MMJ Group Holdings Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity: MMJ Group Holdings Limited ("the Company" or "consolidated entity")
ABN: 91 601 236 417
Reporting period: For the year ended 30 June 2020
Previous period: For the year ended 30 June 2019

2. Results for announcement to the market

			2020	2019
			$'000	$'000
Revenues from ordinary activities	down	(223%)	(41,258)	33,642
Profit from ordinary activities after tax attributable to the owners of MMJ Group Holdings Limited	down	(285%)	(40,082)	21,620
Profit for the year attributable to the owners of MMJ Group Holdings Limited	down	(285%)	(40,082)	21,620

3. Commentary on results for the period

Review of operations

The loss for the consolidated entity after providing for income tax amounted to $40.1m (30 June 2019: profit of $21.6m).

Coronavirus (COVID-19) pandemic

The impact of the Coronavirus (COVID-19) pandemic up to 30 June 2020 has not had a material financial impact for the controlled entity. The internal operations of MMJ have not been significantly impacted and we have not observed a material adverse impact on the operations of our material investments or any consequential material specific impact from COVID-19 on MMJ's valuation, and/or any impact on recoverability of loans advanced during the year still receivable as at 30 June 2020.

The increased volatility in the Canadian equities market has limited the ability of cannabis investments in general to raise new funds and move from private to listed status.

The loss for the period included the following return from investments:

a) Total return/(loss) of $(37.9)m from our investment in HVT
b) Total return of $5.4m from our investment in Embark Health.
c) Total return/(loss) of $(1.5)m from our investment in Weed Me.
d) Total return/(loss) of $(3.6)m from our investment in MediPharm Labs; and
e) Total return/(loss) of $(2.8)m from our investment in WeedMD.

Operating overheads for the Financial Period were $1.8m down from $2.8m from the previous financial year.

During the Financial Period, the net tangible asset backing per share decreased from 37.18 cents as at 30 June 2019 to 19.24 cents as at 30 June 2020 on which day the share price closed at 9.6 cents. The net tangible assets of the consolidated entity decreased primarily as a result of losses of $42.1m from investments.

a) Significant Acquisitions

During the Financial Period, the Company acquired the following material investments:

i. CAD3.6m follow on investment in privately-held Embark Health Inc ("Embark") – Canadian based extractor of THC, CBD, and CBG servicing Canada's medical and recreational cannabis markets.

ii. CAD3.3m investment (comprising shares and convertible note) in the privately-held Sequoya Cannabis Limited ("Sequoya"). A CAD2.5m secured convertible note facility to Sequoya, which may be drawn down in tranches (at MMJ's option). MMJ has advanced an initial CAD0.35m ("Initial Advance") on 16 April 2020 to Sequoya under this convertible note facility.

iii. CAD1m secured convertible note facility as a follow-on investment in the privately-held Weed Me Inc ("Weed Me").

iv. USD1m investment in the unlisted Bespoke A Limited Partnership ("Bespoke") which in turn holds an investment in the publicly listed Bespoke Capital Acquisition Corporation which is a special-purpose Canadian investment entity for acquiring investments in the cannabis industry.

v. CAD6m investment in the Canadian-listed company WeedMD Inc. (TSX-V:WMD) ("WeedMD or WMD") which is a licensed producer of cannabis products for both the medical and adult-use markets.

vi. CAD2m secured loan to an existing investee, Harvest One, to assist with a restructure of HVT.

b) Significant Divestment of Investments

During the Financial Period, the Company made the following material divestments:

i. Bevcanna Inc - The Company sold shares for net proceeds of CAD0.54m.

ii. Fire & Flower Inc. – The Company sold the balance of its shares for net proceeds of CAD0.9m

iii. Medipharm Labs – The Company sold the balance of its warrants for net proceeds of CAD0.4m

c) Appointment of Investment Manager

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

i. The investment management agreement between the Company and Embark Ventures Inc ("EbV") which was effective from 1 June 2019.

ii. The issue of 12,000,000 performance rights to EbV as part of the investment management agreement.

Financial Position

The net tangible assets of the consolidated entity decreased by $41.4m during the Financial Period as a primarily result of losses of $42.1m from investments. Cash holdings for the consolidated entity decreased by $25.3mm to $1m primarily as a result of the new investments ($20.6m) and payment of FY19 corporate tax liability of $5.9m.

4. Net tangible assets

	Reporting period	Previous period 30-Jun-19
	Cents	Cents
Net tangible assets per ordinary security	19.24	37.18

On 13 July 2020 MMJ announced that its unaudited net tangible assets per share was 17.98 cents. Following completion of the financial statements for year ended 30 June 2020 the net tangible assets per share increased to 19.24 cents as a result of updated valuations of certain unlisted investments.

5. Control gained over entities

Not applicable.

6. Loss of control over entities

Not applicable

7. Dividends

Current period

On 7 June 2019, MMJ announced its intention to distribute 20% of its annual profit after tax after excluding unrealised gains and losses on investments (Annual Profit). The policy would first apply in respect of the Annual Profit for the year ended 30 June 2020. The dividend would be payable within three months of each half year after the completion of the half year and annual financial statements. It is MMJ's intention that the dividend would benefit from available franking credits held by MMJ. The Company had an Annual Loss of $3.2m for the financial year (i.e. excluding after tax impact of unrealised gains and losses on investments) and accordingly no dividend has been declared in respect of the year.

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

Previous period

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

8. Dividend reinvestment plans

Not applicable.

9. Details of associates and joint venture entities

Not applicable.

10. Foreign entities

Not applicable.

11. 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 2020.

12. Attachments

Details of attachments (if any):

The Preliminary Financial Report of the Company for the year ended 30 June 2020 is attached.

This document provides all the disclosures required under listing rule 4.3A.

12. Annual General Meeting

The 2020 Annual General Meeting will be as follows:

TIME: 2:00pm (AEST)

DATE: Monday, 2 November 2020

PLACE: The Company is pleased to provide Shareholders with the opportunity to attend and participate in a virtual meeting through an online meeting platform powered by Automic Group, where Shareholders will be able to watch, listen, and vote online.

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 21 September 2020.

MMJ Group Holdings Limited

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2020

	Note	30-Jun-20 $000	30-Jun-19 $000
Revenue			
Interest income		843	129
Net foreign exchange gain/(loss)		287	454
Realised gains/(losses) on disposal of equity investments at fair value through profit and loss	5	(4,684)	21,080
Total revenue		(3,554)	21,663
Other income			
Changes in the fair value of equity investments at fair value through profit and loss	5	(37,704)	11,980
Other income		(37,704)	11,980
Income from operating activities		(41,258)	33,642
Expenses			
Administration expenses		(740)	(999)
Asset management expenses		(439)	0
ASX Compliance relisting expense		0	(505)
Compliance and regulatory expenses		(65)	(82)
Consultancy and legal expenses		(8)	(264)
Depreciation and amortisation expense		(10)	(7)
Employee and director related expenses		(539)	(941)
Operating expenses		(1,801)	(2,798)
Equity based payments reversal/(expense)		156	70
Total expenses		(1,645)	(2,728)
Profit/(Loss) before income tax		(42,902)	30,914
Income tax (expense)/benefit		2,821	(9,294)
Profit/(Loss) after income tax for the year		(40,082)	21,620
Other comprehensive income			
		0	0
Other comprehensive income for the year, net of tax		0	0
Total comprehensive profit/(loss) for the year		(40,082)	21,620
Profit/(Loss) for the year is attributable to:			
Owners of MMJ Group Holdings Limited		(40,082)	21,620
		(40,082)	21,620
Total comprehensive income/(loss) for the year is attributable to:			
Owners of MMJ Group Holdings Limited		(40,082)	21,620
		(40,082)	21,620
		Cents	**Cents**
Basic earnings/(loss) per share	8	(17.70)	9.40
Diluted earnings/(loss) per share	8	(17.70)	9.40

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

MMJ Group Holdings Limited

Consolidated statement of financial position

As at 30 June 2020

	Note	30-Jun-20 $'000	30-Jun-19 $'000
CURRENT ASSETS			
Cash and cash equivalents		1,042	26,392
Trade and other receivables		54	63
Financial assets at fair value through profit or loss	5	41,244	69,093
Total Current Assets		**42,341**	**95,548**
NON-CURRENT ASSETS			
Property, plant and equipment		35	45
Financial assets at fair value through profit or loss	5	3,241	-
Deferred tax assets		-	66
Total Non-Current Assets		**3,277**	**112**
TOTAL ASSETS		**45,618**	**95,660**
CURRENT LIABILITIES			
Trade and other payables		163	195
Current tax payable		-	6,240
Total Current Liabilities		**163**	**6,435**
NON-CURRENT LIABILITIES			
Deferred tax liabilities		1,207	3,587
Total Non-Current Liabilities		**1,207**	**3,587**
TOTAL LIABILITIES		**1,370**	**10,022**
NET ASSETS		**44,248**	**85,638**
EQUITY			
Contributed equity	6	51,786	52,936
Reserves	7	901	1,057
Retained Earnings/(Accumulated Losses)		(8,439)	31,645
TOTAL EQUITY		**44,248**	**85,638**

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

MMJ Group Holdings Limited

Consolidated statement of changes in equity

For the year ended 30 June 2020

Consolidated	Contributed Equity $'000	Other Reserves $'000	(Accumulated Loss)/ Retained Earnings $'000	Total Equity $'000
Balance at 1 July 2019	**52,936**	**1,057**	**31,645**	**85,638**
Loss after income tax expense for Financial Period	0	0	(40,082)	(40,082)
Other comprehensive income for the Financial Period, net of tax	0	0	0	0
Total comprehensive income for the Financial Period	0	0	(40,082)	(40,082)
Transactions with owners in their capacity as owners:				
Cancellation of shares acquired through on market buyback	(1,502)	0	0	(1,502)
Issue of shares	352	0		352
Share-based payment	0	(156)	0	(156)
	(1,150)	(156)	0	(1,306)
Balance at 30 June 2020	**51,786**	**901**	**(8,439)**	**44,248**

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

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

MMJ Group Holdings Limited

Consolidated statement of cash flows

For the year ended 30 June 2020

	Note	30-Jun-20 $'000	30-Jun-19 $'000
Cash flows from operating activities			
Payments to employees & suppliers		(1,829)	(2,744)
		(1,829)	(2,744)
Interest received		491	129
Payments for financial assets at FVPL		(20,688)	(10,899)
Proceeds from disposal of financial assets at FVPL		3,476	37,792
Company tax payment		(5,893)	0
Net cash (used in)/from operating activities	**12**	**(24,444)**	**24,278**
Cash flows from investing activities			
Other		0	0
Net cash used in investing activities		**0**	**0**
Cash flows from financing activities			
Share issue		351	0
MMJ share buyback		(1,502)	0
Net cash from financing activities		**(1,151)**	**0**
Net increase/(decrease) in cash & cash equivalents		**(25,594)**	**24,278**
Cash at the beginning of the year		26,392	1,347
Effects of exchange rate changes on cash and cash equivalents		244	767
Cash & cash equivalents at end of year		**1,042**	**26,392**

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

MMJ Group Holdings Limited

Notes to the consolidated financial statements

Financial Year Ended 30 June 2020

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 2020, the 2020 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 31 August 2020. 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.

Basis of preparation

These general-purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB").

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of MMJ Group Holdings Limited ("Company" or "parent entity") as at 30 June 2020 and the results of all subsidiaries for the year then ended. MMJ Group Holdings Limited and its subsidiaries together are referred to in these financial statements as the “consolidated entity”.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without acquiring or losing control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Foreign currency translation

The financial statements are presented in Australian dollars, which is MMJ Group Holdings Limited’s functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

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.

Investments

The Company is 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.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Derivative financial instruments

Hedges of a net investment

Hedges of a net investment in a foreign operation include monetary items that are considered part of the net investment. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity whilst gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to profit or loss.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial 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.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Share-based payment transactions of the Company

Equity -settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expenses reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods and services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

Goods and Services Tax ("GST") and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the 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 tax authority is included in other receivables or other 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 tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Revenue recognition

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

Trade and other payables

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

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.

New or amended Accounting Standards and Interpretations adopted

New or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of the adoption of the following standards:

- Interpretation 23 Uncertainty over Income Tax Treatments

This Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. The Interpretation addresses:

a) whether an entity considers uncertain tax treatments separately;
b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;
c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
d) how an entity considers changes in facts and circumstances.

The adoption of this Interpretation has had no impact on the current or previous reporting period and as such there have been no adjustments to the opening balance of accumulated losses.

- AASB 16 Leases.

The impact of the adoption of this standard and the new accounting policies are disclosed below. The impact of this standard, and the other new and amended standards adopted by the Group, has not had a material impact on the amounts presented in the Group's financial statements.

Changes in accounting policies

This note explains the impact of the adoption of AASB 16 Leases on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 July 2019, where they are different to those applied in prior periods.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 "Leases" and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a "right-of-use" asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a "right-of-use" asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity has adopted this standard from 1 July 2019. As at reporting date, the Group has non-cancellable operating lease commitments of $0.1 million. Therefore the adoption of this accounting standard has not had a material impact on the Group's financial performance and position.

New Accounting Standards and Interpretations not yet mandatory or early adopted

There are no issued but not yet effective Accounting Standards and Interpretations that are expected to significantly impact the Group in future financial years.

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.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the consolidated entity based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the consolidated entity operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

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 using a hybrid up and in single share price barrier model or where applicable, value based on 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 the use of observable inputs that require significant adjustments based on unobservable input. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgements and estimations, considering factors specific to the asset or liability.

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.

4. Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker (CODM), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of MMJ Group Holdings Limited. The Group has determined that it has one operating segment, being the investing operations, and results are analysed as a whole by the CODM, being the Board of Directors. Consequently, revenue, profit, net assets and total assets for the operating segment are reflected in this financial report.

Accounting policy for operating segments

Operating segments are presented using the “management approach”, where the information presented is on the same basis as the internal reports provided to the CODM. The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

5. Financial assets held at Fair Value through Profit or Loss

Financial assets held at Fair Value through Profit or Loss

	30-Jun-20	30-Jun-19
	$000	$000
Financial assets at fair value through profit or loss		
Equity financial assets - current		
Investment in Bien Ventures Ltd	773	1,077
Investment in Embark Health Inc	13,151	3,685
Investment in Weed Me Inc	4,933	6,532
Investment in BevCanna Enterprises Inc	0	1,361
Investment in Biologics Research Institute Australia Pty Ltd ("Cannabis Access")	2,109	1,000
Investment in Fire & Flower Inc.	0	1,250
Investment in Harvest One Cannabis Inc.	6,590	44,146
Investment in Martha Jane Medical Limited	450	600
Investment in MediPharm Labs Inc	0	4,077
Investment in Vitagenne Inc.	801	1,426
Investment in Hemple	100	1,000
Investment in Volero Inc.	1,309	2,721
Investment in Bespoke	3,491	0
Investment in WeedMD	3,400	0
Investment in J Supply	191	0
Investment in Sequoya	380	0
Investment in Embark Ventures Inc.	0	0
	37,677	68,875
Convertible and loan financial assets - current		
Investment in Weed Me Inc	1,090	0
Investment in Harvest One Cannabis Inc.	2,279	0
Investment in Hemple	200	0
Investment in Sequoya	0	218
	3,569	218
Financial assets at fair value through profit or loss - current	41,244	69,093
Convertible financial assets - non-current		
Investment in Sequoya	3,241	0
	3,241	0
Financial assets at fair value through profit or loss - total	44,486	69,093

Reconciliation

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

Reconciliation	30-Jun-20 $000	30-Jun-19 $000
Reconciliation of the fair values at the beginning and end of the current and corresponding year end are set out below:		
Opening fair value	**69,093**	**63,091**
Additions - financial assets at fair value through profit and loss	20,688	14,971
Changes in the fair value of equity investments at fair value through profit and loss	(37,704)	11,980
Realised gains/(losses) on disposal of equity investments at fair value through profit and loss	(4,684)	21,080
Net foreign exchange gain/(loss)	0	(213)
Accrued interest	367	0
Disposal of financial assets at fair value through profit and loss	(3,476)	(41,815)
Other movements	201	
Closing fair value	44,486	69,093

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-19**	**19,402**	**217**	**19,619**
Transfer to level 1		(1,361)	0	**(1,361)**
Disposals		0	(214)	**(214)**
Acquisitions		6,062	6,742	**12,804**
Realised gains/(losses) on disposal of equity investments at fair value through profit and loss		0	0	**0**
Accrued interest		0	367	**367**
Changes in the fair value of equity investments at fair value through profit and loss		4,568	(303)	**4,265**
Closing balance	**30-Jun-20**	**28,672**	**6,810**	**35,482**

Refer for further information on fair value measurement.

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 2020. There were also no material changes made to any of the valuation techniques applied as of 30 June 2019.

Fair Value Measurement

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

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed 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.

Level 3: Unobservable inputs for the asset or liability.

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 financial year.

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

Description	Unobservable inputs	Sensitivity	Description
Unlisted investments	Issue price of shares from latest significant capital raising or at arm's length transaction of instruments held and/or Enterprise Value to Revenue Multiple and/or assessment against relevant market indices	Decrease in the underlying share price on last equity issue or at arm's length transaction decreases fair value. A decrease in revenue decreases fair value	Issue price of shares from latest significant capital raising or at arm's length transaction sale of securities by shareholders. In the absence of a recent capital raise or arm's length transaction, management considers all available information, including adjustments which considers an Enterprise Value to Revenue Multiple and/or benchmarking of instruments to

Description	Unobservable inputs	Sensitivity	Description
		A decrease in the benchmarked market index decreases fair value	market movements indicated by relevant indices
Unlisted warrants/options	Issue price of shares from latest significant capital raising and/or latest fair value per instrument as calculated above Volatility	Decrease in the underlying share price on last equity issue or at arms length transaction decreases fair value. Increase in volatility decreases fair value	Unlisted warrants/options which are not actively traded are valued using a Black-Scholes valuation methodology.
Unlisted convertible debentures and loan instruments	Interest rate	Increase in market interest rate decreases fair value	Convertible debentures and loan instruments are valued using an assessment of the capacity of the investee to repay principal and interest

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 other than underlying share price of unlisted equity investments. Fair values for unquoted equity investments are estimated, using the latest share price from capital raising or arm's length transaction, or in the absence of a recent transaction, an enterprise value to revenue multiple or benchmarked to market movements indicated relevant market indices.

The COVID-19 pandemic created significant social and economic upheaval in FY2020, causing economic uncertainty across all industries globally, and resulting in extreme fluctuations in global share markets. The social, economic and financial impacts of COVID-19 are expected to continue in FY2021, and we expect further changes in government policy and regulations in order to address these impacts. All of these changes will impact the intention and/or ability of companies to generate returns and pay dividends, including those companies in which MMJ invests. There has been no measurable impact of the COVID-19 on investee valuations.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience, historical collection rates, the impact of the Coronavirus (COVID-19) pandemic and forward-looking information that is available. The allowance for expected credit losses is calculated based on the information available at the time of preparation. The actual credit losses in future years may be higher or lower.

6. Equity – contributed equity

Movements in ordinary share capital		**30-Jun-20 Shares**	**30-Jun-19 Shares**	**30-Jun-20 $'000**	**30-Jun-19 $'000**
Ordinary Shares - fully paid		229,953,985	230,148,985	51,786	52,936
Details	**Date**		**Shares**		**$'000**
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	0.24	240
Balance	30-Jun-19		230,148,985		52,936
Buy-back shares, including transaction costs			(5,750,000)		(1,502)
Shares issued to digital marketing consultant	**2-Apr-20**		687,500	0.08	55
Share purchase plan net of transaction costs	**2-Apr-20**		4,867,500	0.08	296
	30-Jun-20		229,953,985		51,786

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 (including virtual meetings through an online meeting platform) in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Preference Shares

Preference 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, with priority over ordinary shareholders.

Preference Shares do not have any voting rights.

Share Purchase Plan

On 14 February 2020, MMJ announced a share purchase plan ("SPP") with the Company receiving eligible subscriptions of $389,400 from 158 shareholders at the issue price of $0.08 per share.

Capital risk management

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new Shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

Accounting policy for 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.

7. Equity – reserves

	30-Jun-20 $'000	30-Jun-19 $'000
Options reserve	825	963
Performance rights reserve	76	94
	901	**1,057**

Options and performance rights reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Options reserve $'000	Performance rights reserve $'000	Total $'000
Balance at 30 June 2018	5,342	4,011	9,353
Exercise of options	(1,709)		(1,709)
Lapse of options	(2,825)	(60)	(2,885)
Conversion of performance rights	0	(3,632)	(3,632)
Shared based payments	155	(225)	(70)
Balance at 30 June 2019	**963**	**94**	**1,057**
Reversal of option expense	(232)	0	(232)
Reversal of performance rights expense	0	(60)	(60)
Shared based payments	94	41	135
Balance at 30 June 2020	825	76	901

8. Earnings per share

	30-Jun-2020 $'000	30-Jun-2019 $'000
Profit/(loss) after income tax	(40,082)	21,620 0
Profit/(loss) after income tax attributable to the owners of MMJ Group Holdings Limited	(40,082)	21,620
	Number	**Number**
Weighted average number of ordinary Shares used in calculating basic earnings per share	226,420,447	230,052,831
Adjustments for calculation of diluted earnings per share:		
Options over ordinary Shares	0	0
Performance rights over ordinary Shares	0	0
Weighted average number of ordinary Shares used in calculating diluted earnings per share	226,420,447	230,052,831
	Cents	**Cents**
Basic earnings per share	(17.70)	9.40
Diluted earnings per share	(17.70)	9.40

Accounting policy for earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of MMJ Group Holdings Limited, excluding any costs of servicing equity other than ordinary Shares, by the weighted average number of ordinary Shares outstanding during the financial year, adjusted for bonus elements in ordinary Shares issued during the financial year.

Diluted earnings per share

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

9. Equity - dividends

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

10. Contingent assets and liabilities

The consolidated entity had no contingent assets and liabilities as at 30 June 2020 (2019: Nil).

11. 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	2020 %	2019 %
PhytoTech Medical (UK) Ltd	United Kingdom	100	100

12. Reconciliation of profit after income tax to net cash used in operating activities

	Consolidated 2020 $'000	2019 $'000
Profit/(loss) after income tax expense for the year	(40,082)	21,620
Adjustments for:		
Depreciation and amortisation	10	7
Share-based payments	(156)	(70)
Interest income receivable	(367)	
Foreign exchange (gain)/loss on changes in the fair value of equity investments at fair value through profit and loss	(297)	(3,443)
Realised gains/(losses) on disposal of equity investments at fair value through profit and loss	4,684	
Changes in the fair value of equity investments at fair value through profit and loss	37,704	(29,616)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivable	68	47
Increase in other assets	(97)	365
Payments for financial assets at fair value through profit or loss	(20,688)	(10,899)
Proceeds from disposal of financial assets at fair value through profit or loss	3,476	37,792
Increase/(decrease) in trade and other payables	(6,272)	5,787
Increase in other liabilities	(2,427)	2,688
Net cash used in operating activities	(24,444)	24,278

There were no non-cash investing or financing activities.

13. Events after the reporting period

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while the consolidated entity has not be able to identify a material impact on its operations up to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

On 27 August 2020 Harvest One Cannabis Inc. repaid a loan of CAD2m to the consolidated entity.

No other matter or circumstance has arisen since 30 June 2020 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.

Glossary

ABBREVIATION	Definition
AUD	means Australian dollars.
AASB	Australian Accounting Standards Board.
ACMPR	means Access to Cannabis for Medical Purposes Regulations.
ASX	means ASX Limited (ACN 008 624 691) or the financial market operated by ASX Limited, as the context requires.
ASX Listing Rules	means the Listing Rules of ASX.
B2B	Business to business.
CAD	means Canadian dollars.
CBD	means Cannabidiol (CBD) is a crystalline, nonintoxicating cannabinoid in cannabis and hemp.
CBG	means Cannabigerol is the non-acidic form of cannabigerolic acid, the parent molecule from which other cannabinoids are synthesised.
Company or MMJ	means MMJ Group Holdings Limited (ACN 601 236 417).
EBITDA	means Earnings before Interest, Tax, Depreciation and Amortisation.
GMP	GMP stands for Good Manufacturing Practices and refers to a system of manufacturing that guarantees reproducibility of product quality to set specifications.
LPs	Canada's Licensed Producers of Cannabis Products.
M	means million.
MMPR	means Marihuana for Medical Purposes Regulation.
MOIC	means multiple on invested capital.
NTA	means net tangible assets.
Option	means an option to acquire a Share usually at predetermined price.
Share	means a fully paid ordinary share in the capital of the Company.
Shareholder	means a registered holder of a Share.
THC	means THC is the principal psychoactive constituent of cannabis.
TSXV	Toronto Stock Exchange Venture.
Warrant	means an option to acquire a Share usually at predetermined price.
WST	means Western Standard Time as observed in Perth, Western Australia.