

MMJ Group Holdings Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity: MMJ Group Holdings Limited (“the Company”)
ABN: 91 601 236 417
Reporting period: For the year ended 30 June 2019
Previous period: For the year ended 30 June 2018

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	73%	33,642
Profit from ordinary activities after tax attributable to the owners of MMJ Group Holdings Limited	up	320%	21,620
Profit for the year attributable to the owners of MMJ Group Holdings Limited	up	320%	21,620

Dividends

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

Commentary on results for the period

The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to \$21.6m (30 June 2018: \$5.1m). During the year the net tangible asset backing per share increased from 28.6 cents as at 30 June 2018 to 37.18 cents as at 30 June 2019.

As of 1 April 2018, the Company was classified as an Investment Entity (in accordance with AASB 10 Consolidated Financial Statements) being a business whose purpose is to invest funds solely for returns via capital appreciation and/or investment returns. As the Company has been classified as an Investment Entity and recognises its investments as ‘held for trading’, the portfolio investments have been accounted for at fair value through profit or loss and shown as financial assets in the statement of financial position.

The operating revenues, expenses and cash flow of the MMJ consolidated entity in the financial year ended 30 June 2018 include the operating results of Harvest One for the eight months ended 28 February 2018. The operating revenues, expenses and cashflows of the MMJ consolidated entity for the year ended 30 June 2019 now reflect the operations of MMJ which operates as an investment entity for financial reporting purposes comprising:

- i. Revenue – includes realised and unrealised gains/losses from investments
 - ii. Operating expenses – the investment management and administration expenses required to operate as an investment company listed on the Australian Stock Exchange
- a) Significant Acquisitions

During the year MMJ Group Holdings Limited (the “Company”) acquired the following investments:

- i. CAD¹2.65m investment in privately-held Embark Health Inc (“Embark”) – Canadian based extractor of THC², CBD³, and CBG⁴ servicing Canada’s medical and recreational cannabis markets
- ii. USD1m investment in privately-held Vitagenne Inc (“Vitagenne”) – a USA based is a hemp-derived cannabidiol (CBD) product company focused on providing health and wellness goods in the United States

¹ CAD – Canadian dollars

² THC - THC is the principal psychoactive constituent of cannabis

³ CBD - Cannabidiol is a crystalline, nonintoxicating cannabinoid in cannabis and hemp

⁴ CBG - Cannabigerol is the non-acidic form of cannabigerolic acid, the parent molecule from which other cannabinoids are synthesized.

- iii. AUD1m investment in privately held Trichomia Pty Limited (“Trichomia”), the owner of the “Hemple” and “Soul Seed” hemp foods brands
- iv. CAD2.5m in privately held Volero Brands Inc. (“Volero”) – Canadian based manufacturer of the Flyte brand of vape pens and cartridges.

The Company also made a minor follow-on investment in BevCanna Inc.

b) Significant Divestment of Investments

During the year the Company made the following divestments:

- i. PhytoTech Therapeutics Limited (“PhytoTech”) - On 25 June 2018, the Company announced it had entered into a binding share sale agreement (“SSA”) pursuant to which it conditionally agreed to sell its wholly-owned subsidiary PhytoTech Therapeutics Ltd (“PTL”) to Harvest One Cannabis Inc. (TSXV: HVT) (“HVT”) for a total consideration of CAD8 million (“Disposal”). The Disposal was completed on 19 November 2018 following necessary shareholder and regulatory approvals required to undertake the Disposal.
- ii. Harvest One Cannabis - The Company sold Harvest One shares for net proceeds of CAD3.5m. The Company currently holds 55m shares representing 26% of HVT
- iii. Medipharm Labs - The Company sold shares for net proceeds of CAD30.7m for a pretax profit of CAD23.3m

c) Public Listing of the Company’s Investees

Since 1 July 2018, the following of the Company’s investees completed public listing on Canadian stock exchanges:

- i. Medipharm Labs (listed October 2018)
- ii. Fire & Flower (listed February 2019)
- iii. Bevcanna (listed July 2019)

d) Key Management Changes

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

- i. Michael Curtis was appointed a non-executive director on 8 January 2019
- ii. Jason Conroy resigned as Chief Executive Officer effective 1 March 2019
- iii. The Company’s Chief Operating Officer’s position held by Catherine Harvey was made redundant with effect on 13 July 2018.

e) Appointment of Embark Ventures Inc as Investment Manager

On 19 July 2019, the Company’s shareholders approved:

- i. The issue of 12,000,000 performance rights to Embark Ventures Inc.
- ii. The investment management agreement between the Company and Embark Ventures Inc which was effective from 1 June 2019.

Financial Position

The net assets of the consolidated entity increased during the financial year as a result of profit after tax of \$21.6m arising from realised and unrealised gains.

Cash holdings for the consolidated entity have increased by \$25m to \$26.4m as a result of the sale of investments.

3. Net tangible assets

	Reporting period	Previous period
		30-Jun-18
	Cents	Cents
Net tangible assets per ordinary security	37.18	28.60

4. Control gained over entities

Not applicable.

5. Loss of control over entities

On 25 June 2018, the Company announced it had entered into a binding share sale agreement pursuant to which it conditionally agreed to sell its wholly-owned subsidiary PhytoTech Therapeutics Ltd ("PTL") to Harvest One Cannabis Inc. (TSXV: HVT) ("HVT") for a total consideration of CAD8 million ("Disposal"). The Disposal was completed on 19 November 2018.

6. Dividends

Current period

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

Previous period

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

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

Not applicable.

10. Audit qualification or review

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

The preliminary financial report and accompanying notes for the Company have not been audited. The audited financial report is scheduled for release in September 2019.

11. Attachments

Details of attachments (if any):

The Preliminary Financial Report of the Company for the year ended 30 June 2019 is attached. This document provides all the disclosures required under listing rule 4.3A.

12. Annual General Meeting

The 2019 annual general meeting will be as follows:

TIME: 2:00pm (AEST)

DATE: Thursday, 28 November 2019

PLACE: The office of the Automic Group Level 5, 126 Phillip Street Sydney NSW 2000

Nominations of persons intending to propose his or her nomination as a director of MMJ Group Holdings Limited have to be lodged at the registered office by 10 October 2019 in order to comply with ASX listing rules.

MMJ Group Holdings Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2019

	30-Jun-19 \$000	30-Jun-18 \$000
Revenue		
Interest received	129	225
Sales Revenue	0	211
Net foreign exchange gain/(loss)	(213)	(80)
Loss on disposal of investment	0	(105)
Realised gains/(losses) on disposal of equity investments at fair value through profit and loss	21,080	3,271
Total revenue	<u>20,996</u>	<u>3,522</u>
Other income		
Gain on deconsolidation of Harvest One Cannabis Inc.	0	16,990
Gain on deconsolidation of PhytoTech Therapeutics Ltd	0	7,779
Gain on changes in fair value of biological assets	0	1,118
Foreign exchange gain on revaluation of financial assets held for trading	0	1,241
Share of Harvest One profit	0	65
Foreign exchange gain/(loss) on changes in the the fair value of other investments through profit and loss	667	0
Foreign exchange gain/(loss) on changes in the fair value of equity investments at fair value through profit and loss	3,443	0
Changes in the fair value of equity investments at fair value through through profit and loss	8,536	(13,275)
Gain/(loss) on contingent deferred consideration shares	0	1,992
	<u>12,646</u>	<u>15,910</u>
Income from operating activities	<u>33,642</u>	<u>19,432</u>
Expenses		
Administration expenses	(999)	(1,885)
ASX Compliance relisting expense	(505)	0
Compliance and regulatory expenses	(82)	(339)
Consultancy and legal expenses	(264)	(939)
Cost of Sales	0	(724)
Depreciation and amortisation expense	(7)	(709)
Employee and director related expenses	(941)	(2,795)
Equity based payments expense	70	(7,937)
Finance costs	(0)	(1,494)
Impairment of inventory	0	(213)
Marketing & investor relations	0	(509)
Research and development expense	0	(232)
Total expenses	<u>(2,728)</u>	<u>(17,776)</u>
Profit/(Loss) before income tax expense	30,914	1,656
Income tax expense	(9,294)	(466)
Profit/(Loss) after income tax expense for the period	<u>21,620</u>	<u>1,190</u>
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Foreign currency translation	0	(503)
Other comprehensive income for the period, net of tax	0	(503)
Total comprehensive profit/(loss) for	<u>21,620</u>	<u>687</u>
Profit/(Loss) for the year is attributable to:		
Non-controlling interest	0	(3,954)
Owners of MMJ Group Holdings Limited	21,620	5,144
	<u>21,620</u>	<u>1,190</u>
Total comprehensive income for the year is attributable to:		
Non-controlling interest	0	(3,954)
Owners of MMJ Group Holdings Limited	21,620	4,641
	<u>21,620</u>	<u>687</u>
	Cents	Cents
Basic earnings per share	9.40	2.40
Diluted earnings per share	9.40	2.30

MMJ Group Holdings Limited
Statement of financial position
As at 30 June 2019

	Note	30-Jun-19 \$'000	30-Jun-18 \$'000
CURRENT ASSETS			
Cash and cash equivalents		26,392	1,347
Trade and other receivables		63	110
Financial assets - held for trading		0	63,091
Financial assets at fair value through profit or loss	4	69,093	0
Total Current Assets		95,548	64,548
NON-CURRENT ASSETS			
Property, plant and equipment		45	55
Deferred tax assets		66	433
Total Non-Current Assets		112	488
TOTAL ASSETS		95,660	65,036
CURRENT LIABILITIES			
Trade and other payables		195	390
Provision for Tax		6,240	0
Total Current Liabilities		6,435	390
NON-CURRENT LIABILITIES			
Deferred tax		3,587	899
Total Non-Current Liabilities		3,587	899
TOTAL LIABILITIES		10,022	1,289
NET ASSETS		85,638	63,747
EQUITY			
Contributed equity	5	52,936	49,064
Reserves	6	1,057	9,353
Retained Earnings		31,645	5,330
TOTAL EQUITY		85,638	63,747

MMJ Group Holdings Limited
Statement of changes in equity
For the year ended 30 June 2019

Consolidated	Foreign Currency		Non-		Total Equity \$'000	
	Contributed	Other	Translation	Accumulated		Controlling
	Equity \$'000	Reserves \$'000	Reserve \$'000	Loss \$'000		Interest \$'000
Balance at 1 July 2018	49,064	9,353	0	5,330	0	63,747
Loss after income tax expense for the period	0	0	0	21,620	0	21,620
Other comprehensive income for the period, net of tax	0	0	0	0	0	0
Total comprehensive income for the period	0	0	0	21,620	0	21,620
Transactions with owners in their capacity as owners:						
Exercise of options	240	(1,709)	0	1,709	0	240
Lapse of options	0	(2,885)	0	2,986	0	101
Conversion of performance rights	3,632	(3,632)	0	0	0	0
Share-based payment	0	(70)	0	0	0	(70)
Balance at 30 June 2019	52,936	1,057	0	31,645	0	85,638

Consolidated	Foreign Currency		Non-		Total Equity \$'000	
	Contributed	Other	Translation	Accumulated		Controlling
	Equity \$'000	Reserves \$'000	Reserve \$'000	Loss \$'000		Interest \$'000
Balance at 1 July 2017	44,954	16,914	503	(32,306)	11,810	41,875
Loss after income tax expense for the period	0	0	0	5,144	(3,954)	1,190
Other comprehensive income for the period, net of tax	0	0	(503)	0	0	(503)
Total comprehensive income for the period	0	0	(503)	5,144	(3,954)	687
Transactions with owners in their capacity as owners:						
Exercise of options	1,941	0	0	0	0	1,941
Harvest One option reserve	0	0	0	0	0	0
Harvest One convertible debentures	0	0	0	0	0	0
Conversion of performance rights	2,169	(2,169)	0	0	0	0
Cancellation of performance rights	0	(815)	0	0	0	(815)
Transactions with non-controlling interest	0	19,154	0	0	53,920	73,074
Movement due to deconsolidation of HVT	0	(32,492)	0	32,492	(61,776)	(61,776)
Share-based payment	0	8,761	0	0	0	8,761
Balance at 30 June 2018	49,064	9,353	0	5,330	0	63,747

MMJ Group Holdings Limited
Statement of cash flows
For the year ended 30 June 2019

	30-Jun-19	30-Jun-18
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	0	65
Payments to employees & suppliers	(2,385)	(8,340)
	<u>(2,385)</u>	<u>(8,275)</u>
Interest received	129	162
Payments for financial assets at FVPL	(10,899)	0
Proceeds from disposal of financial assets at FVPL	37,792	0
Interest & other finance costs paid	0	(154)
Net cash (used in)/from operating activities	<u>24,637</u>	<u>(8,267)</u>
Cash flows from investing activities		
Payments for property, plant and equipment	0	(1,764)
Payments for investments	0	(14,016)
Proceeds from disposal of investments	0	6,073
Decrease in cash holding due to deconsolidation of Harvest One and PTL	0	(81,774)
Other	0	334
Payments for intangible assets	0	(10)
Net cash used in investing activities	<u>0</u>	<u>(91,157)</u>
Cash flows from financing activities		
Proceeds received on exercise of options	240	2,180
Proceeds from Harvest One units offering	0	37,869
Proceeds from exercise of warrants	0	18,362
Other	168	32
Proceeds from issue of convertible debentures	0	19,130
Net cash from financing activities	<u>408</u>	<u>77,573</u>
Net increase/(decrease) in cash & cash equivalents	25,045	(21,851)
Cash at the beginning of the year	1,347	23,801
Effects of exchange rate changes on cash and cash equivalents	0	(603)
Cash & cash equivalents at end of period	<u>26,392</u>	<u>1,347</u>

MMJ Group Holdings Limited
Notes to the financial statements
30 June 2019

Notes to financial statements

1. General information

The preliminary financial report has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, International Financial Reporting Standards as issued by the International Accounting Standards Board and Corporations Act 2001. The preliminary financial report covers the Company as a consolidated entity consisting of the Company and the entity it controlled at the end of, or during the financial year. The financial statements are presented in Australian dollars, which is the Company's functional and presentation currency. This financial report does not include all notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2019, the 2019 Annual Financial Statements and any public announcements made by the Company during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

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

The preliminary financial statements were authorised for issue, in accordance with a resolution of directors, on 27 August 2019. The directors have the power to amend and reissue the preliminary financial statements.

2. Significant accounting policies

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

Investments

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

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

Investments are recognised on a settlement date basis.

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

Rounding of amounts

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

3. Critical accounting judgements, estimates and assumptions

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

Share-based payment transactions

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

Fair value measurement hierarchy

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

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

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.

Investment Entity

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

4. Current assets - financial assets held Fair Value through Profit and Loss

	Consolidated 2019 30-Jun \$000	Consolidated 2018 30-Jun \$000
Reclassification from financial assets held for trading		
Investment in Bien Ventures Ltd	0	715
Investment in BevCanna Enterprises Inc	0	505
Investment in Biologics Research Institute Australia Pty Ltd ("Cannabis Access")	0	1,000
Investment in Fire&_Flower Inc.	0	1,025
Investment in Harvest One Cannabis Inc.	0	42,256
Investment in Martha Jane Medical Limited	0	600
Investment in MediPharm Labs Inc	0	5,123
Investment in PhytoTech Therapeutics Ltd	0	8,033
Convertible debenture receivable - Weed Me Inc	0	3,834
	0	63,091
Financial assets at fair value through profit and loss		
Investment in Bien Ventures Ltd	1,077	0
Investment in BevCanna Enterprises Inc	1,361	0
Investment in Biologics Research Institute Australia Pty Ltd ("Cannabis Access")	1,000	0
Investment in Embark Health Inc	3,685	0
Investment in Fire&_Flower Inc.	1,250	0
Investment in Harvest One Cannabis Inc.	44,146	0
Investment in Martha Jane Medical Limited	600	0
Investment in MediPharm Labs Inc	4,077	0
Investment in Weed Me Inc	6,532	0
Investment in Vitagenne Inc.	1,426	0
Investment in Hemple	1,000	0
Investment in Volero Inc.	2,721	0
Investment in Sequoya	218	0
	69,093	0
<i>Reconciliation</i>		
Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:		
Opening fair value	0	0
Reclassification from financial assets held for trading	63,091	0
Additions - financial assets at fair value through profit and loss	14,971	0
Additions - investment in HVT on the date of deconsolidation	0	56,190
Additions – investment in PTL	0	7,779
Additions - other investments	0	14,016
Unrealised loss on revaluation of financial assets held for trading	0	(13,275)
Changes in the fair value of equity investments at fair value through through profit and loss	8,536	0
Net foreign exchange gain/(loss)	(213)	0
Realised gains/(losses) on disposal of equity investments at fair value through profit and loss	21,080	3,271
Foreign exchange gain on revaluation of financial assets held for trading	0	1,183
Foreign exchange gain on changes in the fair value of equity investments at fair value through profit and loss	3,443	0
Disposal of financial assets at fair value through profit and loss	(41,815)	(6,073)
Closing fair value	69,093	63,091
	69,093	63,091

Reconciliation

The following table presents the changes in level 3 instruments for the year:

		Unlisted equity securities \$000	Convertible debenture receivable \$000	Total \$000
Opening balance	1-Jul-18	0	0	0
Transfer from financial assets held for trading		8,968	3,834	12,802
Conversion of convertible note into unlisted equity securities		3,834	(3,834)	0
Transfer to level 1		(6,148)	0	(6,148)
Disposals		0	0	0
Acquisitions		8,355	0	8,355
Net foreign exchange gain/(loss)		0	0	0
Realised gains/(losses) on disposal of equity investments at fair value through profit and loss		0	0	0
Foreign exchange gain/(loss) on changes in the fair value of equity investments at fair value through profit and loss		696	0	696
Changes in the fair value of equity investments at fair value through through profit and loss		3,914	0	3,914
Closing balance	30-Jun-19	19,619	0	19,619

Other than the transfer of equity securities from level 3 to level 1 explained above there were no transfers between the levels of the fair value hierarchy in the year ended 30 June 2019. There were also no changes made to any of the valuation techniques applied as of 30 June 2018.

Level 3 financial assets held for trading unobservable inputs and sensitivity are as follows:

Description	Unobservable inputs	Sensitivity
Unlisted investments	Issue price of shares from latest significant capital raising or acquisition cost	Decrease share price on last equity issue decreases fair value
Convertible debenture receivable	Issue price of shares from latest significant capital raising	Decrease share price decreases fair value
	Volatility	Increased volatility significantly increases or decreases fair value

Accounting policy for fair value measurement

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

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

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Fair value in active market (Level 1)

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and listed equity securities) are based on quoted market prices at the close of trading at the end of the reporting period without any deduction for estimated future selling costs.

The Company values its investments in accordance with the accounting policies set out in note 2 of the financial statements.

For the majority of its investments, the Company relies on information provided by independent pricing services for the valuation of its investments.

The quoted market price used for financial assets held by the Company is the current bid price; the quoted market price for financial liabilities is the current asking price. When the Company holds derivatives with offsetting market risks, it uses midmarket prices as a basis for establishing fair values for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Fair value in an inactive or unquoted market (Level 2 and Level 3)

The fair value of financial assets that are not traded in an active market is determined using valuation techniques. These include the use of a recent share price from capital raising and option pricing models that provides a reliable estimate of prices obtained in actual market transactions.

For option pricing models, inputs are based on available market data. Fair values for unquoted equity investments are estimated, using the latest share price from capital raising. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

5. Equity – contributed equity

<i>Movements in ordinary share capital</i>	Consolidated		30-Jun-19 \$'000	30-Jun-18 \$'000
	30-Jun-19 Shares	30-Jun-18 Shares		
Ordinary Shares - fully paid	230,148,985	221,398,985	52,936	49,064

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	30-Jun-17	208,932,100		44,954
Exercise of Options	11-Sep-17	1,000,000	\$0.20	200
Exercise of Options	15-Nov-17	1,500,000	\$0.20	300
Exercise of Options	15-Nov-17	98,750	\$0.27	26
Exercise of Options	12-Dec-17	1,000,000	\$0.20	200
Exercise of Options	12-Dec-17	56,250	\$0.27	15
Exercise of Options	29-Dec-17	500,000	\$0.20	100
Exercise of Options	12-Jan-18	786,885	\$0.45	354
Exercise of Options	12-Jan-18	250,000	\$0.45	113
Exercise of Options	12-Jan-18	1,000,000	\$0.24	240
Exercise of Options	1-Feb-18	900,000	\$0.20	180
Exercise of Options	1-Feb-18	250,000	\$0.45	113
Conversion of performance rights	2-Mar-18	4,500,000	-	2,115
Conversion of performance rights	2-Mar-18	125,000	-	54
Exercise of Options	12-Apr-18	500,000	\$0.20	100
Balance	1-Jul-18	221,398,985		49,064
Conversion of performance rights	5-Jul-18	4,500,000	\$0.47	2,115
Conversion of performance rights	5-Jul-18	1,500,000	\$0.47	705
Conversion of performance rights	5-Jul-18	250,000	\$0.43	107
Conversion of performance rights	5-Jul-18	1,500,000	\$0.20	705
Exercise of Options	5-Jul-18	1,000,000	\$0.00	240
Balance	30-Jun-19	230,148,985		52,936

Ordinary Shares

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

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

Share buy-back

On 7 June 2019, the Company announced its intention to commence, with effect from 27 June 2019, an on-market share buy-back program for shares up to a maximum of 10m ordinary shares. As at 30 June 2019, the Company acquired 500,000 shares for a total consideration of \$0.12m.

The shares acquired by the Company as part of on-market share buy-back programs are cancelled and removed from the shares register.

6. Equity - reserves

	30-Jun-19	30-Jun-18
	\$'000	\$'000
	\$000	\$000
Options reserve	963	5,342
Performance rights reserve	94	4,011
	<u>1,057</u>	<u>9,353</u>

7. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	2019 %	2018 %
PhytoTech Medical (UK) Ltd	United Kingdom	100	100
PhytoTech Therapeutics Ltd	Israel	0	100

On 25 June 2018, the Company executed a share sale contract to sell 100% of PhytoTech Therapeutic Limited (PTL) to HVT. From 1 April 2018 PTL was fair valued according to the sale price as per the contract. PTL was deconsolidated on 1 April 2018, due to the Company being classified as an Investment Entity in accordance with AASB 10 Consolidated Financial Statements. The disposal of PTL was approved by the Company shareholders on 5 October 2018 and completed on 19 November 2018.

8. Events after the reporting period

On 22 July 2019, the Company agreed to invest CAD⁵2.5m in the privately-held Sequoia Cannabis Limited ("Sequoia"). Sequoia's immediate focus is to become a significant GMP⁶-certified hemp CBD supplier, with longer term plans to expand into the legal medical marijuana market across Europe. Sequoia's cannabis extraction operations will be established in Krakow, Poland, with plans to become a leading supplier of CBD⁷ extracts and isolate within the European Union.

On 19 July 2019, the Company's shareholders approved:

- The issue of 12,000,000 performance rights to Embark Ventures Inc.
- The investment management agreement between the Company and Embark Ventures Inc.

No other matter or circumstance has arisen since 30 June 2019, that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

⁵ CAD – Canadian dollars

⁶ GMP stands for Good Manufacturing Practices, and refers to a system of manufacturing that guarantees reproducibility of product quality to set specifications.

⁷ Cannabidiol (CBD) is a crystalline, nonintoxicating cannabinoid in cannabis and hemp.