period	Received during the period on the exercise of options	Other changes during the period	Balance at the end of the period
Directors				
P Wall	-	-	-	-
B Wachtel	-	-	1,500,000	1,500,000
W Willesee	-	-	-	-
B Goldwasser	-	-	-	-
R Smith	-	-	1,500,000	1,500,000 ¹
L Jones	-	-	-	-
Executives				
D Heffetz	-	-	-	-
H Sacks	-	-	-	-

¹ – Shares held at resignation on 2 February 2015.

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.

2015	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 of options vested	Total number of options exercisable
Directors							
P Wall	-	-	-	-	-	-	-
B Wachtel	-	-	-	-	-	-	-
W Willesee ⁱ	-	1,000,000	-	-	1,000,000	-	-
B Goldwasser ⁱⁱ	-	1,500,000	-	-	1,500,000	-	-
R Smith	-	-	-	-	-	-	-
L Jones	-	-	-	-	-	-	-
Executives							
D Heffetz ⁱⁱⁱ	-	4,500,000	-	-	4,500,000	-	-
H Sack ^{iv}	-	350,000	-	-	350,000	-	-

ⁱ – Options beneficially held by Winton Willesee are Class D options exercisable at \$0.40, expiring 27 July 2018.

ⁱⁱ – Options beneficially held by Benad Goldwasser are Class E options exercisable at \$0.20, expiring 27 July 2018.

ⁱⁱⁱ – Options beneficially held by Daphna Heffetz are Class B options exercisable at \$0.20, expiring 6 May 2019.

^{iv} – Options beneficially held by Hagit Sacks are Class C options exercisable at \$0.31, expiring 6 May 2019.

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.

2015	Balance at the start of the period	Granted as remuneration	Bought & (Sold)/ (Cancelled)	Lapsed Un-exercised	Balance at the end of the period	Total number of performance rights vested at 30 June 2015	Total number of performance rights exercisable at 30 June 2015
Directors							
P Wall ⁱ	-	3,000,000	-	-	3,000,000	-	1,000,000
B Wachtel ⁱⁱ	-	7,500,000	-	-	7,500,000	-	5,000,000
W Willesee	-	-	-	-	-	-	-
B Goldwasser	-	-	-	-	-	-	-
R Smith ⁱⁱⁱ	-	7,500,000	-	-	7,500,000	-	5,000,000
L Jones	-	-	-	-	-	-	-
Executives							
D Heffetz	-	-	-	-	-	-	-
H Sacks	-	-	-	-	-	-	-

ⁱ – Performance Rights beneficially held by Peter Wall are comprised of 1,000,000 of each Class A, C and D Performance Rights and are subject to the various terms and conditions set out in section f⁽ⁱⁱ⁾ above.

ⁱⁱ – Performance Rights beneficially held by Boaz Wachtel are comprised of 2,500,000 of each Class A, C and D Performance Rights and are subject to the terms and conditions set out in section f⁽ⁱⁱⁱ⁾ above.

ⁱⁱⁱ – Performance Rights beneficially held by Ross Smith are comprised of 2,500,000 of each Class A, C and D Performance Rights and are subject to the terms and conditions set out in section f⁽ⁱⁱⁱ⁾ above.

(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:

- Steinpreis Paganin, an entity associated with Mr Peter Wall, received payments totalling \$442,256 in relation to legal services provided to the Company.
- Azalea Consulting Pty Ltd, an entity associated with Mr Winton Willesee, received payments totalling \$32,500 in relation to front office administration and company secretarial services provided to the Company.
- Cicero Advisory Services Pty Ltd, an entity associated with Miss Loren Jones, received cash and non-cash benefits totalling \$697,076 in relation to corporate advisory services provided in connection with the Company's initial public offering and for administration and bookkeeping services provided to the Company prior to its listing on the ASX.
- On 4 September 2014 and prior to listing on the ASX, the Company entered into an intellectual property assignment deed with Director, Ross Smith (IP Assignment Deed). Pursuant to the IP Assignment Deed, Mr Smith assigned to the Company all rights, title and interest in the intellectual property in relation to the Disposable Smart Vapour Technology for total consideration of \$1. All other terms of the IP Assignment Deed are considered standard for an agreement of this nature, including strict confidentiality provisions in respect of the Disposable Smart Vapour Technology. Shortly after listing, the Company undertook a strategic review of its planned research and development expenditure and resolved to abandon this project in favour of other business opportunities that have the potential to generate near term cash flows and/or greater return for shareholders. No material

Directors' Report

expenditure was made during the period in respect to this device.

(f) Key management personnel balances

	2015 \$
Amount owing to Pheakes Pty Ltd, an entity related to Mr Peter Wall	-
Amount owing to International Water and Energy Savers, an entity related to Mr Boaz Wachtel (\$15,000 USD)	20,240
Amount owing to Azalea Consulting Pty Ltd, an entity related to Mr Winton Willesee	25,500
Amount owing to Goldmed Ltd, an entity related to Mr Benad Goldwasser (\$6,242 USD)	<u>8,127</u>

(g) Other information

Loans to key management personnel

There are no loans, payables, receivables or other transactions at the end of the period to directors and other key management personnel and their related parties of MMJ PhytoTech Limited or the consolidated entity.

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 period, there were no external remuneration consultants engaged.

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 PhytoTech Limited 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 has 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:

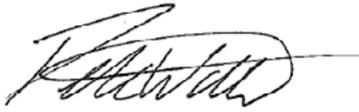
	\$
Tax related services	27,601
Independent Accountant's report	10,200
Assistance with incorporation of UK subsidiary	2,132
Total	<u>39,933</u>

Corporate Governance

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 37.

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



Peter Wall
Non-executive Chairman

Perth, Western Australia
31 August 2015





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

As lead auditor of MMJ PhytoTech Limited for the period ended 30 June 2015, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the 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, 31 August 2015

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 2015.

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
<i>Principle 1: Lay solid foundations for management and oversight</i>		
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</p> <p>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>(a) All material information relevant to the decision on whether or not to elect Messrs Gedeon, Bednar and McKay, including information relating to their qualifications, experience, and proposed roles within the Board, were set out in the Notice of Meeting dated 25 May 2015 which was sent to all shareholders ahead of the general meeting held on 29 June 2015.</p>
<p>Recommendation 1.3</p> <p>A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.</p>	YES	<p>The Company has written agreements with all Directors and senior executives which sets out the terms of their appointment.</p>
<p>Recommendation 1.4</p> <p>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	<p>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.</p>

Corporate Governance

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
<p>Recommendation 1.5</p> <p>A listed entity should:</p> <p>(a) have a diversity policy which includes requirements for the board:</p> <p>(i) to set measurable objectives for achieving gender diversity; and</p> <p>(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>(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>(ii) either:</p> <p>(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>(B) the entity's "Gender Equality Indicators", as defined in the Workplace Gender Equality Act 2012.</p>	<p>PARTIALLY</p>	<p>(a) The Company has adopted a Diversity Policy which complies with the guidelines prescribed by the ASX Corporate Governance Council, including:</p> <p>(i) The Diversity Policy provides a framework for the Company to set and achieve measurable objectives that encompass gender equality.</p> <p>(ii) The Diversity Policy provides for the monitoring and evaluation of the scope and currency of the Diversity Policy. The company is responsible for implementing, monitoring and reporting on the measurable objectives.</p> <p>(b) The Diversity Policy is available on the Company's website.</p> <p>(c) Given the short time frame since the Company's admission to the official list of the ASX and the series of changes to the Board and management following the completion of the acquisition of MMJ Bioscience Inc, the Company has yet to formally define the measurable objectives for achieving gender diversity as required under its Diversity Policy.</p> <p>With its new Board now in place, the Company intends to undertake a review of its Diversity Policy in the coming months and define the measurable objectives for achieving gender diversity, where appropriate.</p> <p>As at 30 June 2015, 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 who report directly to the Managing Director or the Board.</p> <ul style="list-style-type: none"> • 100% of the Company's board were male; • 100% of the Company's 2 senior executives were female (excluding members of the board) • 38% the Company's entire workforce (including board members) of 8 people were female.

Corporate Governance

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
<p>Recommendation 1.6</p> <p>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>	<p>YES</p>	<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. 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>Given the short timeframe since listing on the ASX, the Board did not undertake a performance evaluation of its Board or its individual directors during the reporting period.</p> <p>(b) However, subsequent to the end of the financial year, 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.</p>
<p>Recommendation 1.7</p> <p>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>	<p>YES</p>	<p>(a) The Remuneration Committee (the function of which is currently performed by the full Board) 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) The Board intends to undertake annual performance evaluations of the Company's senior executives following the anniversary of the commencement of each executive's employment with the Company. As none of the Company's senior executives have been employed for a period of more than 12 months, no performance evaluations of senior executives were undertaken during the reporting period.</p>

Corporate Governance

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
<i>Principle 2: Structure the board to add value</i>		
<p>Recommendation 2.1</p> <p>The board of a listed entity should:</p> <p>(a) have a nomination committee which:</p> <ul style="list-style-type: none"> (i) has at least three members, a majority of whom are independent directors; and (ii) is chaired by an independent director, <p>and disclose:</p> <ul style="list-style-type: none"> (iii) the charter of the committee; (iv) the members of the committee; and (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>(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 will devote time at annual Board meetings to discuss Board succession issues which includes. 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</p> <p>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>	NO	<p>Following the completion of the merger with MMJ Bioscience, the Board of the Company was restructured and is now comprised of directors with a broad range of technical, commercial, financial and other skills, experience and knowledge relevant to overseeing the business of a vertically integrated medical cannabis company.</p> <p>The Board intends to review its composition on an annual basis against a Board skills matrix which the Company intends to develop in the coming months. Once available, the Company will disclose a copy of the Company's Board skills matrix on its website.</p>

Corporate Governance

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
<p>Recommendation 2.3</p> <p>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>	<p>YES</p>	<p>(a) The Board Charter provides for the disclosure of the names of Directors considered by the Board to be independent. The current independent Directors are Mr Wall, Mr Willesee, Mr Bednar and Mr McKay.</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 MMJ Bioscience Inc 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 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 1 year. • Mr Willesee was appointed on 21 October 2014 and has served as a director for approximately 10 months; and • Messrs Gedeon, Bednar and McKay were appointed on 27 July 2015 and have served as directors of the Company for approximately one month.

Corporate Governance

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
<p>Recommendation 2.4</p> <p>A majority of the board of a listed entity should be independent directors.</p>	NO	<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 50% independent directors (being Mr Wall and Mr Willesee) and 50% executive directors (being Mr Wachtel and Mr Goldwasser).</p> <p>Subsequent to the end of the reporting period and the completion of the merger transaction, the Board is now structured in compliance with this Recommendation, with 4 out of its 5 members being independent directors.</p>
<p>Recommendation 2.5</p> <p>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	<p>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>
<p>Recommendation 2.6</p> <p>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 Nomination Committee (the function of which is currently performed by the full Board) is responsible for approving and reviewing induction and professional development programs and procedures for Directors to ensure that they can effectively discharge their responsibilities.</p> <p>To this end, the Company's 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> <p>In addition, opportunities to develop the skills and experience of individual board members will be considered as part of the Company's annual board performance review process.</p> <p>The Company Secretary is responsible for the facilitation of the above programs.</p>

Corporate Governance

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
Principle 3: Act ethically and responsibly		
<p>Recommendation 3.1</p> <p>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 (all of whom are referred to as “employees” under the Code).</p> <p>(b) The Company’s Corporate Code of Conduct is available on the Company’s website.</p>
Principle 4: Safeguard integrity in financial reporting		
<p>Recommendation 4.1</p> <p>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,</p> <p>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) The Board has determined that the function of the Audit and Risk Committee is most efficiently carried out with full board participation and accordingly, the Company has elected not to establish a separate Audit and Risk Committee at this stage.</p> <p>As a result, the duties that would ordinarily be assigned to the Audit and Risk Committee under the Audit and Risk Committee Charter are carried out by the full board.</p> <p>The Audit and Risk Committee Charter is available on the Company’s website.</p> <p>(b) The Board devotes time on at least an annual basis to consider the robustness of the various internal control systems it has in place to safeguard the integrity of the Company’s financial reporting.</p> <p>In addition, the Board has the opportunity to confer with the Company’s external auditors on any matters identified during the course of the audit that have the potential to increase the Company’s exposure to risks of material misstatements in its financial reports. To this end, the Company is pleased to confirm that no such matters were raised by the Company’s auditors.</p> <p>The full Board also assumes responsibility for recommendations to security holders on the appointment and removal of the external auditor. Audit partner rotations are enforced in accordance with the relevant guidelines.</p>

Corporate Governance

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
<p>Recommendation 4.2</p> <p>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	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>Recommendation 4.3</p> <p>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	The Company intends to hold its first annual general meeting within the coming months. The Board will ensure the Company's external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.
Principle 5: Make timely and balanced disclosure		
<p>Recommendation 5.1</p> <p>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</p> <p>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</p> <p>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</p> <p>A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.</p>	<p>YES</p>	<p>The Shareholder Communication Strategy states that as a part of the Company's developing investor relations program, Shareholders can register with the Company Secretary to receive email notifications of when an announcement is made by the Company to the ASX, including the release of the Annual Report, half yearly reports and quarterly reports. Links are made available to the Company's website on which all information provided to the ASX is immediately posted.</p> <p>Shareholders are encouraged to participate at all EGMs and AGMs of the Company. Upon the despatch of any notice of meeting to Shareholders, the Company Secretary shall send out material with that notice of meeting stating that all Shareholders are encouraged to participate at the meeting.</p>
<p>Recommendation 6.4</p> <p>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>	<p>YES</p>	<p>Security holders can register with the Company to receive email notifications when an announcement is made by the Company to the ASX.</p> <p>Shareholders queries should be referred to the Company Secretary at first instance.</p>

Corporate Governance

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
<i>Principle 7: Recognise and manage risk</i>		
<p>Recommendation 7.1</p> <p>The board of a listed entity should:</p> <p>(a) have a committee or committees to oversee risk, each of which:</p> <p>(iii) has at least three members, a majority of whom are independent directors; and</p> <p>(iv) is chaired by an independent director,</p> <p>and disclose:</p> <p>(v) the charter of the committee;</p> <p>(vi) the members of the committee; and</p> <p>(vii) 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) The Board has determined that the function of the Audit and Risk Committee is most efficiently carried out with full board participation and accordingly, the Company has elected not to establish a separate Audit and Risk Committee at this stage.</p> <p>As a result, the duties that would ordinarily be assigned to the Audit and Risk Committee under the Audit and Risk Committee Charter are carried out by the full board.</p> <p>The Audit and Risk Committee Charter is available on the Company's website.</p> <p>(b) The Board devotes time on at least an annual basis to fulfil the roles and responsibilities associated with overseeing risk and maintaining the Company's risk management framework.</p>

Corporate Governance

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
<p>Recommendation 7.2</p> <p>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>	<p>YES</p>	<p>(a) The Audit and Risk Committee Charter sets out a requirement for the Audit and Risk Committee (the function of which is currently performed by the full Board) to review the Company’s risk management framework on an annual basis.</p> <p>The Company monitors, evaluates and seeks to improve its risk management and internal control processes in line with the processes set out in its Risk Management Policy, a copy of which is available on the Company’s website.</p> <p>In addition, the Company has a number of other policies that directly or indirectly serve to reduce and/or manage risk, including:</p> <ul style="list-style-type: none"> • Continuous Disclosure Policy • Code of Conduct • Trading Policy <p>(b) The Company formulated its risk management framework in preparation for the Company’s admission to the official list of the ASX. Whilst a formal review of its risk management framework has not been undertaken since listing, the Board regularly considers risk on an informal basis and is satisfied that the Company’s risk management framework continues to be sound, and that the material business risks remain within the risk appetite set by the Board.</p>
<p>Recommendation 7.3</p> <p>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>	<p>YES</p>	<p>(a) The Audit and Risk Committee (the function of which is currently performed by the full Board) 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. The Board regularly considers its exposures to risk on an informal basis and remains satisfied that the Company’s existing processes and controls are operating effectively.</p>

Corporate Governance

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
<p>Recommendation 7.4</p> <p>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>Prior to the Company's admission to the official list of the ASX, the Board undertook a thorough review of the Company's exposures to economic, environmental and social sustainability risks and disclosed these risks in its Prospectus dated 20 November 2014. A copy of this Prospectus is available on the Company's website at:</p> <p>www.mmjphytotech.com.au/investors/announcement/</p>
<p>Principle 8: Remunerate fairly and responsibly</p>		
<p>Recommendation 8.1</p> <p>The board of a listed entity should:</p> <p>(a) have a remuneration committee which:</p> <ul style="list-style-type: none"> (i) has at least three members, a majority of whom are independent directors; and (ii) is chaired by an independent director, <p>and disclose:</p> <ul style="list-style-type: none"> (iii) the charter of the committee; (iv) the members of the committee; and (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>(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>(a) The Board has determined that the function of the Remuneration Committee is most efficiently carried out with full board participation and accordingly, the Company has elected not to establish a separate Remuneration Committee at this stage.</p> <p>As a result, the duties that would ordinarily be assigned to the Remuneration Committee under the Remuneration Committee Charter are carried out by the full board.</p> <p>The Remuneration Committee Charter is available on the Company's website.</p> <p>(b) The Board devote time annually to fulfilling the roles and responsibilities associated with setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p>

Corporate Governance

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
<p>Recommendation 8.2</p> <p>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</p> <p>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 (the function of which is currently performed by the full Board) 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 2015

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This financial report covers the Consolidated Entity consisting of MMJ PhytoTech Limited and its controlled entities during the period 14 August 2014 to 30 June 2015.

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 25, 145 Stirling Highway
Nedlands, WA, Australia 6009

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

The financial report was authorised for issue by the Directors on 31 August 2015. The Company has the power to amend and reissue the financial report.

Financial Report

30 June 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the period ended 30 June 2015

	Notes	For the period of 14 August 2014 to 30 June 2015 \$
Revenue from continuing operations	4	48,082
Research & development costs	4	(312,413)
Audit & accounting fees		(73,369)
Advisors & consultants	4	(622,434)
Compliance and regulatory		(84,978)
Legal fees		(324,238)
Marketing & investor relations		(138,003)
Employee benefits expense	4	(622,059)
Insurance expense		(18,826)
Patent expenses	4	(61,992)
Bank fees & charges		(5,233)
Equity based payments	4	(2,331,282)
Net foreign exchange loss	4	(19,274)
Travel expense		(267,667)
Other expenses		(48,710)
Loss before income tax		(4,882,396)
Income tax benefit/(expense)	5	-
Loss after income tax		(4,882,396)
Other comprehensive income:		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of foreign operations		20,227
Other comprehensive income for the period		20,227
Total comprehensive loss for the period (net of tax)		(4,862,169)
Loss per share attributable to members of MMJ PhytoTech Limited:		
Basic and diluted loss per share (cents)	21	(16.3)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	Notes	2015 \$
Current assets		
Cash and cash equivalents	6	1,909,808
Trade and other receivables	7	147,388
Total current assets		<u>2,057,196</u>
Non-current assets		
Loans to other entities	8	1,711,208
Plant and equipment	9	11,620
Other non-current assets	10	34,547
Total non-current assets		<u>1,757,375</u>
Total assets		<u>3,814,571</u>
Current liabilities		
Trade and other payables	11	220,692
Total current liabilities		<u>220,692</u>
Total liabilities		<u>220,692</u>
Net assets		<u>3,593,879</u>
Equity		
Contributed equity	12	5,827,617
Reserves	13 (a)	2,648,658
Accumulated losses	13 (b)	(4,882,396)
Capital & reserves attributable to the owners of MMJ PhytoTech Limited		<u>3,593,879</u>

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

Financial Report

30 June 2015

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2015

	Note	Contributed equity \$	Accumulated losses \$	Foreign currency translation reserve \$	Share-based payments reserve \$	Total \$
Consolidated Group						
Balance at 14 August 2014		-	-	-	-	-
Loss for the period		-	(4,882,396)	-	-	(4,882,396)
Other comprehensive income		-	-	20,227	-	20,227
Total comprehensive loss for the period		-	(4,882,396)	20,227	-	(4,862,169)
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs	12(b)	5,827,617	-	-	-	5,827,617
Share based payments	19	-	-	-	2,628,431	2,628,431
Balance at 30 June 2015		5,827,617	(4,882,396)	20,227	2,628,431	3,593,879

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2015

	Notes	For the period of 14 August 2014 to 30 June 2015 \$
Cash flows from operating activities		
Interest received		33,294
Payments to employees and suppliers		(2,144,737)
Payments for research and development		(312,413)
Payments for patent expenses		(61,992)
Interest paid		(5,233)
Net cash (outflow) from operating activities	20	(2,491,081)
Cash flows from investing activities		
Loan to MMJ Bioscience		(1,422,827)
Debenture to/from MMJ Bioscience		(288,381)
Payments for property, plant and equipment		(11,620)
Net cash (outflow) from investing activities		(1,722,828)
Cash flows from financing activities		
Proceeds from issue of shares	12	6,892,606
Consideration received for performance rights		750
Share issue costs	12	(769,639)
Net cash inflow from financing activities		6,123,717
Net increase in cash held		1,909,808
Cash at the beginning of the period		-
Cash at the end of the period	6,20	1,909,808

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 25, 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

The consolidated financial statements have been prepared on the basis of historical cost convention and the accrued basis, as explained in the accounting policies below.

(d) Adoption of New and Revised Accounting Standards

New, revised or amending Accounting Standards and Interpretations adopted

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

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

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

- *AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities*
- *AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets*
- *AASB 2014-1 Amendments to Australian Accounting Standards (Parts A to C)*

Critical accounting judgments and the key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about carrying value of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects both current and future periods. Refer to note 2 for further details.

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

Notes To The Consolidated Financial Statements

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

(e) 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 24.

(f) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Company as at 30 June 2015 and the results of all controlled entities for the financial period then ended. The Company and its controlled entities together are referred to in this financial report as the Group or the Consolidated Entity.

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

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

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

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

(g) 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").

(h) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Consolidated Entity and the revenue can be measured reliably. The following specific criteria must also be met before revenue is recognised:

Interest income

Interest income is recognised on a time proportionate basis using the effective interest method.

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

(i) Income tax

The income tax expense for the reporting period is the tax payable on the current financial period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted

Notes To The Consolidated Financial Statements

or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(j) 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 2015 is nil.

(k) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other shortterm, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts (if any) are shown within borrowings in current liabilities on the statement of financial position.

(l) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 120 days from the date of recognition.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated statement of profit or loss and other comprehensive income.

(m) Financial instruments

Financial assets and financial liabilities are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of financial assets other than financial assets and financial liabilities at fair value through profit or loss. Financial assets and financial liabilities are recognised in the statement of financial position.

(1) *Financial Assets*

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale

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financial assets. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its investments at initial recognition and reevaluates this designation at each reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the reporting sheet date which are classified as noncurrent assets. Loans and receivables are included in receivables in the statement of financial position.

(2) *Financial liabilities and equity instruments*

Financial liabilities and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

Financial liabilities are non-derivative financial liabilities that are recognised initially at fair value plus any directly attributable transaction costs. Upon initial recognition, they are measured at amortised cost, using the effective interest rate method.

(3) *Recognition and derecognition*

Regular purchases and sales of financial assets are recognised on a trade date basis – the date on which the Group commits to purchase or sell the asset. Financial liability is recognised when the Group becomes a party of the contractual provision of the financial instrument.

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. Upon derecognition of a financial asset, the difference between the asset's carrying value and the sum of consideration received and the cumulative gain or loss that had been recognized in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligations specified in the contract are discharged or cancelled or expire. Upon derecognition of a financial liability, the difference between the carrying amount of liability derecognized and consideration paid is recognised in profit or loss.

(n) **Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid 30 days end of month. Trade and other payables are carried at amortised cost, using the effective interest method.

(o) **Contributed equity**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(p) **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

Notes To The Consolidated Financial Statements

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.

(q) 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.

(r) Foreign currency translation

Both the functional and the presentation currency of MMJ PhytoTech Limited is the Australian Dollar.

Transactions in foreign currencies are initially recorded in the functional currency at the rate prevailing at that transaction date. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at the reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rate of exchange at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated. Gains and losses arising from this translation policy are recognised in profit or loss.

The functional currency of PhytoTech Therapeutics Ltd (Israel) is US Dollar (USD). The functional currency of PhytoTech Medical (UK) Pty Ltd is Great Britain Pounds (GBP),

At the reporting date the assets and liabilities of the overseas subsidiaries are translated into presentation currency of MMJ PhytoTech Limited at the rate prevailing at the reporting date and the statement of profit or loss and other comprehensive income are translated at the weighted average exchange rate for the period. Resulting exchange differences are recognised in equity.

(s) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

The discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit or loss immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

A reversal of an impairment loss is recognised in the profit or loss immediately.

(t) Property, plant and equipment

Each class of equipment is carried at cost value as indicated less, where applicable, any accumulated depreciation and impairment losses.

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Equipment is measured on the cost basis less accumulated depreciation and impairment losses.

The carrying amount of equipment is reviewed annually by the Board 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.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line 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	33%

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.

(u) Provisions for employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Termination benefit

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting date are discounted to present value.

Liabilities for employee benefits are derecognized when the obligation is settled, cancelled or has expired.

Notes To The Consolidated Financial Statements

(v) Operating Lease

A lease that does not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating lease. For operating leases, lease payments (excluding costs for services such as insurance and maintenance) are recognised as an expense on a straight-line basis over the lease term.

(w) 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.

(x) 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 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 on the average number of performance rights 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 19 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.

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

Notes To The Consolidated Financial Statements

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.

(y) 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.

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

	2015 \$
Cash and cash equivalents	1,909,808
Trade and other receivables	147,388
Trade and other payables	(220,692)
Working capital position	<u><u>1,836,504</u></u>

(z) Accounting standards issued not yet effective

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2017. The standard provides a single standard for revenue recognition. 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 those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has

Notes To The Consolidated Financial Statements

been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2017 but the impact of its adoption is yet to be assessed by the consolidated entity.

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 2015. As a result of this review, the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

(aa) Comparatives

Comparative balances for the Company are not available as it was incorporated during the financial period, on 14 August 2014.

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.

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.

Notes To The Consolidated Financial Statements

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Employee benefits provision

As discussed in note 1, 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 3. Operating Segments

During the period to 30 June 2015, MMJ PhytoTech Limited's focus was initially to research, develop and commercialise cannabis products for the administration of Medical Grade Cannabis (MGC) in Israel as well as to seek further acquisitive opportunities within the global cannabis market. Comparative balances for the Company are not available as it was incorporated during the financial period, on 14 August 2014.

Segment Information

Identification of reportable segments

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

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

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

Types of reportable segments

(i) Research and development

Segment assets, including consultants and all expenses related to research and development in Israel are reported on in this segment.

(ii) Corporate

Corporate, including 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 annual financial statements of the Company.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, deferred tax assets and intangible assets have not been allocated to operating segments.

Segment liabilities

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

Notes To The Consolidated Financial Statements

Note 3. Operating Segments (cont'd)

	Period ended 30 June 2015			
	Corporate \$	Research and Development \$	Eliminations \$	Total \$
Revenue	48,082	-	-	48,082
Research and development costs	-	(312,413)	-	(312,413)
Advisors and consultants	(622,434)	-	-	(622,434)
Legal fees	(324,238)	-	-	(324,238)
Employee costs	(2,641,343)	-	-	(2,641,343)
Other expenditures	(968,058)	(61,992)	-	(1,030,050)
Loss after income tax	(4,507,991)	(374,405)	-	(4,882,396)
Total assets	3,814,571	-	-	3,814,571
Total liabilities	220,692	-	-	220,692

Note 4. Revenue and expenses

	For the period of 14 August 2014 to 30 June 2015 \$
(a) Revenue	
Interest received	48,082
(b) Expenses	
Research and development costs	312,413
Patent costs	61,992
Advisors and consultants	622,434
Employee benefits expense	
• Salary and wages	622,059
Share-based payment expense	2,331,282
Net foreign exchange loss	19,274

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Note 5. Income tax

	For the period of 14 August 2014 to 30 June 2015 \$
(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	(4,882,396)
Tax at the Australian tax rate of 30%	(1,464,719)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:	
Difference in tax rates	14,034
Legal fees	80,720
Share based payments	699,384
Other non-deductible	418,788
Deferred balance not recognised	251,793
Income tax expense/(benefit)	-
(c) The estimated potential deferred tax benefits not brought to account	
Revenue losses - Australia	152,763
Revenue losses - Overseas	105,424
Temporary differences - Australia	85,264
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 6. Current Assets – Cash and cash equivalents

	2015 \$
Cash at bank and on hand	1,879,808
Short term deposits and deposits on call	30,000
	<u>1,909,808</u>

The Group's exposure to interest rate and credit risk is disclosed in Note 23.

Note 7. Current assets – Trade and other receivables

	2015 \$
GST receivable	53,430
Prepayments	75,769
Accrued interest	14,787
Other receivables	3,202
	<u>147,388</u>

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

Note 8. Loans to other entities

	2015 \$
Loan to MMJ Bioscience Inc	1,422,827
MMJ Debenture	288,381
	<u>1,711,208</u>

Loan to MMJ

During the 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 merger. The Loan incurs interest at a rate of 6% per annum which is capitalised for the first 12 months.

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 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.

The carrying value of loans and debentures approximates to the fair value.

Notes To The Consolidated Financial Statements

Note 9. Plant and Equipment

	2015 \$
Plant and equipment	
Carrying amount at 14 August 2014	-
Additions	10,274
Less depreciation	-
Carrying amount at 30 June	<u>10,274</u>
Office equipment	
Carrying amount at 14 August 2014	-
Additions	1,346
Less depreciation	-
Carrying amount at 30 June	<u>1,346</u>
Total at 30 June	<u><u>11,620</u></u>

Note 10. Other Non-Current Assets

	2015 \$
Security deposit	<u><u>34,547</u></u>

Note 11. Current liabilities - Trade and other payables

	2015 \$
Trade payables	70,739
Accrued payables	126,383
Payroll liabilities	23,570
	<u><u>220,692</u></u>

The Group's exposure to liquidity and foreign exchange risk related to trade and other payable is disclosed in Note 23. The carrying amount approximates fair value due to short-term nature.

Notes To The Consolidated Financial Statements

Note 12. Contributed equity

(a) Share capital

	Notes	Shares	2015 \$
Ordinary fully paid shares	12(b)	44,662,050	5,827,617

(b) Movements in ordinary share capital

Date	Details	Share No.	Issue price \$	\$
14 August 2014	Balance	-	-	-
14 August 2014	Seed capital	12,000,000	0.08	960,000
14 August 2014	Promoter shares issued	3,000,000	-	196
20 January 2015	IPO issue	29,662,050	0.20	5,932,410
	Share issue expenses (cash)	-	-	(769,640)
	Share issue expenses (non-cash)	-	-	(295,349)
30 June 2015	Balance	44,662,050		5,827,617

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Performance shares are not entitled to voting rights.

Effective 1 July 1998, the corporations legislation abolished the concepts of authorised capital and par value shares. Accordingly the Company does not have authorised capital nor par value in respect of its issued capital.

(d) Performance rights

	Notes	Performance Rights	2015 \$
Performance rights	12(b)	30,000,000	1,942,500

Notes To The Consolidated Financial Statements

Note 12. Contributed equity (cont'd)

(e) Movement in performance rights

Date	Details	Notes	No. of Performance Rights	\$
14 August 2014	Balance		-	-
28 August 2014	Issue of performance rights to certain directors	(i)	18,000,000	1,628,701
28 August 2014	Issue of performance rights to Cicero Advisory Services Pty Ltd	(ii)	12,000,000	311,999
30 June 2015	Consideration paid by directors @ \$0.0001 per Performance Right		-	1,800
30 June 2015	Balance		30,000,000	1,942,500

- (i) The following performance rights were issued to certain Company's Directors and Key Management Personnel on 28 August 2014.

	Performance Rights A & B [#]	Performance Rights C	Performance Rights D	Total
P Wall	1,000,000	1,000,000	1,000,000	3,000,000
B Wachtel	2,500,000	2,500,000	2,500,000	7,500,000
R Smith*	2,500,000	2,500,000	2,500,000	7,500,000
Total	6,000,000	6,000,000	6,000,000	18,000,000

* Resigned 2 February 2015

[#] Each Class A Performance Right vests into 1 fully paid ordinary share and 1 Class B Performance Right.

- (ii) On 14 August 2014, the Company and Cicero Advisory Services Pty Ltd (Cicero) entered into a mandate pursuant to which Cicero undertook to provide corporate advisory services to the Company in connection with the Company's Initial Public Offering. In consideration for those corporate advisory services, nominees of Cicero received: 4,500,000 Class A Performance Rights, 4,500,000 Class C Performance Rights and 4,500,000 Class D.

The terms and conditions (including vesting conditions and escrow restrictions) attaching to each class of Performance Rights are set out under Note 19. There are no voting rights for performance rights holders.

(f) Options

	Notes	Options No.	\$
Options over ordinary shares	12(g)	7,350,000	685,931

Notes To The Consolidated Financial Statements

Note 12. Contributed equity (cont'd)

(g) Movement in options on issue

Date	Details	Options No.	\$
14 August 2014	Balance	-	-
20 January 2015	Issue options – Class A exercisable at \$0.20 each expiring 8 January 2018	2,500,000	295,349
7 May 2015	Issue options to directors – Class B exercisable at \$0.20 each expiring 6 May 2019	4,500,000	191,300
7 May 2015	Issue options to directors – Class C exercisable at \$0.31 each expiring 6 May 2019	350,000	20,917
29 June 2015	Issue options to directors – Class D exercisable at \$0.40 each expiring 27 July 2018	- ¹	61,826
29 June 2015	Issue options to directors – Class E exercisable at \$0.20 each expiring 27 July 2018	- ²	116,539
30 June 2015	Balance	7,350,000	685,931

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.

Terms and conditions of options on issue

	Unlisted options Class A Expiry 8/1/2018 @ \$0.20	Unlisted options Class B Expiry 6/5/2019 @ \$0.20	Unlisted options Class C Expiry 6/5/2016 @ \$0.31	Unlisted options Class D Expiry 24/7/2018 @ \$0.40	Unlisted options Class E Expiry 24/7/2018 @ \$0.20
No. of options	2,500,000	4,500,000	350,000	1,000,000	1,500,000

	2015	
	No. of Options	Weighted average exercise price (\$)
Balance at beginning of period	-	-
Granted during the period	9,850,000	\$0.22
Forfeited/cancelled during the period	-	-
Exercised during the period	-	-
Expired during the period	-	-
Balance at the end of the period	9,850,000	\$0.22
Exercisable at the end of the period	-	-

Notes To The Consolidated Financial Statements

Note 13. Reserves and Accumulated Losses

	2015 \$
(a) Movement in reserves	
Share-based payments reserve	2,628,431
Foreign currency translation reserve	20,227
Total reserves at the end of the period	<u><u>2,648,658</u></u>

	2015 \$
Share-based payments reserve	
Movements:	
Balance at beginning of period	-
Performance rights issue	1,942,500
Options	685,931
Balance at the end of the period	<u><u>2,628,431</u></u>
Refer Note 19 for details on share based payments.	

Foreign currency translation reserve

Movements:	
Balance at beginning of period	-
Exchange differences on translation of foreign operation	20,227
Balance at the end of the period	<u><u>20,227</u></u>

(b) Accumulated losses

Accumulated losses at the beginning of the period	-
Net loss attributable to members of the Company	(4,882,396)
Accumulated losses at the end of the period	<u><u>(4,882,396)</u></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 19.
- (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(r). The reserve is recognised in the profit and loss when the net investment is disposed of.

Notes To The Consolidated Financial Statements

Note 14. Related Parties

(a) Directors

The following persons were Directors of MMJ PhytoTech Limited during the period ended 30 June 2015:

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</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>)
Ross Smith	Executive Director (<i>appointed 14 August 2014, resigned 2 February 2015</i>)
Loren Jones	Non-executive Director and Company Secretary (<i>appointed 14 August 2014, resigned 21 October 2014</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 2015 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 period of 14 August 2014 to 30 June 2015 \$
Short-term employee benefits - Cash salaries and fees	575,057
Early termination payments	126,326
Long-term benefits – Superannuation	13,343
Share-based payments – Options and performance rights (refer to Note 19)	2,022,475
	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.

	2015 \$
Director fees paid to Pheakes Pty Ltd, an entity related to Mr Peter Wall	36,000
Director fees paid to International Water and Energy Savers, an entity related to Mr Boaz Wachtel (\$75,000 USD)	115,769
Director fees paid to Azalea Consulting Pty Ltd, an entity related to Mr Winton Willesee	24,000
Director and executive consulting fees paid to Goldmed Ltd, an entity related to Mr Benad Goldwasser	50,974

Notes To The Consolidated Financial Statements

Note 14. 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:

- Steinpreis Paganin, an entity associated with Mr Peter Wall, received payments totalling \$442,256 in relation to legal services provided to the Company.
- Azalea Consulting Pty Ltd, an entity associated with Mr Winton Willesee, received payments totalling \$32,500 in relation to front office administration and company secretarial services provided to the Company.
- Cicero Advisory Services Pty Ltd, an entity associated with Miss Loren Jones, received cash and non-cash benefits totalling \$697,076 in relation to corporate advisory services provided in connection with the Company's initial public offering and for administration and bookkeeping services provided to the Company prior to its listing on the ASX.
- On 4 September 2014 and prior to listing on the ASX, the Company entered into an intellectual property assignment deed with Director, Ross Smith (IP Assignment Deed). Pursuant to the IP Assignment Deed, Mr Smith assigned to the Company all rights, title and interest in the intellectual property in relation to the Disposable Smart Vapour Technology for total consideration of \$1. All other terms of the IP Assignment Deed are considered standard for an agreement of this nature, including strict confidentiality provisions in respect of the Disposable Smart Vapour Technology. Shortly after listing, the Company undertook a strategic review of its planned research and development expenditure and resolved to abandon this projects in favour of other business opportunities that have the potential to generate near term cash flows and/or greater return for shareholders. No material expenditure was made during the period in respect to this device.

(e) Key management personnel balances

	2015 \$
Amount owing to Pheakes Pty Ltd, an entity related to Mr Peter Wall	-
Amount owing to International Water and Energy Savers, an entity related to Mr Boaz Wachtel (\$15,000 USD)	20,240
Amount owing to Azalea Consulting Pty Ltd, an entity related to Mr Winton Willesee	25,500
Amount owing to Goldmed Ltd, an entity related to Mr Benad Goldwasser (\$6,242 USD)	8,127
	<u>61,933</u>

Note 15. 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:

	2015 \$
Audit services	
Audit and review of financial report	22,000
• BDO Audit (WA) Pty Ltd	
Non-audit services	
• BDO Corporate Tax (WA) Pty Ltd - Tax	27,601
• BDO Corporate Finance (WA) Pty Ltd - Other	12,332
	<u>61,933</u>

Notes To The Consolidated Financial Statements

Note 16. Contingent liabilities

The Group has no contingent liabilities as at 30 June 2015.

Note 17. Commitments for expenditure

	2015 \$
<i>Lease Commitments</i>	
within one year	9,063
later than one year but not later than five years	-
later than five years	-
	9,063
<i>Research and Development Commitments</i>	
within one year	383,894
later than one year but not later than five years	-
later than five years	-
	383,894

Research and development commitments of \$182,292 relate to the Company's recently announcement Phase 1 Clinical Trial which it is undertaking with Yissum.

The remaining amount of \$201,602 relates to obligations outstanding to Canigma under the binding Heads of Agreement dated 2 March 2015 for the development of a capsule based vaporiser to administer medical cannabis (Canigma Project) which require the Company to fund the first stage of development (being the granting process of a patent for the device, the proof of concept and the development of the prototype) by way of an interest free convertible loan with a face value of US\$255,000. To date the Company has met US\$100,000 (AU\$129,369) of this commitment, with US\$155,000 (AU\$201,602) outstanding as at 30 June 2015.

The Group has no other commitments for expenditure at 30 June 2015.

Note 18. Investments in controlled entities

Name of entity	Country of incorporation	Date of incorporation	Class of shares	Equity holding 2015 %
PhytoTech Therapeutics Ltd	Israel	18 December 2014	Ordinary	100
PhytoTech Medical (UK) Ltd	United Kingdom	19 November 2014	Ordinary	100

Notes To The Consolidated Financial Statements

Note 19. Share-based payments

During the reporting period, the Group provided the following in the form of share-based payment transactions:

- Options to acquire ordinary shares were issued to directors and employees of the Group (or their nominees) under the Company's Employee Incentive Option Scheme to encourage employee participation in the Company through Share ownership to attract, motivate and retain key management personnel.
- Performance rights were issued to certain directors and key consultants who were involved in the initial public offering of the Company's securities.

Options

During the period ended 30 June 2015, the Company issued (or agreed to issue) 9,850,000 options to key management personnel as performance based remuneration under the Company's Employee Incentive Option Scheme which was approved at the general meeting held on 29 June 2015.

	Unlisted options Class A Expiry 8/1/2018 @ \$0.20	Unlisted options Class B Expiry 6/5/2019 @ \$0.20	Unlisted options Class C Expiry 6/5/2016 @ \$0.31	Unlisted options Class D Expiry 24/7/2018 @ \$0.40	Unlisted options Class E Expiry 24/7/2018 @ \$0.20
No. of options	2,500,000	4,500,000	350,000	1,000,000	1,500,000
No. vested	-	-	-	166,667	125,000
No. exercisable	-	-	-	-	-
No. on issue	-	-	-	-	-

The fair value is determined using a Black-Sholes simulation to calculate the average number of options passing the performance condition based on the following:

	Class A	Class B	Class C	Class D	Class E
Share price	\$0.20	\$0.20	\$0.31	\$0.30	\$0.30
Volatility	95%	95%	95%	93%	93%
Risk free rate	2.54%	2.54%	2.01%	2.80%	2.80%
Years to expiry	2.83	4.31	4.1	3.07	3.07
Value per option	\$0.118	\$0.139	\$0.214	\$0.163	\$0.205
Total value	\$295,349	\$623,931	\$74,984	\$162,920	\$307,097

A total value of \$1,168,931 will be allocated across the respective vesting periods. 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 19. Share-based payments (cont'd)

Options (cont'd)

	2015	
	No. of Options	Weighted average exercise price (\$)
Balance at beginning of period	-	-
Granted during the period	9,850,000	\$0.22
Forfeited/cancelled during the period	-	-
Exercised during the period	-	-
Expired during the period	-	-
Balance at the end of the period	9,850,000	\$0.22
Exercisable at the end of the period	-	-

The weighted average remaining contractual life of share options outstanding at the end of the period was 3.4 years.

Options granted as follows:

2015	Class	Number granted	Grant date
BBY Limited	A	2,500,000	20/01/2015
Daphna Heffetz	B	4,500,000	15/01/2015
Hagit Sacks	C	350,000	1/04/2015
Winton Willesee	D	1,000,000	29/06/2015
Benad Goldwasser	E	1,500,000	29/06/2015

Vesting Conditions:

Class A options held by BBY Limited are subject to escrow restrictions which expire on 21 January 2017.

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.

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

Notes To The Consolidated Financial Statements

month period following appointment.

Note 19. Share-based payments (cont'd)

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 (refer to the Remuneration Report).

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.

During the reporting period 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.

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	-	-	-
Total on issue	10,000,000	10,000,000	10,000,000
Total exercisable	-	-	-

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 19. Share-based payments (cont'd)

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 \$1,942,500 have been expensed over the reporting period. 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 19. Share-based payments (cont'd)

Performance Rights (cont'd)

The fair value is determined using a hybrid option valuation to calculate the average number of performance rights passing the performance condition based on the following:

	Class A	Class B
Number issued	10,000,000	10,000,000
Underlying share price	\$0.08	\$0.08
Barrier price	\$0.40	\$0.60
Life of Performance Right	2 years	3 years
Volatility	95%	95%
Risk-free rate	2.50%	2.50%
Probability	15%	3.33%
Value per Performance Right	\$0.037	\$0.001

	Class C	Class C ⁱ	Class C ⁱⁱ	Class D	Class D ⁱ	Class D ⁱⁱ
Number on issue	6,500,000	1,000,000	2,500,000	6,500,000	1,000,000	2,500,000
Underlying share price	\$0.08	\$0.30	\$0.30	\$0.08	\$0.30	\$0.30
Life of Performance Right	3 years	3 years	3 years	4 years	4 years	4 years
Probability	35%	95%	75%	15%	80%	10%
Fair Value per Performance Right	\$0.037	\$0.285	\$0.225	\$0.037	\$0.240	\$0.030

ⁱ Performance rights granted to Mr Peter Wall remeasured following shareholder approval on 29 June 2015 to amend the performance milestones.

ⁱⁱ Performance rights granted to Mr Boaz Wachtel remeasured following shareholder approval on 29 June 2015 to amend the performance milestones.

The conversion of the Class C and Class D Performance Rights is subject to non-market factors, therefore the valuation of these Performance Rights has been performed using the underlying share price of a Company share and incorporating management's current expectation of each milestone being achieved.

Total expenses arising from share-based payment transactions recognised during the period were as follows:

	2015 \$
Performance rights – Class A,B,C,D	1,942,500
Employee options – Class B,C,D,E	390,582
Options issued in lieu of services – Class A	295,349
	2,628,431

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.

Notes To The Consolidated Financial Statements

Note 20. Reconciliation of loss from ordinary activities after income tax to net cash outflow used in operating activities

	2015 \$
(i) Reconciliation of cash and cash equivalent:	
Cash at Bank	1,909,808
(ii) Reconciliation of cash flows from operating activities with loss after income tax	
Operating loss after income tax	(4,882,396)
<u>Non-cash items</u>	
Equity based payments	2,331,282
Net foreign exchange (gains)/loss	(20,227)
<u>Change in operating assets and liabilities</u>	
(Increase)/decrease in receivables	(177,388)
Increase/(decrease) in payables	220,692
Increase/(decrease) in other assets	36,956
Net cash used in operating activities	<u>(2,491,081)</u>

(iii) Non-cash financing and investing activities

Other than as detailed in Note 19 and the Directors' Report, there were no non-cash financing or investing activities during the period ended 30 June 2015.

Note 21. Loss per share

	2015 Cents
Basic loss per share	(16.3)

	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.	29,923,719
Adjustments for calculation of diluted earnings per share:	
Options	2,076,250
Losses used in calculating losses per share	
Net loss	<u>(4,882,396)</u>

Notes To The Consolidated Financial Statements

Note 22. Dividend

The Board does not recommend the payment of a dividend for the period ended 30 June 2015. No dividends were paid during the period.

Note 23. Financial risk management

Financial Instruments

	2015 \$
Financial Assets	
Cash and Cash equivalents	1,909,808
Trade and other receivables	38,384
Loans to related entities	1,711,208
Other non-current assets	34,547
Total Financial Assets	3,693,947
Financial Liabilities	
Trade and other payables	70,739
Total Financial Liabilities	70,739

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.

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

Prudent liquidity risk management implies maintaining sufficient cash, prudent oversight of future funding requirements and maintaining ongoing contact to facilitators of further funding.

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 2015 \$
Non-derivatives				
Trade and other payables	70,739	-	-	70,739

The Group funds its activities through capital raising in order to limit its liquidity risk.

The Group does not have any unused credit facilities.

Notes To The Consolidated Financial Statements

Note 23. Financial risk management (cont'd)

(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.

	2015 \$
Financial assets	
Cash and cash equivalents	
Australia	1,448,990
United Kingdom	-
Israel	460,818
Non-current assets	
MMJ Debenture interest	14,788
	<u>1,924,596</u>

Interest rate sensitivity analysis

Weighted average interest rate for the period ended 30 June 2015 was 1.1%. At 30 June 2015, if interest rates had been 1% higher or lower than the prevailing rates realised, with all other variables held constant, the effect on post-tax profit as a result of changes in the interest rates would be as follows:

	Higher/(Lower) 2015 \$
Judgements of reasonably possible movements:	
<i>Post tax profit</i>	
+1.0% (100 basis points)	19,098
-1.0% (100 basis points)	(19,098)

Currency risk

The Group's subsidiary are based in Israel and their sustainability is dependent on the provision of cash from the parent entity. Cash funds in Israel are held in US dollars and New Israel Shekel (NIS). Funds loaned to MMJ Bioscience Ltd are denominated, and repayable to the Company, in Canadian dollars (CAD), 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.

Notes To The Consolidated Financial Statements

Note 23. Financial risk management (cont'd)

Foreign currency risk sensitivity analysis

The Group's exposure to foreign currency risk at the reporting date was as follows:

30 June 2015	USD	NIS	CAD
Cash and cash equivalents	177,837	663,612	-
Trade and other receivables	-	59	1,350,000
Trade and other payables	-	(196,868)	-
Total foreign currencies	177,837	466,803	1,350,000
Total converted into AUD	226,256	160,817	1,711,208

Based on the financial instruments held at 30 June 2015, had the New Israel Shekel strengthened/weakened by 10% against the US dollar (USD) and the Canadian dollar (CAD) against the Australian dollar (AUD), with all other variables held constant, the Group's post-tax profit for the financial year would have been \$35,391 and \$142,227, respectively, lower/higher, mainly as a result of foreign exchange losses/gains on translation of US dollar denominated financial instruments and their conversion to/from New Israel Sheqel (NIS) and translation of the Australian dollar to Canadian dollar as detailed in the above table. Profit or loss is more sensitive to movements in AUD/NIS exchange rates. The Group's exposure to other foreign exchange movements is not material.

Fair value measurements

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

AASB 7 *Financial Instruments: Disclosures* 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.

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.

(iii) Credit Risk

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

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

Notes To The Consolidated Financial Statements

policy of only dealing with credit worthy counterparties. As of 30 June 2015, the Group does not have an allowance for doubtful debt accounts.

During the reporting period, the Company advanced funds totaling 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 merger. The Loan incurred interest at a rate of 6% per annum which is to be capitalised for the first 12 months.

In addition, the Company also subscribed for secured debenture security from MMJ Bioscience Inc with a face value of CAD\$275,000. Subsequent to balance date and prior to the settlement of the merger transaction with MMJ Bioscience Inc, the debenture was sold to an investor for CAD \$280,000.

The maximum credit risk exposure of the Group at 30 June 2015 is \$3,621,016. There are no impaired receivables at 30 June 2015.

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.

Note 24. Parent entity information

The following information relates to the parent entity, MMJ PhytoTech Limited, as at 30 June 2015. The information presented hereto has been prepared using accounting policies consistent with those presented in Note 1.

Parent	2015 \$
Current assets	1,523,950
Non-current assets	2,191,834
Total assets	3,715,784
Current liabilities	121,905
Total liabilities	121,905
Contributed equity	5,827,617
Share Based Payment Reserve	2,628,431
Accumulated losses	(4,862,169)
Net Assets	3,593,879
Loss for the period	(4,862,169)
Other comprehensive income/(loss)	-
Total comprehensive loss for the period	(4,862,169)

The parent entity has no contingent liabilities or capital commitment as at 30 June 2015.

Note 25. Events occurring after reporting date

Subsequent to the end of the financial period, the Company completed its provisionally accounted merger with MMJ Bioscience Inc on 27 July 2015 and is now operating as one entity under the name, MMJ PhytoTech Limited (ASX:MMJ).

Notes To The Consolidated Financial Statements

Completion of Merger

Pursuant to the terms of an Amalgamation Agreement between the Company and MMJ Bioscience Inc dated 19 May 2015, on 27 July 2015, the Company completed the issue of 51,000,000 Shares to vendors of MMJ Bioscience Inc to acquire 100% of the issued capital of MMJ, representing a total consideration of \$15.55 million based on the deemed issue price of \$0.305 per share. The shares issued are subject to various voluntary escrow periods.

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:

- 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; 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.

The determined fair values in of assets and liabilities of MMJ Bioscience Ltd as at the date of settlement are as follows:

	As at 27 July 2015 AUD \$
Current assets	79,568
Non-current assets	4,167,538
Total Assets	4,247,106
Current liabilities	1,981,756
Non-current liabilities	462,878
Total Liabilities	2,444,634
Net Assets	1,802,472
Issued capital	5,249,593
Retained Earnings	(3,447,121)
Total Equity	1,802,472

Board and Management Changes

Upon the completion of the merger, Messrs Andreas Gedeon, Jason Bednar and Ross McKay joined the Board of the Company. 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 Ltd, the Company's Israeli subsidiary.

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

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

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

- Michael Hinam as CEO United Greeneries, the Canadian horticultural operations;
- Tomas Edvinsson 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.

Notes To The Consolidated Financial Statements

With its strong board and management team in place, the Company also advised that it had dissolved its Scientific Advisory Committee, which was initially established to support the Company during its initial public offering. Former Chairman of the Scientific Advisory Committee, Professor Donald Abrams, will continue to consult with the Company in an informal capacity, as and when required.

Other events after reporting date

In addition to the above, the Company also made the following announcements:

- On 13 July 2015 the Company announced that its subsidiary, Satipharm, had executed an agreement with Ai Fame GmbH for the exclusive right to market and distribute all Ai Fame medical cannabis products globally, significantly expanding the Company's medical cannabis product portfolio with the addition of five new Active Pharmaceutical Ingredients (API) which can be sold externally to other products and R&D companies for use in clinical research and pharmaceutical products.
- On 28 July 2015, the Company announced that it has issued the following securities:
 - 51,000,000 Shares issued to the vendors of MMJ Bioscience Inc in connection with the merger of the two companies, subject to various escrow conditions as noted above.
 - 1,530,000 Shares issued as an Introducers Fee to parties who facilitated the introduction of the Company and MMJ Bioscience Inc, 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 current directors, Mr Willesee, Mr Bednar and Mr McKay as approved by shareholders at the General Meeting held on 29 June 2015.
 - 1,500,000 Class E Options issued to the Chairman of the Company's Israeli subsidiary, PhytoTech Therapeutics Ltd, Mr Goldwasser as approved by shareholders at the General Meeting held on 29 June 2015.
- On 5 August 2015, the Company announced that it had completed the issue of 16 million Shares under an oversubscribed placement to sophisticated investors which raised \$4.8 million (before costs) to accelerate the growth of the Company's European operations. On the same date the Company issued 313,333 Shares in lieu of capital raising fees in connection with the Placement.
- On 24 August 2015, the Company confirmed that it had received the necessary regulatory approvals to undertake its first clinical study to assess the safety and performance of its proprietary oral capsule formulations in Israel. The Company intends to commence the study by November 2015 with initial results expected as early as Q1, 2016.
- On 26 August 2015, the Company announced that it had issued 3,750,000 Shares to certain Class A & B Performance Rights holders upon the vesting of those performance rights.

Note 25. Events occurring after reporting date (cont'd)

- On 31 August, the Company announced first revenues from sales of its Gelpell CBD capsules by its Swiss-based subsidiary, Satipharm. The Company also announced the official launch of its online direct sales platform, Satipharm.com to facilitate online sales of the capsules to retail customers in the European Union.

No other matter or circumstance has arisen since 30 June 2015 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' 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 2015 and of the performance, as represented by the results of their operations, changes in equity and the cash flows, for the financial period ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (c) the Directors have been given the declarations required by s.295A of the Corporations Act 2001.

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



Peter Wall
Non-executive Chairman

Perth, Western Australia
31 August 2015

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 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period 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 period's end or from time to time during the financial period.

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.

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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.

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 2015 and of its performance for the period 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.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the period ended 30 June 2015. 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 period ended 30 June 2015 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

31 August 2015

Additional Shareholder Information

Additional information included in accordance with the Listing Rules of the Australian Securities Exchange Limited. The information is current as at 26 August 2015.

1. Quotation

Listed fully paid ordinary securities in MMJ PhytoTech Limited are quoted on the Australian Securities Exchange under ASX code MMJ.

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 or Performance Rights on issue.

3. Unmarketable Parcels

As at 26 August 2015, there were 710 holders of unmarketable parcels of less than 1,725 ordinary shares (based on the closing share price of \$0.29).

4. On-market Buy Backs

There is no on-market buy back currently in place.

5. 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	323	247,866	0.19%
1,001 – 5,000	1,541	4,293,022	3.32%
5,001 – 10,000	736	6,017,835	4.65%
10,001 – 100,000	924	29,759,996	23.01%
100,001 and above	163	89,019,996	68.83%
Total	3,687	129,338,715	100.00%

ii) 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	3.23%
100,001 and above	1	2,500,000 ¹	96.77%
Total	2	2,583,334	100.00%

¹ Holders who hold more than 20% of the above securities are Ross Henry Smith <The Mohaka Capital A/C> (2,500,000 performance rights).

Additional Shareholder Information

iii) 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 the above 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) and Red Apple Superannuation Pty Ltd (1,875,000 performance rights).

iv) 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	0.83%
100,001 and above	7	9,916,666 ¹	99.17%
Total	8	10,000,000	100.00%

¹ Holders who hold more than 20% of the above securities are International Water & Energy Savers Ltd (2,500,000 performance rights) and Ross Henry Smith <The Mohaka Capital A/C> (2,500,000 performance rights)

v) 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 Held by BBY Nominees Pty Ltd

vi) 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 Held by ESOP Management & Trust Services Ltd

Additional Shareholder Information

ADDITIONAL SHAREHOLDERS' INFORMATION (cont'd)

vii) 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 Held by ESOP Management & Trust Services Ltd

viii) Unlisted Class D Options exercisable at \$0.40 on or before 27 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	3,500,000 ¹	100.00%
Total	3	3,500,000	100.00%

¹ Held by Jason Bednar (1,500,000 options), Ross McKay (1,000,000 options) and Azalea Family Holdings Pty Ltd (1,000,000 options)

ix) Unlisted Class E Options exercisable at \$0.20 on or before 27 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 Held by ESOP Management & Trust Services Ltd – 1,500,000 options

6. Substantial Shareholders

The names of the substantial shareholders listed on the Company's register as at 26 August 2015 are:

- International Water and Energy Savers Ltd
Holder of: 6,500,000 fully paid ordinary shares, representing 5.18%
Notice received: 27 July 2015

Additional Shareholder Information

ADDITIONAL SHAREHOLDERS' INFORMATION (cont'd)

7. Twenty Largest Shareholders

The twenty largest shareholders of the Company's quoted securities as at 26 August 2015 are as follows:

	Name	No. of Shares	%
1	INTERNATIONAL WATER AND ENERGY SAVERS LTD	6,500,000	5.03
2	GREENLINE HOLDINGS	5,626,212	4.35
3	GUIDO WIESMANN	3,878,805	3.00
4	RED APPLE SUPERANNUATION PTY LTD <RED APPLE SUPER FUND A/C>	3,750,000	2.90
5	PHEAKES PTY LTD <SENATE A/C>	3,000,000	2.32
6	THE TWENTIETH CENTURY MOTOR COMPANY PTY LTD <TWENTIETH CENTURY MC SF A/C>	2,250,000	1.74
7	ELYSIUM PACIFIC SOLUTIONS INC	2,115,978	1.64
8	DAVID SLANG	1,946,235	1.50
9	1661070 ALBERTA LTD	1,805,325	1.40
10	SUBURBAN HOLDINGS PTY LTD <THE SUBURBAN SUPER FUND A/C>	1,719,876	1.33
11	THE TRUST COMPANY (AUSTRALIA) LIMITED	1,506,414	1.16
12	STATION NOMINEES PTY LTD <STATION SUPER FUND A/C>	1,500,000	1.16
13	ROSS HENRY SMITH <THE MOHAKA CAPITAL A/C>	1,500,000	1.16
14	CHIFLEY PORTFOLIOS PTY LTD	1,494,207	1.16
15	KTAP PTY LTD	1,280,748	0.99
16	TILTING CAPITAL CORP	1,273,074	0.98
17	FAULKNER CAPITAL GROUP PTY LTD	1,248,171	0.97
18	PARALUMEN DE LEON	1,099,938	0.85
19	TOMAS EDVINSSON	1,018,461	0.79
20	BOND STREET CUSTODIANS LIMITED	1,000,000	0.77
	Total	45,513,444	35.19

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