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**CannPal Animal Therapeutics Ltd**  
**Annual Report**  
For the Year Ended 30 June 2019



**It is CannPal's vision  
to be recognised as  
a global leader in  
the research and  
development of plant  
derived therapeutic  
products for animals.**

Layton Mills,  
Managing Director



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# Mission Statement

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## **Mission**

CannPal's mission is to provide pet owners and veterinarians with access to evidence-based and high quality plant derived therapeutic products to promote better health and well-being for animals, with a present focus on cannabinoids.

## **Vision**

Our vision is to be recognised as a global leader in the research and development of plant derived therapeutic products for animals. The CannPal brand will be acknowledged for the development of safe, evidence-based and compliant products that address clear unmet needs in animal health.

## **Values**

We believe in supporting animals endogenous defense systems through the use of naturally derived plant compounds to promote optimal pet health;

We believe that all products given to animals should be supported by science and quality controlled at all stages of the processing and supply chain;

We are honest, trustworthy and committed to the highest standards of personal, professional and business behaviour at all times;

We have a responsibility to always work diligently and ethically to benefit all stakeholders in support of our mission;

We will be ready to adapt to future trends and needs, challenge the status quo, seek out opportunities, innovate and be open-minded.

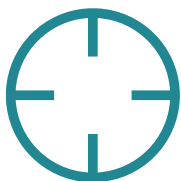
# Our Business Model

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## ESTABLISHMENT

Establish unmet needs in animal health, where current treatments are inferior (due to cost or side effects)



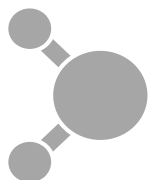
## IDENTIFICATION

Identify drug candidate(s) – with a focus on cannabinoids that have shown efficacy and safety tolerances in human models



## VALIDATION

Clinically validate drug candidate(s) in target animal species through well-controlled clinical studies with GMP/GLP-approved clinical research organisations



## DEVELOPMENT

Develop validated drug candidate(s) into novel medicines with innovative and bio-available delivery systems with proprietary intellectual property



## COMMERCIALISATION

Active management of product portfolio and aligning with strategic partners (i.e. out-licence model for marketing and regulatory approval after the completion of clinical trials)



# Year Highlights

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Completed Phase 1A and B clinical trials for CPAT-01

Presented Phase 1 results at leading Australian Veterinary Conference

Commenced Phase 2 research program for CPAT-01

Completed 3 cannabinoid toxicology studies to VICH guidelines

Completed technology evaluation research project with CSIRO

Finalised DermaCann formulation and produced first pilot batch

Received ethics approval and import permits for DermaCann field study









# Company Overview

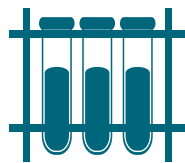
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## GLOBAL ANIMAL HEALTH COMPANY



- ✓ **Targeting unmet needs** in the global animal health market
- ✓ Addressing a **significant and rapidly growing** animal health market

## LEAD PRODUCT IN CLINICAL STAGE



- ✓ Lead product commencing Phase 2 clinical trials with a significant **global potential** (a growing market size of >US\$1bn p.a)
- ✓ Fully funded for **Phase 2A and 2B** pilot studies

## ACCELERATED DEVELOPMENT PATHWAY



- ✓ Relatively **faster regulatory approval timelines** for animal health products (compared to human trials)
- ✓ Resulting in **significantly lower development costs**

## EXCITING DEVELOPMENT PRODUCT PORTFOLIO



- ✓ Lead nutraceutical product provides **near term revenue potential**
- ✓ **Active R&D pipeline** – including new product development and additional revenue generating opportunities identified

## EXPERIENCED LEADERSHIP TEAM



- ✓ **Extensive commercialisation experience** in the animal health industry
- ✓ Knowledgeable R&D team in place with proven track record of gaining regulatory approval **for more than 50 veterinary medicines**

# Message from The Chairman and The CEO

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Dear Shareholders,

On behalf of the Directors of CannPal Animal Therapeutics Limited (ASX:CP1), we are pleased to present our annual report for the 2019 financial year. This is our second year as a listed company and we are pleased to report that it's been a year of transition and intense focus. We are transitioning from a research Company to a product development Company and have remained intensely focused as we work towards transforming CannPal into a revenue generating business as a result of our high quality applied research.

We are entering the new financial year with some exciting milestones ahead which will set the path for the Company over the next 12 months.

## Goal and Strategy

CannPal is an animal health Company with a mission to provide pet owners and veterinarians with access to evidence based, plant-derived therapeutic products to promote better health and well-being for animals. Our present focus is on the development of therapeutic products using compounds derived from the hemp and cannabis plants, for commercialisation through various regulatory pathways in major markets around the world.

To achieve this, CannPal developed a strategic plan to refine focus in the 2019 financial year. The Company made the decision to pause some research programs, allowing Management to focus the Company's resources towards progress across CannPal's major research projects and maximise shareholder capital.

As a result of this focus, we were able to achieve the tasks that we promised shareholders in our previous annual report, while bringing the Company closer towards the commercialisation of its products in development.

## The year in review

The Company's major achievements in the 2019 financial year can be divided into three core research areas: pharmaceuticals, nutraceuticals and delivery technology.

We completed the first phase of our research for CPAT-01, our lead pharmaceutical product, and were delighted to receive acknowledgement by our peers with the acceptance of our research abstract for publication and presentation at the AVA (Australian Veterinary Association) Research and Development Innovation Symposium.

The Company is also nearing the completion of its lead nutraceutical R&D program, and we have since commenced preparations for engaging the APVMA (Australian Pesticides and Veterinary Medicines Authority) for discussions around the potential market authorisation of DermaCann after the completion of the field safety and efficacy studies which have now commenced.

In addition, we have identified complimentary revenue generating opportunities through the Company's research program on drug delivery technologies with the CSIRO (Commonwealth Scientific and Industrial Research Organisation). We are excited to continue advancing this technology evaluation in the coming year, and providing additional opportunities to maximise value for shareholders.

Operationally, our global team and network has been making substantial regulatory and manufacturing progress in North America and Europe enabling the company to maintain parallel research and development activities on three different continents without diluting Management's time and focus.

## Industry outlook

The pet market continues to grow with significant momentum. The total expenditure for the U.S pet industry rose to US\$72.56 billion dollars in 2018, representing over 25 years of consistent year on year growth.

In addition, the veterinary market for hemp and cannabis-derived therapeutic products is also showing robust growth. New Frontier data, the leading resource





for cannabinoid-based market research, has indicated that the pet market is forecasted to be one of the largest growing opportunities in the emerging cannabidiol (CBD) industry.

This is despite the fact there are still no compliant and federally approved cannabis-based animal health products for lawful sale through veterinarians.

There remains a significant opportunity to provide veterinarians with cannabinoid-based therapeutic products that are scientifically validated and approved for prescription, opening up significant distribution potential.

These underlying dynamics continue to give management the confidence that CannPal is operating in a very healthy market. We believe that we are well positioned to capitalise on the opportunity to fill an important void for hemp and cannabis-derived, regulatory compliant and evidence-based therapeutic products for pets.

### The year ahead

The company will continue with the same intense focus that will ensure diligent budget management and sustained progress across the Company's core research programs in the year ahead.

Having now completed the first phase for CPAT-01 we plan to progress through our pilot Phase 2 studies, with the future aim of making the product available to veterinarians while delivering value to the company's shareholders.

It's also a pivotal year for the DermaCann program with the research and development stage nearing completion. We aim to provide the Company an opportunity to generate nearer-term revenue with the Country's first regulatory approved CBD product for pets.

Additionally, we hope to be able to leverage the research we've completed with CSIRO to provide the Company with additional opportunities to commence revenue generation through the application of advanced food and drug delivery technologies in the hemp and cannabis sector.

As mentioned, the previous year was one of transition and intense focus. We believe the clear opportunity over the next 12 months is to re-position CannPal from a small R&D Company, to a respected animal health business, with multiple clear and credible pathways to revenue that are aligned with Company's mission and values.

We'd like to take this opportunity to thank all of CannPal's shareholders for continuing with us on this journey. The CannPal team continues to invest significant resources towards the achievement of its goals and looks forward to sharing further progress updates with you.

Yours sincerely,

**Geoff Starr**  
Chairman

**Layton Mills**  
CEO





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**We believe that we are well positioned to become a leader in the global market for hemp and cannabis derived therapeutic products for pets.**



# Operations Review

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The interest for cannabinoids in veterinary medicine has increased significantly in the previous 12 months. New Frontier, the leading market research platform for cannabis, recently stated that pet and animal product sales were among the fastest-growing sectors in the market.

However, there are still no cannabinoid-derived, regulatory approved veterinary medicines for pet owners, which remains a significant unmet need. It is illegal in almost every major market for a veterinarian to sell a cannabinoid derived medicine for animals.

As such, we are optimistic about the significant market opportunity for a cannabinoid-derived veterinary medicine that has been scientifically tested, gained regulatory approval and been validated as safe and efficacious for the treatment of companion animals to fill this unmet need.

We have made significant progress towards reaching that goal through the research and development of the Company's lead cannabis-derived pharmaceutical product, CPAT-01.

## CPAT-01

CPAT-01 is a pharmaceutical product containing standardized THC and CBD whole plant extracts in a proprietary ratio to target the symptoms associated with osteoarthritis in dogs. The product is a liquid oral formulation in development for FDA/EMA (Food and Drug Administration and European Medicines Agency) regulatory approval.

The commercialisation strategy for CPAT-01 is an out-licensing model with an initial focus on veterinary distribution in Europe and North America.

In FY2018 the Company completed an early analysis into the safety profile and pharmacokinetics of CPAT-01 in a Phase 1A pilot study of 11 dogs. The study was completed in June 2018 with interim results indicating excellent safety profiles seen at the initial target dosages, with the formulation showing significant absorption in blood plasma.

In September 2018 the Company advanced its research with the commencement of a Phase 1B study, an expansion of the Phase 1A pilot study, to demonstrate combined and individual cannabinoid pharmacology in a larger cohort of 48 dogs according to Good Laboratory Practise (GLP), as a first step in generating pivotal data for regulatory submissions.

During the year the Company also completed gene expression and inflammatory biomarker analysis of blood samples taken from the Phase 1A and Phase 1B studies, with initial results presented at the AVA (Australian Veterinary Association) Research and Development Innovation Symposium conference in May 2019.

The results of the Phase 1 program confirmed that CPAT-01 is bioavailable, reaching plasma after oral administration, and is slowly eliminated from blood circulation. The data suggests that CPAT-01 has the potential to control pain and inflammation in dogs which is likely a combination of direct effects through various anti-inflammatory processes, and by supporting the ECS (endocannabinoid system) allowing animals to maximise endogenous pain control processes.

In February 2019 the Company received Ethics approval to commence a Phase 2A dose determination study in 60 client-owned dogs with veterinary diagnosed osteoarthritis.

The study is the world's first randomised, double-blind, placebo-controlled study in dogs with THC and CBD, a significant milestone for CannPal, and marks the first time the Company will be exploring the potential effects of CPAT-01 in diseased animals.

We're delighted to share that animal dosing has since commenced, with the first canine patient receiving treatment in August 2019.

The Company has progressed with the same momentum in its safety program, having completed three regulatory required toxicology studies to OECD guidelines across research sites in Europe during the last 12 months.

Also, the Company is ready to commence its Phase 2B Target Animal Safety in Canada, which is expected to begin upon receipt of Health Canada's approval to allow shipment of clinical trial material for the study.

The research data generated during the financial year has provided the Company with a significant pre-clinical data pack including data in almost 60 dogs spanning across pharmacokinetics (fasted and fed),

safety, inflammatory biomarkers, gene expression and early dose-response data.

Management is delighted to announce that this data pack has since been used to file the Company's INAD request (Investigational New Animal Drug) with the FDA which is expected to be reviewed by the regulatory agency this year.

Sponsors of new animal drugs typically submit a request to open an INAD file when they have enough pilot data to start discussing the development process, and they want to begin shipping drug material for use in investigational studies. We believe this to be the first INAD for a cannabinoid derived animal health product with the FDA, evidencing regulatory progress unmatched in the market.

During the year, the Company also appointed Mark Smith to CannPal's US-based development team to progress the chemistry, manufacturing and controls strategy (CMC) for CPAT-01. To appropriately manufacture a pharmaceutical to regulatory standards, specific manufacturing processes, product characteristics, and product testing must be defined in order to ensure that the product can be made safely, efficiently and is consistent between batches. These activities are known as CMC.

Mark has over 30 years of animal drug development experience with Eli-Lilly and Co and makes a welcomed addition to the Company's growing US-based Research and Development (R&D) team.

The Company has since completed a CPAT-01 pilot production batch which is being used in the Phase 2A osteoarthritis clinical study and will also be used in the Phase 2B Target Animal Safety Study. These pilot batch materials are also undergoing the first set of stability studies and product characterisation at third party analytical facilities in Canada. This initial work is needed for the preparation of final formulation Good Manufacturing Practice (GMP) materials that will be needed for Phase 3 pivotal studies.

### Looking Forward

The company's achievements in the 2019 financial year for CPAT-01 can be divided into three categories: regulatory, research and manufacturing. The progress made across each pillar has been made on budget and without extensive delay. This wouldn't have been possible without maintained focus, and resourcefulness to keep our research programs on track.

We've completed more than five studies for CPAT-01 in under 12 months, and after Phase 2A, will have valuable data in almost 120 dogs. This data will not only guide the continued development of CPAT-01 but provide the Company with a foundation of knowledge

that can be used to expand the Company's future pipeline as we continue to grow.

Looking forward to the next 12 months, the Company hopes to be in a position to have confirmed study parameters that can be used to design the Company's pivotal research program and intends to commence early discussions with potential partners that can guide the commercialisation strategy of the product.

### DermaCann

The Company also progressed its nutraceutical program during the year, which is another positive step towards bringing regulatory approved cannabinoid-based products to the veterinary market.

DermaCann is the Company's lead nutraceutical product, which is a complimentary therapeutic product in development for dogs with inflammatory skin disease. The product is a liquid oral formulation which contains various plant compounds originating from the hemp plant, including CBD (Cannabidiol) as the active ingredient, supported by Phytosterols, Terpenes and Vitamin E.

The product contains no THC (tetrahydrocannabinol), which has allowed CannPal to leverage a complementary/OTC regulatory strategy with a focus on CAHP (Complementary Animal Health Product) approval in Australia.

The commercialisation strategy for DermaCann is through strategic distribution partnerships, with a focus on Asia-Pacific veterinary clinics.

During the year the Company finalised its formulation for DermaCann and produced the first pilot batch according to target specifications with New Zealand based current GMP (cGMP) Veterinary Manufacturer, JayChem Industries Ltd. We commenced our stability protocol for DermaCann and will examine stability at a range of temperatures including as high as 45 degrees at 75% relative humidity. Results so far are indicating potential market acceptance across various geographical regions.

In February 2019 the Company received ethics approval to commence a field and safety efficacy study for DermaCann across specialist dermatology clinics in Sydney and Queensland, with both federal and state permits for the importation of clinical trial material having now been received.

The study is a randomised, double-blind, placebo-controlled trial in client owned animals with symptoms associated with veterinary dermatologist diagnosed atopic dermatitis. It will be a world first, robust clinical study, evaluating oral CBD for skin disorders in the dog. Clinics have been enrolled and 30 dogs are expected to be recruited for the study.





### Looking Forward

The hemp and cannabidiol market is a complex and evolving regulatory landscape. Cannabidiol is garnering significant attention in the global markets as a nutraceutical ingredient, and despite all major animal health regulators re-iterating that the compound is illegal for use in animal products without approval, there are several companies marketing these goods for sale.

However, CannPal has remained focused on completing a robust and complete data pack for DermaCann across safety, manufacturing and efficacy, before entering the market. We are pleased to report that we are nearing the completion of that data pack and look forward to transitioning into the approval and commercialisation phase, pending positive safety and efficacy studies.

The Company has the funds required to complete the remaining research activities in the development plan for DermaCann, and we have commenced early dossier preparation for review by the APVMA (Australian Pesticides and Veterinary Medicines Authority) ahead of potential market authorisation.

Also, the Company has commenced exploration of commercialisation opportunities in various markets in the APAC region and looking forward, CannPal will begin an evaluation of all the legally compliant pathways that may be available for the Company with the completed product dossier.

### Drug Delivery Technology

In June 2018 CannPal entered into a research agreement with the Commonwealth Scientific and Industrial Research Organisation (CSIRO) under the CSIRO's Kick-Start initiative. CSIRO's Kick-Start program was launched in April 2017, providing innovative Australian start-ups with funding support and access to CSIRO's research expertise and facilities.

CannPal received a funding voucher to research the use of CSIRO-patented microencapsulation technologies to enhance the stability and bioavailability of hemp and cannabis-derived compounds in animal health. Similar technologies are being used in the infant formula market to stabilise and protect fish oils from oxidation via spray drying into a shelf-stable powder.

An important outcome of developing a dry, stable form of the Company's proprietary oils, is that it may enable plant compounds to be effectively delivered in various different formats for consumption, thus greatly expanding the accessibility of these compounds for pet owners.

CannPal identified the opportunity to apply the technology to hemp and cannabis oils to allow the Company more flexibility in the development of different delivery systems for animals across its nutraceutical pipeline.



## The progress made across each pillar wouldn't have been possible without maintained focus, and a resourcefulness to keep our research programs on track.

In April 2019, the Company completed its initial technology evaluation of CSIRO's technology, confirming applicability across CannPal's proprietary hemp oil formulations.

In May 2019, CannPal entered into an additional technology evaluation agreement with CSIRO to scale up the microencapsulation process, to explore commercial opportunities that may be available for applications in animal health.

In June 2019 the Company completed a pilot nutraceutical production batch with one of CannPal's proprietary oil formulations, in collaboration with Australian based, HACCP and GMP accredited pet food manufacturer, Next Generation Pet Foods.

### Looking Forward

We've been extremely pleased with the progress of the technology evaluation and have commenced a commercial evaluation of the potential opportunities available that could compliment CannPal's nutraceutical product strategy.

As we look to transform CannPal into a revenue-generating business, Management will continue to assess opportunities that may provide additional shareholder value without diluting the Company's time and resources.

### Corporate

We're pleased to report that corporate and administration costs were down for the year from \$570,623 in 2018 to \$478,151 while increasing R&D spend to \$1,558,298, up from \$661,317 in 2018.

As such, the Company anticipates a strong R&D Tax Incentive rebate, having received \$297,299 in 2018 from R&D expenditure of \$661,317. The Australian R&D

Tax Incentive offers a 43.5% refundable cash rebate on eligible R&D expenses.

Further to this, the Company has submitted an Overseas Advanced Finding application to AusIndustry pertaining to income years ending 30 June 2019, 2020 and 2021 to assess eligibility for a portion of the Company's international research expenses. The outcome is currently pending and if approved, will provide certainty regarding the eligibility of R&D activities conducted both in Australia and overseas over the period, along with a refund for certain overseas expenditure for FY 2019.

### FY2020

As a result of the complex and evolving regulatory landscape for cannabis-derived compounds, CannPal's strategy has been to develop a product mix suited towards various regulatory frameworks including both pharmaceuticals for veterinary medicine approval's, and nutraceuticals for various complimentary and OTC pathways.

This strategy has provided the Company with a diverse mix of revenue-generating opportunities in the various regulatory environments.

Looking forward, the Company intends to focus on brand leadership and R&D commercialisation across each of the opportunities presently available. In particular, we will place focus on building CannPal's thought leadership status amongst the veterinary community and other industry stakeholders in parallel with our commercialisation goals.

Our goal is to grow the awareness of CannPal in international markets, with a focus on North America and APAC, to ensure CannPal is top of mind in the conversation around cannabinoid-derived animal health.

We intend on completing major research milestones for our core research programs and communicating that research to aligned audiences.

Finally, we intend on making progress towards commercialising our applied research, which has remained our focus in the previous 24 months since becoming a public company.

We believe that we are well-positioned to enter the new financial year and capitalise on the opportunity to become a leader in the global market for hemp and cannabis-derived therapeutic products for pets.

We remain well capitalised for the coming 12 months with many significant investment catalysts on the horizon and an intense focus to continue achieving milestones and providing value for our shareholders.





# The R&D Team

We have made significant progress this financial year and we wouldn't have been able to achieve what we have, without the help of our highly talented R&D team. We'd like to thank everyone that was involved in FY 2019



**Dr Margaret Curtis**  
**Head of Clinical Development**

- Qualified veterinarian with 17 years' of director experience with market leading animal health company, Elanco.
- Contributed to the development of animal health products for Elanco globally.
- Has gained approval for over 20 drugs in over 100 countries.
- Lead global teams across Australia, USA, Europe, Asia and Latin America.
- PhD and Master of Public Health.



**Dr Ted Whitem**  
**Commercial Veterinary Adviser**

- Former Head of School at the Melbourne Veterinary School.
- Former Chairman of the Examination Committee of the American College of Veterinary Clinical Pharmacology.
- 7 years as the head of R&D with Jurox Animal Health, bringing over 30 products to market.



**Dr Rayson Tan**  
**Chief Scientific Officer**

- Experienced veterinary consultant with a PhD in veterinary oncology, BVSc in veterinary medicine and surgery and BSc in veterinary research.
- Currently serves as the regulatory and ethics executive for the Garvan Institute of Medical Research and is exceptionally proficient in biomedical and veterinary science.





**Dr Jeffrey Sherman**  
**Lead Toxicology**

- Board certified senior Toxicologist with in depth knowledge of VICH GLP and GCP.
- Diplomat of the American Board of Toxicology with extensive experience in risk assessment, FDA regulations and veterinary medicines.
- Local, state, federal and international jurisdiction legislative experience.



**Kevin Willard**  
**Senior Formulations Chemist**

- Expertise in formulation development, processing (clinical trial manufacture and technical transfer) and GMP Quality.
- Specialised in CMC (Chemistry, Manufacturing and Controls) technical writing.
- 34 years of experience working with market leading Elanco Animal Health and Eli Lilly.



**Mark Smith**  
**Supply Chain and Manufacturing**

- Experienced technical director and project leader in bio biopharmaceutical manufacturing, technical management, and project management.
- Specialised in strategic planning, pharmaceutical product development and project management leadership
- Over 30 years of experience working with market leading Elanco Animal Health and Eli Lilly.

# Corporate Directory

CannPal Animal Therapeutics Limited  
ABN 88 612 791 518

## Directors

Geoff Starr  
(Non-Executive Chairman)

Layton Mills  
(CEO and Managing Director)

Robert Johnston  
(Non-Executive Director)

Robert Clifford  
(Non-Executive Director)

Dr Kathryn Adams  
(Non-Executive Director)

## Company Secretary

Baden Bowen

## Solicitors

Steinepreis Paganin  
Level 4, The Read Buildings  
16 Milligan Street  
PERTH WA 6000

## Registered Office and Principal Place of Business

Level 3  
45a Bay Street  
DOUBLE BAY NSW 2028  
Telephone: +61 2 6108 3622  
Email: [info@cannpal.com](mailto:info@cannpal.com)  
Website: [www.cannpal.com](http://www.cannpal.com)  
Listed on the Australian Stock Exchange (ASX:CP1)

## Share Registry

Computershare Investor Services Pty Limited  
Level 11  
172 St Georges Terrace  
PERTH WA 6000

## Auditor

BDO Audit (WA) Pty Ltd  
38 Station Street  
SUBIACO WA 6008



# Directors' Report

for the year ended 30 June 2019

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## Directors' Report

Your directors present their report with respect to results of CannPal Animal Therapeutics Limited (the “company” or “CannPal”) for the year ended 30 June 2019 and the state of affairs for the Company at that date.

### Directors

The following persons were directors of CannPal Animal Therapeutics Limited during the whole of the financial period to the date of this report (unless otherwise stated):



**Geoff Starr**  
**(Non-Executive Chairman)**

Geoff brings over 35 years of executive experience to the company, 15 years of which were at Managing Director or CEO level, gained all around the world, but especially in Asia, Europe and Australia/NZ. These positions included high level corporate companies such as Unilever and Mars Group, where Geoff had a very distinguished career running their pet food business in both Asia and Europe with over 20 brands in their portfolio, including Royal Canin, Whiskas, Advance and Pedigree. Geoff is not currently a director of any other ASX listed companies.



**Layton Patrick Mills**  
**(CEO and Managing Director)**

Layton is the Co-founder and Managing Director of CannPal and holds a degree in business management and marketing. Layton has spent nine years in the fast moving consumer goods industry and has successfully launched a number of consumer goods into the Australian market, achieving national distribution. Layton is not currently a director of any other ASX listed companies.



**Kathryn Claire Adams**  
**(Non-Executive Director)**

Dr Kate Adams is an entrepreneur and Veterinarian with an interest in innovation, science and fast growing emerging biotechnology companies. Kate is an owner at Bondi Veterinary Hospital as well as CEO and Founder of Australian tech startup, Thankly. Kate is not currently a director of any other ASX listed companies.





**Robert Clifford  
(Non-Executive Director)**

Robert has over 20 years of experience in brand implementation and business strategy and planning. His senior leadership roles have been in large multinational private and public corporations in Australia, China and Ireland. For over 25 years Rob has been at the forefront of Australia and New Zealand's hospitality industry, leading Australia's largest boutique catering brand Epicure. Rob is not currently a director of any other ASX listed companies.



**Robert Maxwell Johnston  
(Non-Executive Director)**

Robert Maxwell has over 45 years of experience holding board positions across ASX listed companies such as Medical Developments Ltd, Probiotec Ltd, Enero Group Ltd and Polynovo Ltd. Max has also held several prominent industry roles, including as a past President of Accord Australasia Limited, director of Johnson & Johnson Pacific and former Vice Chairman of the Australian Food and Grocery Council. Max is currently a director of ASX listed companies Medical Developments Ltd, BARD1 Life Sciences Ltd and Polynovo Ltd.



**Company Secretary**

**Baden Maxwell Bowen**

Baden has over 35 years accounting and company secretary experience in commercial and financial roles, including financial accounting, external and internal audit. Mr Bowen has served as Director and company secretary for a number of public and private companies. He is a fellow of the Institute of Chartered Accountants in Australia.

## Directors' Report continued

### Directors' Interests in Shares and Options of the Company

The following relevant interests in shares, options and performance rights of the Company are held by the Directors who hold office as at the date of this report, with the holdings being as at the date of this report:

Director	Shares	Options	Performance rights
Geoff Starr	80,000	500,000	–
Robert Clifford	480,293	500,000	–
Robert Johnston	300,000	500,000	–
Layton Mills	7,679,179	–	1,875,000
Kathryn Adams	–	500,000	–

### Directors' Meetings

The numbers of meetings of the Company's Board of Directors held during the year ended 30 June 2019, and the numbers of meetings attended by each director were:

Director	Directors' meetings		Audit & Compliance Committee meetings	
	A	B	A	B
Geoff Starr	8	8	2	2
Robert Clifford	8	8	2	2
Robert Johnston	8	8	2	2
Layton Mills	8	8	2	2
Kathryn Adams	8	8	2	2

A = Number of meetings attended

B = Number of meetings held during the time the director held office during the year

### Dividends

No dividends have been paid by the Company or declared by the directors since the commencement of the financial year ended 30 June 2019.

### Corporate Information

CannPal Animal Therapeutics Limited is incorporated and domiciled in Australia. The registered office is located at Level 3, 45a Bay Street, Double Bay NSW.

#### Principal activity and Review of Operations

The principal activity of the Company is in the research and development of animal health products. For the year ended 30 June 2019, the Company's largest expense was research and development totalling \$1,558,298 (2018: \$661,317). The result for the year was a loss of (\$2,007,288) (2018: \$1,694,369) which included an expense of \$211,571 (2018: \$325,754) for share based payments and \$52,378 (2018: \$232,347) for ASX and legal fees.



## Significant Changes in State of Affairs

In the opinion of the directors, there were no other significant changes in the state of affairs of the Company that occurred during the year.

## Likely developments of the Company

The Company will continue with the research and development of animal health products.

## Environmental Regulation and Performance

The principal activities of the Company are not subject to any significant environmental regulations.

## Events since the end of the Financial Year

The Directors are not aware of any matter or circumstance that has significantly or may significantly affect the operation of the Company or the results of those operations, or the state of affairs of the Company in subsequent financial years.

## Share Options

### Unissued shares

There were 12,500,000 options outstanding as at the date of this report.

### Shares issued on the exercise of Options

There were no options exercised during the financial year to acquire fully paid ordinary shares in the Company.

## Remuneration Report (Audited)

This remuneration report outlines the director and executive remuneration arrangements of the Company in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report, key management personnel (KMP) of the Company are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any director (whether executive or otherwise).

### Details of Key Management Personnel (KMP)

The following persons were KMP of CannPal Animal Therapeutics Limited during the financial year:

(i) *Chairman – non-executive*  
Geoff Starr

(ii) *Managing Director / CEO*  
Layton Mills

(iii) *Non-executive directors*

Robert Johnston

Robert Clifford

Kathryn Adams

(iv) *Head of Research & Development (R&D)*

Margaret Curtis

### **Principles used to determine the nature and amount of remuneration**

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The Board is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the Company depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high-quality personnel.

The Board has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Company.

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

## Directors' Report continued

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive Director remuneration is separate.

### **Non-Executive Directors' Remuneration**

Fees and payments to Non-Executive Directors reflect the demands and responsibilities of their role. Non-Executive Directors' fees and payments are reviewed annually by the Board. The Board may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of other Non-Executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to the determination of his own remuneration.

ASX listing rules require the aggregate Non-Executive Directors' remuneration be determined periodically by a general meeting.

### **Executive Remuneration**

The Company aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Board based on individual and business unit performance, the overall performance of the entity and comparable market remunerations.

The short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives.

### **Employment Contracts**

Remuneration and other terms of employment for the Managing Director, Layton Mills, as at 30 June 2019, were formalised in an employment agreement, the terms of which are set out below:

Layton Mills, Managing Director:

- Term of agreement: commenced 1 June 2016.
- Termination notice period: One month.
- Annual Executive Director salary of \$195,700 (excluding superannuation)

In addition, Layton Mills has been issued with performance rights, refer to page 27 for further details.

### **All other Key Management Personnel were appointed as Directors under the Corporations Act, on the following terms:**

Geoff Starr, Non-Executive Chairman:

- Term of agreement: commenced 21 April 2017 and subject to re-election as required by the Company's Constitution.
- Termination as per constitution or breach the code of conduct.
- Annual Chairman's fee of \$60,000 (Excluding GST)

Robert Clifford, Non-Executive Director:

- Term of agreement: commenced 1 February 2017 and subject to re-election as required by the Company's Constitution.
- Termination as per constitution or breach the code of conduct.
- Annual non-executive director's fee of \$36,000 (Excluding GST)

Robert Johnston, Non-Executive Director:

- Term of agreement: commenced 21 April 2017 and subject to re-election as required by the Company's Constitution.
- Termination as per constitution or breach the code of conduct.
- Annual non-executive director's fee of \$36,000 (Excluding GST)



Kathryn Adams, Non-Executive Director:

- Term of agreement: commenced 21 April 2017 and subject to re-election as required by the Company's Constitution.
- Termination as per constitution or breach the code of conduct.
- Annual non-executive director's fee of \$36,000 (Excluding GST)

***Other Key Management Personnel (non-Directors) were appointed as on the following terms;***

Margaret Curtis, Head of Research and Development:

- Term of agreement: commenced 20 November 2017.
- Notice period 3 months.
- Annual salary of \$164,800 (excluding superannuation)

No Director or Executive is entitled to any termination payments apart from payment in lieu of the notice periods outlined above, remuneration payable up to and including the date of termination and payments due by way of accrued leave entitlements.

***Company performance and link to remuneration***

Remuneration for certain individuals is directly linked to the performance of the Company. A portion of cash bonus and incentive payments are dependent on defined growth targets being met. The remaining portion of the cash bonus and incentive payments are at the discretion of the Board.

The Board is of the opinion that the continued improved results can be attributed in part to the adoption of performance based compensation and is satisfied that this improvement will continue to increase shareholder wealth if maintained over the coming years.

Specifically in relation to options, this effectively links directors' performance to the share price performance and therefore to the interests of the shareholders. For this reason, there are no performance conditions prior to grant, but instead an incentive to increase the value to all shareholders.

***Company performance***

The loss after tax for the Company from 2017 is as follows:

	2019	2018	2017
Loss after tax expense	(\$2,007,288)	(\$1,694,369)	(\$1,688,197)
Loss per share – cents	(2.16)	(2.02)	(7.11)
Share Price 30 June	\$0.15	\$0.19	N/A

## Directors' Report continued

### Remuneration of directors and key management personnel of the Company

2019	Short-term employee benefits			Post-employment benefits	Long-term benefits	Share-based payments		
Name	Salary and fees	Annual Leave	Cash STI	Super-annuation	Termination benefits		Total	Percentage of remuneration which is performance based
	\$	\$	\$	\$	\$	\$	\$	%
<i>Managing Director</i>								
Layton Mills	194,275	4,119	-	18,456	-	18,755	235,605	8
<i>Head of R&amp;D</i>								
Margaret Curtis	162,400	1,495	-	15,428	-	28,165	207,488	14
<i>Non-executive directors</i>								
Geoff Starr	60,000	-	-	-	-	26,621	86,621	0
Robert Johnston	36,000	-	-	-	-	26,621	62,621	0
Robert Clifford	36,000	-	-	-	-	26,621	62,621	0
Kathryn Adams	36,000	-	-	-	-	26,621	62,621	0
<b>Total non-executive directors &amp; KMP</b>	<b>524,675</b>	<b>5,614</b>	<b>-</b>	<b>33,884</b>	<b>-</b>	<b>153,404</b>	<b>717,577</b>	

2018	Short-term employee benefits			Post-employment benefits	Long-term benefits	Share-based payments		
Name	Salary and fees	Annual Leave	Cash STI	Super-annuation	Termination benefits		Total	Percentage of remuneration which is performance based
	\$	\$	\$	\$	\$	\$	\$	%
<i>Managing Director</i>								
Layton Mills	190,000	16,620	-	18,050	-	112,480	337,150	33
<i>Head of R&amp;D</i>								
Margaret Curtis (Commenced 20/11/2017)	93,333	8,242	-	8,867	-	40,202	150,644	27
<i>Non-executive directors</i>								
Geoff Starr	60,000	-	-	-	-	29,124	89,124	0
Robert Johnston	36,000	-	-	-	-	29,124	65,124	0
Robert Clifford	36,000	-	-	-	-	29,124	65,124	0
Kathryn Adams	36,000	-	-	-	-	29,124	65,124	0
<b>Total non-executive directors &amp; KMP</b>	<b>451,333</b>	<b>24,862</b>	<b>-</b>	<b>26,917</b>	<b>-</b>	<b>269,178</b>	<b>772,290</b>	

### Options issued as a share based compensation to Directors and Key Management Personnel during prior financial year.

KMP	Number Granted	Date Granted	Option FV at Grant Date	Number Vested	Number forfeited during current year	% of compensation of year consisting of Options	Expiry Date
Margaret Curtis	1,000,000	09/11/2017	\$123,920	250,000	200,000	14	08/11/2022



These Employee options are issued to Margaret Curtis (Head of Clinical Development and R&D) in consideration for the following four conditions stated in the employee contract, of which all conditions have been assessed by management as more than likely to be met;

- 250,000 Options to be issued on the execution date of the employee contract with an exercise price of \$0.20 each and an expiry date of 8 November 2022. These Options will vest on the date that is 12 months after their date of issue, therefore it has been expensed over the relevant vesting period.
- 150,000 Options to be issued upon the Company submitting an application to have a nutraceutical product registered with the APVMA (Australian Pesticides and Veterinary Medicines Authority) or equivalent as an animal food product in Australia or other target region. These Options will vest on the date that is 24 months after their date of issue, therefore it has been expensed over the relevant vesting period.
- 150,000 Options to be issued upon the Company commencing a target animal safety study for CPAT-01 within 30 months of the commencement date. These Options will vest on the date that is 36 months after their date of issue, therefore it has been expensed over the relevant vesting period.
- 250,000 Options If the Company commences the CPAT-01 pivotal field trials with a final formulation within 30 months of the commencement date. These Options will vest on the date that is 48 months after their date of issue, therefore it has been expensed over the relevant vesting period.

Options issued carry no dividends or voting rights and each option is convertible to one share of the company. Options have been valued using a Black & Scholes model which includes the inputs disclosed in Note 10 in the financial statements.

In addition, Layton Mills has been issued with the following performance rights:

**Performance rights issued as a share based compensation to Layton Mills in prior year**

These Performance Rights are issued to Layton Mills in consideration for the following four performance milestones that will expire on the date that is five years from the date of issue if the relevant milestone attached to that Performance Right has not been achieved. The vesting conditions (non-market) and performance milestones are listed below:

- 625,000 Class A Performance Rights shall convert into an equal number of ordinary shares upon the Company receiving conditional approval to commence trading on the Australian Securities Exchange (ASX) and the completion of a capital raise of at least \$4,000,000. This milestone was granted in prior year upon successful completion of the initial public offering of the Company.
- 625,000 Class B Performance Rights shall convert into an equal number of ordinary shares upon the Company entering into a commercial licencing agreement for the commercialization of any of its products. This milestone was granted during the period as it was assessed by management as more than likely to be met.
- 625,000 Class C Performance Rights shall convert into an equal number of ordinary shares upon the Company achieving revenue from sales or licensing of its products of \$1,000,000 or more within 36 months of successfully listing on the ASX. This milestone hasn't been granted as the condition hasn't been met.
- 625,000 Class D Performance Rights shall convert into an equal number of ordinary shares upon the Company acquiring regulatory approval from the US Food & Drug Administration, including approval under the Minor Use/Minor Species Animal Health Act of 2004 (US) (or equivalent) for any of the Company's products. This milestone hasn't been granted as the condition hasn't been met.

Each performance share will convert into 1 ordinary share of CannPal Animal Therapeutics Limited upon achievement of the performance milestone. These vesting conditions were non-market, therefore the Company has assessed each class as being either being more likely (100%) to or not likely to meeting the performance milestone. Vesting conditions considered likely to be met will be recognised an expense over the expected vesting period, refer to note 10 for inputs used for these performance rights. The details of each performance milestone are listed above and tabled overleaf:

## Directors' Report continued

Performance Milestone	Number	Grant Date	Exercise Price	Underlying Share Price	Total Fair Value	Probability of achieving milestone	Percentage Vested
1	625,000	01/07/2017	Nil	\$0.20	\$93,776	100%	100%
2	625,000	01/07/2017	Nil	\$0.20	\$93,776	100%	40%
3	625,000	01/07/2017	Nil	\$0.20	\$93,776	45%	0%
4	625,000	01/07/2017	Nil	\$0.20	\$93,776	30%	0%

The fair value is determined by an internal valuation using a Black-Scholes option pricing model. It was assumed that no dividends are expected to be declared or paid by the Company during the terms of the various classes of rights. The following inputs were used:

- (i) A risk free rate of a five-year Australian Government bond has been used on the Performance Rights, therefore a rate of 2.12% is used as the risk free rate for all performance rights milestones.
- (ii) It is difficult to assess what the volatility should be. After taking into account the volatility of comparable ASX listed companies over one, two and three year periods, the opinion was formed that the fair volatility factor for the purpose of valuation as at grant date should be 100%.

### Equity instrument disclosures relating to key management personnel

#### (i) Option and Performance Rights holdings

The following options and performance rights were held by the directors or key management personnel at the end of the financial years:

- Mr Layton Mills 1,875,000 performance rights (2018: 1,875,000)
- Mr Geoff Starr 500,000 options (2018: 500,000)
- Mr Robert Johnston 500,000 options (2018: 500,000)
- Mr Rober Clifford 500,000 options (2018: 500,000)
- Ms Kathryn Adams 500,000 options (2018: 500,000)
- Ms Margaret Curtis 800,000 options (2018: 1,000,000)

The Director options are issued to directors of the Company in consideration for providing their experience, knowledge, assistance and access. These options are exercisable at \$0.25 over the assessed two year vesting period and will automatically lapse if the option holder ceases to be a Director of the Company, which implies that there is a service based condition attached to the Director options, therefore it has been expensed over the vesting period. Refer to note 10 for further information in relation to the inputs used for these options.

#### (ii) Shareholdings

The numbers of shares in the Company held during the financial year by each director, including their personally related parties, are set out below.

All equity transactions with key management personnel, other than those arising from the exercise of remuneration options, have been entered into under terms and conditions no more favourable than those the Company would have adopted if dealing at arm's length.

2019		Received during the year in the exercise of options	Other changes during the year additions / (disposals)	Balance at the end of the year
Name	Balance at the start of the year			
<b>Directors of CannPal Animal Therapeutics Limited</b>				
<b>Ordinary shares</b>				
Layton Mills	7,509,679	–	169,500	7,679,179
Robert Clifford	430,293	–	50,000	480,293
Geoff Starr	–	–	80,000	80,000
Robert Johnston	–	–	300,000	300,000
Kathryn Adams	–	–	–	–

#### Voting and comments made at the company's 2018 annual general meeting

The company received 99.32% of “yes” votes on its remuneration report for the 2018 financial year. The company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

#### Use of Independent remuneration consultants

The company did not use the services of remuneration consultants during the year in determining the compensation for directors and executives.

#### End of Remuneration Report (Audited)

#### Insurance and Indemnity of Officers / Auditors

During the year the Company paid for Directors' & Officers' insurance in the normal course of business.

#### Auditor's Independence

The Directors have obtained an independence declaration from the Company's auditors, BDO Audit (WA) Pty Ltd, as presented on page 30 of this financial report.

#### Non-Audit Services

The Company may deploy auditors for non-audit services. No fees were paid during the year for the provision of non-audit services.

#### Corporate Governance

The Company's full Corporate Governance Plan can be found on its website [cannpal.com](http://cannpal.com).

#### Proceedings On Behalf Of The Company

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

On behalf of the Board

CannPal Animal Therapeutics Limited



**Geoff Starr**  
**Chairman**

Sydney, NSW  
30 August 2019





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**DECLARATION OF INDEPENDENCE BY NEIL SMITH TO THE DIRECTORS OF CANNPAL ANIMAL THERAPEUTICS LIMITED**

As lead auditor of CannPal Animal Therapeutics Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

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

A handwritten signature in black ink, appearing to read 'Neil Smith', with a stylized flourish at the end.

**Neil Smith**  
Director

**BDO Audit (WA) Pty Ltd**  
Perth, 30 August 2019

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

# Financial Statements

for the year ended 30 June 2019

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# Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2019

	Notes	30 June 2019 \$	30 June 2018 \$
<b>Income</b>			
Research & Development tax refund		297,300	129,113
Interest income		103,579	76,799
<b>Total income</b>		<b>400,879</b>	<b>205,912</b>
<b>Expenses</b>			
Employee expenses		107,769	110,240
Legal and ASX fees		52,378	232,347
Research & Development		1,558,298	661,317
Corporate and Administration costs		478,151	570,623
Share based payments	10	211,571	325,754
<b>Total expenses</b>		<b>(2,408,167)</b>	<b>(1,900,281)</b>
<b>Loss before income tax</b>		<b>(2,007,288)</b>	<b>(1,694,369)</b>
Income tax benefit/(expense)	4	—	—
<b>Loss after income tax</b>		<b>(2,007,288)</b>	<b>(1,694,369)</b>
<b>Net loss for the year attributable to members of CannPal Animal Therapeutics Limited</b>		<b>(2,007,288)</b>	<b>(1,694,369)</b>
Other comprehensive income, net of tax		—	—
<b>Total comprehensive loss for the year attributable to the members of CannPal Animal Therapeutics Limited</b>		<b>(2,007,288)</b>	<b>(1,694,369)</b>
		<b>Cents</b>	<b>Cents</b>
<b>Loss per share attributable to the ordinary equity holders of the company:</b>			
<b>Basic and diluted loss per share</b>	15 (a)	<b>(2.16)</b>	<b>(2.02)</b>

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



# Statement of Financial Position

As at 30 June 2019

	Notes	30 June 2019 \$	30 June 2018 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	3,304,878	5,114,239
Trade and other receivables	6	53,513	26,644
<b>Total current assets</b>		<b>3,358,391</b>	<b>5,140,883</b>
<b>Total assets</b>		<b>3,358,391</b>	<b>5,140,883</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	7	110,304	102,693
Employee benefits provisions		34,315	28,701
<b>Total current liabilities</b>		<b>144,619</b>	<b>131,394</b>
<b>Total liabilities</b>		<b>144,619</b>	<b>131,394</b>
<b>Net assets</b>		<b>3,213,772</b>	<b>5,009,489</b>
<b>EQUITY</b>			
Issued capital	8	6,975,607	6,975,607
Reserves	9 (a)	1,628,019	1,416,448
Accumulated losses	9 (b)	(5,389,854)	(3,382,566)
<b>Total equity</b>		<b>3,213,772</b>	<b>5,009,489</b>

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

## Statement of Changes in Equity

For the year ended 30 June 2019

	Notes	Issued capital \$	Reserves \$	Accumulated losses \$	Total \$
<b>Balance at 1 July 2018</b>		<b>6,975,607</b>	<b>1,416,448</b>	<b>(3,382,566)</b>	<b>5,009,489</b>
Total Comprehensive Income					
Loss for the year		—	—	(2,007,288)	(2,007,288)
<b>Total comprehensive loss for the year</b>		<b>—</b>	<b>—</b>	<b>(2,007,288)</b>	<b>(2,007,288)</b>
<i>Transactions with owners in their capacity as owners</i>					
Share based payment	9	—	211,571	—	211,571
Share issues		—	—	—	—
Share issue costs		—	—	—	—
<b>Balance at 30 June 2019</b>		<b>6,975,607</b>	<b>1,628,019</b>	<b>(5,389,854)</b>	<b>3,213,772</b>
<b>Balance at 1 July 2017</b>		<b>1,510,112</b>	<b>916,189</b>	<b>(1,688,197)</b>	<b>738,104</b>
Total Comprehensive Income					
Loss for the year		—	—	(1,694,369)	(1,694,369)
<b>Total comprehensive loss for the year</b>		<b>—</b>	<b>—</b>	<b>(1,694,369)</b>	<b>(1,694,369)</b>
<i>Transactions with owners in their capacity as owners</i>					
Share based payment	9	—	500,259	—	500,259
Share issues		6,000,000	—	—	6,000,000
Share issue costs		(534,505)	—	—	(534,505)
<b>Balance at 30 June 2018</b>		<b>6,975,607</b>	<b>1,416,448</b>	<b>(3,382,566)</b>	<b>5,009,489</b>

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

# Statement of Cash Flows

For the year ended 30 June 2019

	Notes	30 June 2019 \$	30 June 2018 \$
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees		(2,210,241)	(1,485,861)
Research & Development tax refund		297,300	129,113
Interest received		103,580	76,799
<b>Net cash outflows from operating activities</b>	<b>13</b>	<b>(1,809,361)</b>	<b>(1,279,949)</b>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of shares		–	6,000,000
Share issue costs		–	(360,000)
<b>Net cash inflows from financing activities</b>		<b>–</b>	<b>5,640,000</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(1,809,361)</b>	<b>4,360,051</b>
Cash and cash equivalents at the beginning of the financial year		5,114,239	754,188
<b>Cash and cash equivalents at end of year</b>	<b>5</b>	<b>3,304,878</b>	<b>5,114,239</b>

*The above statement of cash flow should be read in conjunction with the accompanying notes.*



# Notes to the Financial Statements

30 June 2019

The financial report of CannPal Animal Therapeutics Limited (the "Company") for the year ended 30 June 2019 was authorised for issue in accordance with a resolution of the directors on 30 August 2019.

CannPal Animal Therapeutics Limited is a company limited by shares, incorporated and domiciled in Australia.

The nature of the operations and principle activities are described in the Directors' report. The Company is a listed public company limited by shares and trading on the Australian Securities Exchange.

## 2.1 Summary of significant accounting policies

### (a) 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 Company's accounting policies.

### (b) Going Concern

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and realisation of assets and the settlement of liabilities in the normal course of business.

The financial statements do not include any adjustment relating to the recoverability and classification of

recorded asset amounts, nor the amounts or classification of liabilities that might be necessary should the Company not be able to continue as a going concern.

### (c) Investments and other financial assets

Financial assets are classified as either financial assets held for trading (financial assets at fair value through profit or loss), loans and receivables, held to maturity investments or available for sale investments, as appropriate. When financial assets are initially recognised they are recorded at fair value, plus in the case of investments not held for trading, directly attributable transaction costs.

### (d) Revenue recognition

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below.

#### *Interest income*

Interest income is recognised on an accruals basis using the effective interest method, which is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument to the net carrying amount of the financial instrument. Interest on deposits is recognised in accordance with the terms and conditions that apply to the deposit.

#### *Government Grants / Research & Development*

Government grants are assistance by the government in the form of transfers of resources to the Company in return for past or future compliance with certain conditions relating to the operating activities of the entity. AASB 120 requires that income earned from grants in relation to expenditure on intangible assets is offset against the value of those assets. Income earned from grants relating to costs that are recognised in the statement of profit or loss and other comprehensive income is recognised as income over the period necessary to match it with the costs to which it relates to. Where income is earned from grants that is related to costs recognised in the statement of profit or loss and other comprehensive income in a prior period, that grant income is recognised as other income during the current period. Research & Development tax offsets relate to the same accounting policy treatment as Government grants.

## Notes to the Financial Statements

30 June 2019

### (e) Income tax

The income tax expense or revenue for the year is tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting or taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences between the carrying amount and tax losses to the extent that it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on net basis, or to realise the asset and settle the liability simultaneously.

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

### (f) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

For the purposes of the statement of cash flow, cash and cash equivalents includes deposits held at call with banks or financial institutions.

### (g) Trade and other receivables

Receivables may include amounts for dividends, interest and securities sold where settlement has not yet occurred. Receivables are recognised and carried at the original invoice amount and interest accrues (using the effective interest rate method, which is the rate that discounts estimated future cash receipts through the effective life of the financial instrument) to the net carrying amount of the financial asset. Amounts are generally received within 30 days of being recorded as receivables.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Company will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

### (h) Trade and other payables

Liabilities for creditors and other amounts are carried at amortised cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company. Payables include outstanding settlements on the purchase of investments and distributions payable. The carrying period is dictated by market conditions and is generally less than 30 days.

### (i) Goods and Services Tax (GST)

Incomes, expenses and assets, with the exception of receivables and payables, are recognised net of the amount of GST, to the extent that GST is recoverable from the Australian Tax Office (ATO). Where GST is not recoverable it is recognised as part of the cost of the asset or as part of the expense item as applicable.

# Notes to the Financial Statements

30 June 2019

## 2.1 Summary of significant accounting policies continued

### (i) Goods and Services Tax (GST) continued

Cash flows are included in the statement of cash flows on a gross basis and the GST component of the cash flows arising from investing and financing activities, which is recoverable from or payable to the taxation authority are classified as operating cash flows.

### (j) Earnings per share

Basic earnings per share (EPS) is calculated as net profit attributable to shareholders divided by the weighted average number of shares.

Diluted earnings per share is calculated as net profit attributable to members of the Company, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

### (k) Employee benefits provisions

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided or upon the actual absence of the employee when the benefit is not accumulated. The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on when the Company expects the benefits to be wholly settled.

### (l) Contributed equity

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

### (m) Share based payments

#### *Equity settled transactions*

The Company can provide benefits to its employees (including key management personnel) in the form of share based payments, whereby employees render services in exchange for shares or rights over shares (equity settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black-Scholes model.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than (if applicable) non-vesting conditions that do not determine whether the Company receives the services that entitle the employees to receive payment in equity or cash.

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

At each subsequent reporting date until vesting, the cumulative charge to the statement of profit or loss and other comprehensive income is the product of:

- The grant date fair value of the award.
- The current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met.
- The expired portion of the vesting period.

The charge to the statement of profit or loss and other comprehensive income for the period is the cumulative amount as calculated above, less the amounts already charged in previous periods. There is a corresponding entry to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition or non-vesting condition is considered to vest irrespective of whether or not that market condition or non-vesting condition is fulfilled, provided that all other conditions are satisfied.

If a non-vesting condition is within the control of the Company or the employee, the failure to satisfy the condition is treated as a cancellation. If a non-vesting condition within the control of neither the Company nor employee is not satisfied during the vesting period, any expense for the award not previously recognised is recognised over the remaining vesting period, unless the award is forfeited.



# Notes to the Financial Statements

30 June 2019

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

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

## Critical accounting judgements and estimates

The preparation of financial statements requires the use of certain critical accounting judgements and estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. There are no areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements except for the following:

- *Key estimate: Share-based payments*

The Company initially 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. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and condition of the grant.

This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 10.

## 2.2 Application of new and revised accounting standards

### New accounting standards and interpretations

The Company has adopted all new accounting standards and interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for annual reporting periods beginning 1 July 2018. The adoption of these new and revised standards and interpretations did not have any effect on the financial position or performance of the Company.

The changes in accounting policies and impact on the financial statements were:

AASB 9 was generally adopted without restating comparative information. This change in methodology has not had an impact on the financial statements

AASB 15 had no impact on the Company because the Company has not generated revenue.

### Accounting standards and interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective will be adopted by the Company from the application date of the standard or interpretation. These are outlined in the table overleaf, where applicable to the Company.

# Notes to the Financial Statements

30 June 2019

## 2.2 Application of new and revised accounting standards continued

Ref	Title	Summary Application date of standard	Impact on Company's financial report	Application date for Company
IFRS 16	<i>Leases</i>	<p>AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 <i>Leases</i>. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).</p> <p>Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.</p> <p>Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.</p> <p>Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.</p>	The impact on the financial report remains under evaluation.	1 January 2019

## 3. Segment Reporting

The Company's operations are based in Australia. Given the nature of the Company, its size and current operations, the Company's management does not treat any part of the Company as a separate operating segment. Internal financial information used by the Company's decision makers is presented on a "whole of entity" manner without dissemination to any separately identifiable segments.

Accordingly, the financial information reported elsewhere in this financial report is representative

of the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

# Notes to the Financial Statements

30 June 2019

## 4 Income tax expense

	30 June 2019 \$	30 June 2018 \$
<b>(a) Income tax expense</b>		
Current tax expense	—	—
	—	—
<b>(b) Reconciliation of income tax expense to prima facie tax payable</b>		
Loss before income tax expense	(2,007,288)	(1,694,369)
Tax at the Australian tax rate of 30% (2018: 30%)	(602,186)	(508,311)
Tax losses not brought to account as a deferred tax asset	602,186	508,311
Income tax benefit / (expense)	—	—
Deferred tax assets on losses to a value of \$654,108 (2018: \$333,822) to date are not brought to account due to not being probable of being recovered		

## 5 Cash and cash equivalents

	30 June 2019 \$	30 June 2018 \$
Cash at bank	3,304,878	5,114,239
	<b>3,304,878</b>	<b>5,114,239</b>

## 6 Trade and other receivables

	30 June 2019 \$	30 June 2018 \$
Other debtors	647	—
GST receivable	52,866	26,644
	<b>53,513</b>	<b>26,644</b>

There are no receivables past due or impaired. Due to the short-term nature of these receivables, their carrying value approximates their fair value.



# Notes to the Financial Statements

30 June 2019

## 7 Trade and other payables

	30 June 2019 \$	30 June 2018 \$
Payroll accruals	9,741	9,386
Audit fees	13,726	16,000
Trade creditors	68,112	58,582
Directors' fees	18,725	18,725
	<b>110,304</b>	<b>102,693</b>

Due to the short-term nature of these payables, their carrying value approximates their fair value.

## 8 Issued capital

	30 June 2019 Shares	30 June 2019 \$	30 June 2018 Shares	30 June 2018 \$
Ordinary shares fully paid	<b>93,125,000</b>	<b>6,975,607</b>	<b>93,125,000</b>	<b>6,975,607</b>

### Movements in ordinary share capital:

Date	Details	Number of shares	\$
<b>1 July 2017</b>	<b>Opening balance</b>	<b>62,500,000</b>	<b>1,510,112</b>
16 October	Share issue @ 20 cents per share	30,000,000	6,000,000
	Share issue costs – cash	–	(360,000)
	Share issue costs – options non cash	–	(174,505)
8 December	Shares issued on conversion of performance rights	625,000	–
<b>30 June 2018</b>	<b>Balance</b>	<b>93,125,000</b>	<b>6,975,607</b>
<b>30 June 2019</b>	<b>Balance</b>	<b>93,125,000</b>	<b>6,975,607</b>

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

## 9 Reserves and accumulated losses

	30 June 2019 \$	30 June 2018 \$
<b>(a) Reserves</b>		
Share based payment reserve		
Opening balance	1,416,448	916,189
Share issue costs	–	174,505
Expense for the year	211,571	325,754
<b>Closing balance</b>	<b>1,628,019</b>	<b>1,416,448</b>

The share based payment reserve is used to record the value of share based payments provided to third parties for services rendered or employees as part of their remuneration.

# Notes to the Financial Statements

30 June 2019

	30 June 2019 \$	30 June 2018 \$
<b>(b) Accumulated losses</b>		
Movements in accumulated losses were as follows:		
Opening balance	3,382,566	1,688,197
Net loss after tax attributable to members of the Company	2,007,288	1,694,369
<b>Closing balance</b>	<b>5,389,854</b>	<b>3,382,566</b>

## 10 Share-based payments (SBP)

### (a) Movements during the year

Movements in the number of options on issue during the current and prior financial years are as follows.

The following table illustrates the number and weighted average exercise prices of and movements in share options issued during the year.

	2019		2018	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding at the beginning of year	12,500,000	0.22	9,250,000	0.21
Granted during the year	—	—	3,250,000	0.25
Forfeited during the year	—	—	—	—
Exercised during the year	—	—	—	—
Expired during the year	—	—	—	—
Outstanding at the end of year	12,500,000	0.22	12,500,000	0.22
Exercisable at the end of the year	12,500,000	0.22	12,500,000	0.22

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in all SBP on issue:

Zelda Therapeutics Limited (Class A)	2019 Number	2019 WAEP	2018 Number	2018 WAEP
<b>Opening balance at the start of the period</b>	7,250,000	\$0.20	7,250,000	\$0.20
Granted during the period	—	—	—	—
<b>Balance Outstanding at the end of period</b>	<b>7,250,000</b>	<b>\$0.20</b>	<b>7,250,000</b>	<b>\$0.20</b>
Exercisable at the end of the period	7,250,000	\$0.20	7,250,000	\$0.20

# Notes to the Financial Statements

30 June 2019

## 10 Share-based payments (SBP) continued

Directors (Class B)	2019 Number	2019 WAEP	2018 Number	2018 WAEP
Opening balance at the start of the period	2,000,000	\$0.25	2,000,000	\$0.25
Granted during the period	–	–	–	–
<b>Balance Outstanding at the end of period</b>	<b>2,000,000</b>	<b>\$0.25</b>	<b>2,000,000</b>	<b>\$0.25</b>
Exercisable at the end of the period	2,000,000	\$0.25	2,000,000	\$0.25

These Director options are issued to directors of the Company in consideration for providing their experience, knowledge, assistance and access. These options are exercisable at \$0.25 over the assessed two year vesting period and will automatically lapse if the option holder ceases to be a Director of the Company, which implies that there is a service based condition attached to the Director options, therefore it has been expensed over the vesting period.

Advisors (Class C)	2019 Number	2019 WAEP	2018 Number	2018 WAEP
Opening balance at the start of the period	1,500,000	\$0.25	–	–
Granted during the period	–	–	1,500,000	\$0.25
<b>Balance Outstanding at the end of period</b>	<b>1,500,000</b>	<b>\$0.25</b>	<b>1,500,000</b>	<b>\$0.25</b>
Exercisable at the end of the period	1,500,000	\$0.25	1,500,000	\$0.25

These advisor options are issued to advisors of the Company in consideration for the advisors providing their experience, knowledge, assistance and access. These options are exercisable at \$0.25 on or before three years from the date of issue and will automatically lapse if the option holder ceases to be an advisor of the Company, which implies that there is a service based condition attached to the advisor options, therefore it has been expensed over the vesting period.

Lead Manager (Class D)	2019 Number	2019 WAEP	2018 Number	2018 WAEP
Opening balance at the start of the period	1,500,000	\$0.25	–	–
Granted during the period	–	–	1,500,000	\$0.25
<b>Balance Outstanding at the end of period</b>	<b>1,500,000</b>	<b>\$0.25</b>	<b>1,500,000</b>	<b>\$0.25</b>
Exercisable at the end of the period	1,500,000	\$0.25	1,500,000	\$0.25

These Lead Manager options are issued to Merchant Corporate Advisory Pty Ltd in consideration for the services provided relating to the assistance of the initial seed raising, securing strategic investments and partnerships and managing the IPO process for the Company. These options are exercisable at \$0.25 on or before three years from the date of issue to acquire fully paid ordinary shares in the capital of the Company, therefore it has been fully expensed to share issue costs as it relates to services provided for the listing of the Company.

Employee (Class E)	2019 Number	2019 WAEP	2018 Number	2018 WAEP
Opening balance at the start of the period	1,000,000	\$0.20	–	–
Granted (Forfeited) during the period	(200,000)	\$0.20	1,000,000	\$0.20
<b>Balance Outstanding at the end of period</b>	<b>800,000</b>	<b>\$0.20</b>	<b>1,000,000</b>	<b>\$0.20</b>
Exercisable at the end of the period	800,000	\$0.20	1,000,000	\$0.20



# Notes to the Financial Statements

30 June 2019

These Employee options are issued to Margaret Curtis (Head of Clinical Development and R&D) in consideration for the following four conditions stated in the employee contract, of which all conditions have been assessed by management as more than likely to be met;

- 250,000 Options to be issued on the execution date of the employee contract with an exercise price of \$0.20 each and an expiry date of 8 November 2022. These Options will vest on the date that is 12 months after their date of issue, therefore it has been expensed over the relevant vesting period.
- 150,000 Options to be issued upon the Company submitting an application to have a nutraceutical product registered with the APVMA (Australian Pesticides and Veterinary Medicines Authority) or equivalent as an animal food product in Australia or other target region. These Options will vest on the date that is 30 months after their date of issue, therefore it has been expensed over the relevant vesting period.
- 150,000 Options to be issued upon the Company commencing a target animal safety study for CPAT-01 within 30 months of the commencement date. These Options will vest on the date that is 36 months after their date of issue, therefore it has been expensed over the relevant vesting period.
- 250,000 Options If the Company commences the CPAT-01 pivotal field trials with a final formulation within 30 months of the commencement date. These Options will vest on the date that is 48 months after their date of issue, therefore it has been expensed over the relevant vesting period.

These Performance Rights are issued to Layton Mills in consideration for the following four performance milestones that will expire on the date that is five years from the date of issue if the relevant milestone attached to that Performance Right has not been achieved. The vesting conditions (non-market) and performance milestones are listed below:

- 625,000 Class A Performance Rights shall convert into an equal number of ordinary shares upon the Company receiving conditional approval to commence trading on the Australian Securities

Exchange (ASX) and the completion of a capital raise of at least \$4,000,000. This milestone was granted prior year upon successful completion of the initial public offering of the Company.

- 625,000 Class B Performance Rights shall convert into an equal number of ordinary shares upon the Company entering into a commercial licencing agreement for the commercialisation of any of its products. This milestone was granted during the period as it was assessed by management as more than likely to be met.
- 625,000 Class C Performance Rights shall convert into an equal number of ordinary shares upon the Company achieving revenue from sales or licensing of its products of \$1,000,000 or more within 36 months of successfully listing on the ASX. This milestone hasn't been granted as the condition hasn't been met.
- 625,000 Class D Performance Rights shall convert into an equal number of ordinary shares upon the Company acquiring regulatory approval from the US Food & Drug Administration, including approval under the Minor Use/Minor Species Animal Health Act of 2004 (US) (or equivalent) for any of the Company's products. This milestone hasn't been granted as the condition hasn't been met.

The fair value is determined by an internal valuation using a Black-Scholes option pricing model. It was assumed that no dividends are expected to be declared or paid by the Company during the terms of the various classes of Options. The following inputs were used:

- A risk free rate of a five-year Australian Government bond has been used on the Performance Rights and Options, therefore a rate of 2.12% is used as the risk free rate for all options and performance rights milestones.
- After taking into account the volatility of comparable ASX listed companies over one, two and three year periods, the opinion was formed that the fair volatility factor for the purpose of valuation as at grant date should be 100%.

# Notes to the Financial Statements

30 June 2019

## 10 Share-based payments (SBP) continued

Performance Rights (Class F)	2019 Number	2018 Number
<b>Opening Balance at the start of the period</b>	1,875,000	–
Granted during the period	–	2,500,000
Converted to shares during the period	–	(625,000)
<b>Balance Outstanding at the end of the period</b>	<b>1,875,000</b>	<b>1,875,000</b>
Exercisable at the end of the period	–	–

### (b) Inputs to the model

Option Type	Class	Number	FY	Grant Date	Vesting Date	Expiry Date	Exercise price \$	Fair Value \$	SBP expense 30/06/2019	SBP reserve 30/06/2019
Zelda	A	7,250,000	2017	24/03/2017	24/03/2017	24/03/2020	0.20	0.1250	–	\$906,494
Directors	B	2,000,000	2017	01/06/2017	31/05/2019	31/05/2020	0.25	0.1163	\$106,483	\$232,674
Advisors	C	1,500,000	2018	10/07/2017	09/07/2020	09/07/2020	0.25	0.1163	\$58,168	\$114,743
Lead Manager	D	1,500,000	2018	25/08/2017	31/03/2018	26/09/2020	0.25	0.1163	–	\$174,506
Employee	E	250,000	2018	09/11/2017	09/11/2018	08/11/2022	0.20	0.1239	\$11,204	\$30,980
Employee	E	150,000*	2018	20/11/2017	19/11/2019	08/11/2022	0.20	0.1239	\$5,533	\$14,967
Employee	E	150,000*	2018	20/11/2017	19/11/2020	08/11/2022	0.20	0.1239	\$3,683	\$9,964
Employee	E	250,000*	2018	20/11/2017	19/11/2021	08/11/2022	0.20	0.1239	\$7,745	\$12,456
<b>Total Options</b>		<b>13,050,000**</b>							<b>\$192,816</b>	<b>\$1,496,784</b>
Performance Rights	F	625,000	2018	01/07/2017	01/07/2017	30/06/2022	–	0.15	–	\$93,776
Performance Rights	F	625,000	2018	01/07/2017	30/06/2022	30/06/2022	–	0.15	\$18,755	\$37,459
<b>Total Performance Rights</b>		<b>1,250,000</b>							<b>\$18,755</b>	<b>\$131,235</b>

\*\*Reconciliation to exercisable options:

	Number of options
<b>Class A, B, C, D options</b>	
Exercisable options	12,500,000
<b>Class E options</b>	
*Employee options – 2nd tranche	150,000
*Employee options – 3rd tranche	150,000
*Employee options – 4th tranche	250,000
<b>Total Options</b>	<b>13,050,000</b>

# Notes to the Financial Statements

30 June 2019

Other inputs to the model used for the share options issued in the prior period:

Option Type	Volatility Factor %	Risk free rate %	Model used	Share Price
<b>Zelda Class A</b>	100	2.02	Black Scholes	\$0.20
<b>Directors Class B</b>	100	2.02	Black Scholes	\$0.25
<b>Advisors Class C</b>	100	2.02	Black Scholes	\$0.25
<b>Lead Manager Class D</b>	100	2.02	Black Scholes	\$0.25
<b>Employee Class E</b>	100	2.12	Black Scholes	\$0.20
<b>Performance Rights Class F</b>	100	2.12	Black Scholes	\$0.20

The fair value of the service for the options and performance rights was not calculated as it is difficult to value the services to be provided by the recipient, hence the Black Scholes model was deemed an appropriate methodology under AASB 2.

## 11 Key management personnel disclosures

### Key management personnel compensation

	30 June 2019 \$	30 June 2018 \$
Short-term employee benefits	530,289	476,195
Post-employment benefits	33,884	26,917
Share based payments	153,404	269,178
	<b>717,577</b>	<b>772,290</b>

## 12 Related party transactions

### (a) Directors and Key Management Personnel

The names of persons who were Directors of CannPal Animal Therapeutics Limited at any time during the financial year and at the date of this report are as follows: Geoff Starr, Robert Clifford, Layton Mills, Robert Johnston and Kathryn Adams. Margaret Curtis is head of Research and Development.

### (b) Related party transactions

All related party transactions are made at arm's length on normal commercial terms and conditions. Outstanding balances at year end are unsecured and settlement occurs in cash. Other than what is mentioned below, there were no transactions with Key Management Personnel and no other related party transactions that occurred during the year.

#### *Transactions with Directors and Key Management Personnel (KMP)*

- Non-Executive Directors who received options in consideration for providing their experience, knowledge, assistance and access outlined in note 10.

#### *Transactions with CEO/Managing Director*

- CEO/Managing Director who received performance rights, then converted to shares in consideration for the completion of the performance rights milestone outlined in note 10.

# Notes to the Financial Statements

30 June 2019

## 13 Reconciliation of loss after income tax to cash inflows from operating activities

	30 June 2019 \$	30 June 2018 \$
Loss for the year	(2,007,288)	(1,694,369)
Non cash share based expense	211,571	325,754
(Increase) in trade and other receivables	(647)	(1,065)
Increase in provisions	–	28,701
Increase in trade and other payables	(12,997)	61,030
<b>Net cash outflows from operating activities</b>	<b>(1,809,361)</b>	<b>(1,279,949)</b>

## 14 Financial risk management

The Company's activities expose it to a variety of financial risks: credit risk and liquidity risk.

### (a) Credit risk

Credit risk primarily arises from investments in debt securities and from trading derivative products. Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers. None of these assets are impaired nor past due but not impaired. As at 30 June 2019 the Company does not hold any debt securities.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. The majority of cash assets are held with one bank, which has a credit rating of A-1, which is the significant concentration risk.

### (b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments.

Financial liabilities of the Company comprise trade and other payables and dividends payable. Trade and other payables have no contractual maturities but are typically settled within 30 days.

## 15 Earnings per share (EPS)

	30 June 2019 Cents	30 June 2018 Cents
Loss per share attributable to the ordinary equity holders of the Company	(2.16)	(2.02)



# Notes to the Financial Statements

30 June 2019

## (b) Reconciliation of earnings used in calculating earnings per share

	30 June 2019 \$	30 June 2018 \$
<i>Basic and diluted loss per share</i>		
Loss from continuing operations	(2,007,288)	(1,694,369)
Loss attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share	(2,007,288)	(1,694,369)

## (c) Weighted average number of shares used as the denominator

	30 June 2019 Number	30 June 2018 Number
<i>Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share</i>	93,125,000	83,972,603

Basic and diluted earnings per share amounts are calculated by dividing the net loss attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is equal to basic EPS as the Company is in a loss position.

## 16 Events occurring after reporting date

The directors are not aware of any matter or circumstance that has significantly or may significantly affect the operations of the company or the results of those operations, or the state of affairs of the company in subsequent financial years.

## 17 Commitments and contingencies

There were no commitments or contingencies as at 30 June 2019 (2018: nil).

## 18 Remuneration of auditor

During the year the following fees were paid or payable for services provided by the Auditor of the Entity.

	30 June 2019 \$	30 June 2018 \$
<b>Audit and Other Assurance Services</b>		
Audit and review of the financial reports – BDO Audit (WA) Pty Ltd	33,163	40,139
<b>Total</b>	<b>33,163</b>	<b>40,139</b>

## Directors' Declaration

30 June 2019

The Directors of the Company declare that:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Company's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Board

CannPal Animal Therapeutics Limited



**Geoff Starr**  
**Chairman**

Sydney, NSW  
30 August 2019



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## INDEPENDENT AUDITOR'S REPORT

To the members of CannPal Animal Therapeutics Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of CannPal Animal Therapeutics Limited (the Company), which comprises the statement of financial position as at 30 June 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of CannPal Animal Therapeutics Limited, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Company's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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



### Measurement of share based payments

<b>Key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>The Company awarded share options and performance rights to the Company's advisors and to eligible executives and employees, which have been accounted for as share-based payments and disclosed in note 10 of the financial report.</p> <p>Share-based payments are a complex accounting area and due to the judgemental estimates used in determining the fair value of the share-based payments in accordance with AASB 2: Share Based Payments, we consider management's calculation of the share based payments expense to be a key audit matter.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Reviewing relevant supporting documentation to obtain an understanding of the contractual nature and terms and conditions of the share-based payment arrangements;</li> <li>• Assessing management's determination of achieving non-market vesting conditions of the performance rights;</li> <li>• Assessing the allocation of the share-based payment expense over management's expected vesting period; and</li> <li>• Assessing the adequacy of the related disclosures in Note 10 of the financial report.</li> </ul>

### Other information

The directors are responsible for the other information. The other information comprises the information in the Company's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.





#### **Auditor's responsibilities for the audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

[http://www.auasb.gov.au/auditors\\_responsibilities/ar2.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf)

This description forms part of our auditor's report.

#### **Report on the Remuneration Report**

##### **Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 35 to 41 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of CannPal Animal Therapeutics Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

##### **Responsibilities**

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**BDO Audit (WA) Pty Ltd**

A handwritten signature in black ink, appearing to read 'Neil Smith', is written over a faint, stylized BDO logo.

**Neil Smith**

**Director**

Perth, 30 August 2019

## Shareholder Information

30 June 2019

The shareholder information set out below was applicable as at 14 August 2019.

The company used the cash and assets in a form readily convertible to cash in a way consistent with its business objectives for the whole of the reporting period.

The company has no current on-market buy back.

### Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

Number of holders of ordinary shares	
1 to 1,000	26
1,001 to 5,000	1,030
5,001 to 10,000	381
10,001 to 100,000	508
100,001 and over	56
	<b>2,001</b>
Holding less than a marketable parcel	437

# Shareholder Information

30 June 2019

## Equity security holders

*Twenty largest quoted equity security holders*

The names of the twenty largest security holders of quoted equity securities are listed below:

Name	Number held	% of total shares issued
The Trust Company (Australia) Limited	14,711,707	15.80%
Gemelli Nominees Pty Ltd	8,683,382	9.32%
Pepaanne Pty Ltd	7,667,737	8.23%
Ms Tania Maree Vidovic	6,884,682	7.39%
Mr Layton Patrick Mills	6,884,679	7.39%
The Trust Company (Australia) Limited	3,550,000	3.81%
Mr John Andrew Rogers	3,102,238	3.33%
Ajava Holdings Pty Ltd	2,000,000	2.15%
Ms Angela Maree Becroft	1,721,170	1.85%
Ms Kate Eloise Toft	1,721,170	1.85%
Joyress Pty Ltd	1,500,000	1.61%
JP Morgan Nominees Australia Pty Limited	1,215,250	1.30%
Croft Family Super Pty Ltd	895,000	0.96%
Nesoi Investment Management Limited	860,585	0.92%
Miss Meng Wang	665,000	0.71%
Grant Super Fund 2017 Pty Ltd	634,147	0.68%
Mr Layton Patrick Mills	625,000	0.67%
Citicorp Nominees Pty Limited	622,912	0.67%
Auto Management Pty Ltd	600,000	0.64%
Emac Investments Holdings Pty Ltd	537,866	0.58%
<b>Top 20 Holders of Ordinary Shares</b>	<b>65,082,525</b>	<b>69.89%</b>
<b>Total Remaining Holders Balance</b>	<b>28,042,475</b>	<b>30.11%</b>

Of the above ordinary shares, 49,990,405 shares are escrowed until 25 October 2019.

## Shareholder Information

30 June 2019

### Unquoted Options

	Number on issue	Number of holders
Expiring 01/06/2020 exercisable at \$0.25 escrowed until 25/10/2019	2,000,000	4
Expiring 24/03/2022 exercisable at \$0.20 escrowed until 25/10/2019	7,250,000	1
Expiring 26/09/2020 exercisable at \$0.25 escrowed until 25/10/2019	1,500,000	1
Expiring 09/11/2022 exercisable at \$0.20	250,000	1
Expiring 10/07/2020 exercisable at \$0.25	1,500,000	4
<b>Totals</b>	<b>12,500,000</b>	<b>11</b>

Substantial holders in the company are set out below:

The Trust Company (Australia) Limited	18,261,707	19.61%
Gemelli Nominees Pty Ltd	8,683,382	9.32%
Pepaanne Pty Ltd	7,667,737	8.23%
Mr Layton Patrick Mills	7,509,679	8.06%
Ms Tania Maree Vidovic	6,884,682	7.39%

### Voting rights

The voting rights attached to ordinary shares are set out below:

#### *Ordinary shares*

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.

There are no other classes of equity securities.



# Corporate Governance Statement

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**This Corporate Governance Statement is current as at 20 August 2019 and has been approved by the Board of the Company on that date.**

This Corporate Governance Statement discloses the extent to which the Company will follow the recommendations set by the ASX Corporate Governance Council in its publication Corporate Governance Principles and Recommendations (**Recommendations**). The Recommendations are not mandatory, however the Recommendations that will not be followed have been identified and reasons provided for not following them along with what (if any) alternative governance practices the Company intends to adopt in lieu of the recommendation.

The Company has adopted a Corporate Governance Plan which provides the written terms of reference for the Company's corporate governance duties.

Due to the current size and nature of the existing Board and the magnitude of the Company's operations, the Board does not consider that the Company will gain any benefit from individual Board committees and that its resources would be better utilised in other areas as the Board is of the strong view that at this stage the experience and skill set of the current Board is sufficient to perform these roles. Under the Company's Board Charter, the duties that would ordinarily be assigned to individual committees are currently carried out by the full Board under the written terms of reference for those committees.

The Company's Corporate Governance Plan is available on the Company's website at [www.cannpal.com](http://www.cannpal.com)

Recommendations (3 <sup>Rd</sup> Edition)	Comply	Explanation
<b>Principle 1: Lay solid foundations for management and oversight</b>		
<b>Recommendation 1.1</b> A listed entity should have and disclose a charter which sets out the respective roles and responsibilities of the Board, the Chair and management, and includes a description of those matters expressly reserved to the Board and those delegated to management.	YES	<p>The Company has adopted a Board Charter that sets out the specific roles and responsibilities of the Board, the Chair and management and includes a description of those matters expressly reserved to the Board and those delegated to management.</p> <p>The Board Charter sets out the specific responsibilities of the Board, requirements as to the Board's composition, the roles and responsibilities of the Chairman and Company Secretary, the establishment, operation and management of Board Committees, Directors' access to Company records and information, details of the Board's relationship with management, details of the Board's performance review and details of the Board's disclosure policy.</p> <p>A copy of the Company's Board Charter, which is part of the Company's Corporate Governance Plan, is available on the Company's website.</p>



Recommendations (3 <sup>Rd</sup> Edition)	Comply	Explanation
<b>Principle 1: Lay solid foundations for management and oversight continued</b>		
<b>Recommendation 1.2</b> A listed entity should: <ul style="list-style-type: none"> <li>a. undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a Director; and</li> <li>b. provide security holders with all material information relevant to a decision on whether or not to elect or re-elect a Director.</li> </ul>	YES	<ul style="list-style-type: none"> <li>a. The Company has guidelines for the appointment and selection of the Board in its Corporate Governance Plan. The Company's Nomination Committee Charter (in the Company's Corporate Governance Plan) requires the Nomination Committee (or, in its absence, the Board) to ensure appropriate checks (including checks in respect of character, experience, education, criminal record and bankruptcy history (as appropriate)) are undertaken before appointing a person, or putting forward to security holders a candidate for election, as a Director.</li> <li>b. Under the Nomination Committee Charter, all material information relevant to a decision on whether or not to elect or re-elect a Director must be provided to security holders in the Notice of Meeting containing the resolution to elect or re-elect a Director.</li> </ul>
<b>Recommendation 1.3</b> A listed entity should have a written agreement with each Director and senior executive setting out the terms of their appointment.	YES	<p>The Company's Nomination Committee Charter requires the Nomination Committee (or, in its absence, the Board) to ensure that each Director and senior executive is a party to a written agreement with the Company which sets out the terms of that Director's or senior executive's appointment.</p> <p>The Company has written agreements with each of its Directors and senior executives.</p>
<b>Recommendation 1.4</b> The company secretary of a listed entity should be accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.	YES	<p>The Board Charter outlines the roles, responsibility and accountability of the Company Secretary. In accordance with this, the Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.</p>

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## Coporate Governance Statement continued

Recommendations (3 <sup>Rd</sup> Edition)	Comply	Explanation
<b>Principle 1: Lay solid foundations for management and oversight continued</b>		
<p><b>Recommendation 1.5</b></p> <p>A listed entity should:</p> <ol style="list-style-type: none"> <li>have a diversity policy which includes requirements for the Board or a relevant committee of the Board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;</li> <li>disclose that policy or a summary of it; and</li> <li>disclose as at the end of each reporting period: <ol style="list-style-type: none"> <li>the measurable objectives for achieving gender diversity set by the Board in accordance with the entity's diversity policy and its progress towards achieving them; and</li> <li>either: <ol style="list-style-type: none"> <li>the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or</li> <li>if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in the Workplace Gender Equality Act.</li> </ol> </li> </ol> </li> </ol>	PAR-TIALLY	<ol style="list-style-type: none"> <li>The Company has adopted a Diversity Policy which provides a framework for the Company to establish and achieve measurable diversity objectives, including in respect of gender diversity. The Diversity Policy allows the Board to set measurable gender diversity objectives, if considered appropriate, and to assess annually both the objectives, if any have been set, and the Company's progress in achieving them.</li> <li>The Diversity Policy is available, as part of the Corporate Governance Plan, on the Company's website. <ol style="list-style-type: none"> <li>The Board does not presently intend to set measurable gender diversity objectives because: <ul style="list-style-type: none"> <li>the Board does not anticipate there will be a need to appoint any new Directors or senior executives due to limited nature of the Company's existing and proposed activities and the Board's view that the existing Directors and senior executives have sufficient skill and experience to carry out the Company's plans; and</li> <li>if it becomes necessary to appoint any new Directors or senior executives, the Board considered the application of a measurable gender diversity objective requiring a specified proportion of women on the Board and in senior executive roles will, given the small size of the Company and the Board, unduly limit the Company from applying the Diversity Policy as a whole and the Company's policy of appointing based on skills and merit: and</li> </ul> </li> <li>the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes) for each financial year will be disclosed in the Company's Annual Report and on the Company's website.</li> </ol> </li> </ol>



Recommendations (3 <sup>Rd</sup> Edition)	Comply	Explanation
<b>Principle 1: Lay solid foundations for management and oversight continued</b>		
<b>Recommendation 1.6</b> A listed entity should: <ul style="list-style-type: none"> <li>a. have and disclose a process for periodically evaluating the performance of the Board, its committees and individual Directors; and</li> <li>b. disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</li> </ul>	YES	<ul style="list-style-type: none"> <li>a. The Company's Nomination Committee (or, in its absence, the Board) is responsible for evaluating the performance of the Board, its committees and individual Directors on an annual basis. It may do so with the aid of an independent advisor. The process for this is set out in the Company's Corporate Governance Plan, which is available on the Company's website.</li> <li>b. The Company's Corporate Governance Plan requires the Company to disclose whether or not performance evaluations were conducted during the relevant reporting period. The Company intends to complete performance evaluations in respect of the Board, its committees (if any) and individual Directors for the each financial year in accordance with the above process.</li> </ul>
<b>Recommendation 1.7</b> A listed entity should: <ul style="list-style-type: none"> <li>a. have and disclose a process for periodically evaluating the performance of its senior executives; and</li> <li>b. disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</li> </ul>	YES	<ul style="list-style-type: none"> <li>a. The Company's Nomination Committee (or, in its absence, the Board) is responsible for evaluating the performance of the Company's senior executives on an annual basis. The Company's Remuneration Committee (or, in its absence, the Board) is responsible for evaluating the remuneration of the Company's senior executives on an annual basis. A senior executive, for these purposes, means key management personnel (as defined in the Corporations Act) other than a non-executive Director.  The applicable processes for these evaluations can be found in the Company's Corporate Governance Plan, which is available on the Company's website.</li> <li>b. The Company's Corporate Governance Plan requires the Company to disclose whether or not performance evaluations were conducted during the relevant reporting period. The Company intends to complete performance evaluations in respect of the senior executives (if any) for each financial year in accordance with the applicable processes.</li> </ul>

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## Coporate Governance Statement continued

Recommendations (3 <sup>Rd</sup> Edition)	Comply	Explanation
<b>Principle 2: Structure the Board to add value</b>		
<p><b>Recommendation 2.1</b></p> <p>The Board of a listed entity should:</p> <p>a. have a nomination committee which:</p> <ol style="list-style-type: none"> <li>has at least three members, a majority of whom are independent Directors; and</li> <li>is chaired by an independent Director, and disclose:</li> <li>the charter of the committee;</li> <li>the members of the committee; and</li> <li>as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> </ol> <p>f. if it does not have a nomination committee, disclose that fact and the processes it employs to address Board succession issues and to ensure that the Board has the appropriate balance of skills, experience, independence and knowledge of the entity to enable it to discharge its duties and responsibilities effectively.</p>	YES	<p>a. The Company does not have a Nomination Committee. The Company's Nomination Committee Charter provides for the creation of a Nomination Committee (if it is considered it will benefit the Company), with at least three members, a majority of whom are independent Directors, and which must be chaired by an independent Director.</p> <p>b. The Company does not have a Nomination Committee as the Board considers the Company will not currently benefit from its establishment. In accordance with the Company's Board Charter, the Board carries out the duties that would ordinarily be carried out by the Nomination Committee under the Nomination Committee Charter, including the following processes to address succession issues and to ensure the Board has the appropriate balance of skills, experience, independence and knowledge of the entity to enable it to discharge its duties and responsibilities effectively:</p> <ol style="list-style-type: none"> <li>devoting time at least annually to discuss Board succession issues and updating the Company's Board skills matrix; and</li> <li>all Board members being involved in the Company's nomination process, to the maximum extent permitted under the Corporations Act and ASX Listing Rules.</li> </ol>
<p><b>Recommendation 2.2</b></p> <p>A listed entity should have and disclose a Board skill matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.</p>	YES	<p>Under the Nomination Committee Charter (in the Company's Corporate Governance Plan), the Nomination Committee (or, in its absence, the Board) is required to prepare a Board skill matrix setting out the mix of skills and diversity that the Board currently has (or is looking to achieve) and to review this at least annually against the Company's Board skills matrix to ensure the appropriate mix of skills and expertise is present to facilitate successful strategic direction.</p> <p>The Company has a Board skill matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership. A copy is available Company's Annual Report and on the Company's website.</p> <p>The Board Charter requires the disclosure of each Board member's qualifications and expertise. Full details as to each Director and senior executive's relevant skills and experience are available Company's Annual Report and on the Company's website.</p>

Recommendations (3 <sup>rd</sup> Edition)	Comply	Explanation
<b>Principle 2: Structure the Board to add value continued</b>		
<b>Recommendation 2.3</b> A listed entity should disclose: <ul style="list-style-type: none"> <li>a. the names of the Directors considered by the Board to be independent Directors;</li> <li>b. if a Director has an interest, position, association or relationship of the type described in Box 2.3 of the ASX Corporate Governance Principles and Recommendation (3rd Edition), but the Board is of the opinion that it does not compromise the independence of the Director, the nature of the interest, position, association or relationship in question and an explanation of why the Board is of that opinion; and</li> <li>c. the length of service of each Director.</li> </ul>	YES	<ul style="list-style-type: none"> <li>a. The Board Charter requires the disclosure of the names of Directors considered by the Board to be independent. The Company will disclose those Directors it considers to be independent in its Annual Report and on its ASX website. The Board considers the following Directors are independent: Geoff Starr, Robert Johnston, Robert Clifford and Dr Kate Adams.</li> <li>b. Robert Johnston and Robert Clifford fall into this category through holdings of shares in the Company via their family trust. However, the total voting power of the shares are not substantial and not material to their independence as a director. The Company will disclose in its Annual Report and ASX website any instances where this applies and an explanation of the Board's opinion why the relevant Director is still considered to be independent.</li> <li>c. The Company's Annual Report and Website will disclose the length of service of each Director, as at the end of each financial year.</li> </ul>
<b>Recommendation 2.4</b> A majority of the Board of a listed entity should be independent Directors.	YES	<p>The Company's Board Charter requires that, where practical, the majority of the Board should be independent.</p> <p>The Board currently comprises a total of 5 directors, of whom 4 are considered to be independent. As such, independent directors are currently an independent majority of the Board.</p>
<b>Recommendation 2.5</b> The Chair of the Board of a listed entity should be an independent Director and, in particular, should not be the same person as the CEO of the entity.	YES	<p>The Board Charter provides that, where practical, the Chair of the Board should be an independent Director and should not be the CEO/Managing Director.</p> <p>The Chair of the Company is an independent Director and is not the CEO/Managing Director.</p>
<b>Recommendation 2.6</b> A listed entity should have a program for inducting new Directors and providing appropriate professional development opportunities for continuing Directors to develop and maintain the skills and knowledge needed to perform their role as a Director effectively.	YES	<p>In accordance with the Company's Board Charter, the Nominations Committee (or, in its absence, the Board) is responsible for the approval and review of induction and continuing professional development programs and procedures for Directors to ensure that they can effectively discharge their responsibilities. The Company Secretary is responsible for facilitating inductions and professional development.</p>
<b>Principle 3: Act ethically and responsibly</b>		
<b>Recommendation 3.1</b> A listed entity should: <ul style="list-style-type: none"> <li>a. have a code of conduct for its Directors, senior executives and employees; and</li> <li>b. disclose that code or a summary of it.</li> </ul>	YES	<ul style="list-style-type: none"> <li>a. The Company's Corporate Code of Conduct applies to the Company's Directors, senior executives and employees.</li> <li>b. The Company's Corporate Code of Conduct (which forms part of the Company's Corporate Governance Plan) is available on the Company's website.</li> </ul>

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## Coporate Governance Statement continued

Recommendations (3 <sup>rd</sup> Edition)	Comply	Explanation
<b>Principle 4: Safeguard integrity in financial reporting</b>		
<b>Recommendation 4.1</b> The Board of a listed entity should: <ul style="list-style-type: none"> <li>a. have an audit committee which: <ul style="list-style-type: none"> <li>I. has at least three members, all of whom are non-executive Directors and a majority of whom are independent Directors; and</li> <li>II. is chaired by an independent Director, who is not the Chair of the Board, and disclose: <ul style="list-style-type: none"> <li>III. the charter of the committee;</li> <li>IV. the relevant qualifications and experience of the members of the committee; and</li> <li>V. in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> </ul> </li> </ul> </li> <li>f. if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its financial reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</li> </ul>	YES	<ul style="list-style-type: none"> <li>a. The Company does have an Audit and Risk Committee. The Company's Corporate Governance Plan contains an Audit and Risk Committee Charter that provides for the creation of an Audit and Risk Committee (if it is considered it will benefit the Company), with at least three members, all of whom must be independent Directors, and which must be chaired by an independent Director who is not the Chair.</li> <li>b. The Company does have an Audit and Risk Committee. The Audit and Risk Committee carries out duties under the Audit and Risk Committee Charter including the following processes to independently verify and safeguard the integrity of its financial reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner: <ul style="list-style-type: none"> <li>I. the Board devotes time at annual Board meetings to fulfilling the roles and responsibilities associated with maintaining the Company's internal audit function and arrangements with external auditors; and</li> <li>II. all members of the Board are involved in the Company's audit function to ensure the proper maintenance of the entity and the integrity of all financial reporting.</li> </ul> </li> </ul>
<b>Recommendation 4.2</b> The Board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	YES	<p>The Company's Audit and Risk Committee Charter requires the CEO and CFO (or, if none, the person(s) fulfilling those functions) to provide a sign off on these terms.</p> <p>The Company intends to obtain a sign off on these terms for each of its financial statements in each financial year.</p>
<b>Recommendation 4.3</b> A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	YES	<p>The Company's Corporate Governance Plan provides that the Board must ensure the Company's external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.</p>



Recommendations (3 <sup>Rd</sup> Edition)	Comply	Explanation
<b>Principle 5: Make timely and balanced disclosure</b>		
<b>Recommendation 5.1</b> A listed entity should: <ul style="list-style-type: none"> <li>a. have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and</li> <li>b. disclose that policy or a summary of it.</li> </ul>	YES	<ul style="list-style-type: none"> <li>a. The Board Charter provides details of the Company's disclosure policy. In addition, the Corporate Governance Plan details the Company's disclosure requirements as required by the ASX Listing Rules and other relevant legislation.</li> <li>b. The Corporate Governance Plan, which incorporates the Board Charter, is available on the Company website.</li> </ul>
<b>Principle 6: Respect the rights of security holders</b>		
<b>Recommendation 6.1</b> A listed entity should provide information about itself and its governance to investors via its website.	YES	Information about the Company and its governance is available in the Corporate Governance Plan which can be found on the Company's website.
<b>Recommendation 6.2</b> A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	YES	The Company has adopted a Shareholder Communications Strategy which aims to promote and facilitate effective two-way communication with investors. The Strategy outlines a range of ways in which information is communicated to shareholders and is available on the Company's website as part of the Company's Corporate Governance Plan.
<b>Recommendation 6.3</b> A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	YES	Shareholders are encouraged to participate at all general meetings and AGMs of the Company. Upon the despatch of any notice of meeting to Shareholders, the Company Secretary shall send out material stating that all Shareholders are encouraged to participate at the meeting.
<b>Recommendation 6.4</b> A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	YES	<p>The Shareholder Communication Strategy provides that security holders can register with the Company to receive email notifications when an announcement is made by the Company to the ASX, including the release of the Annual Report, half yearly reports and quarterly reports. Links are made available to the Company's website on which all information provided to the ASX is immediately posted.</p> <p>Shareholders queries should be referred to the Company Secretary at first instance.</p>

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## Coporate Governance Statement continued

Recommendations (3 <sup>rd</sup> Edition)	Comply	Explanation
<b>Principle 7: Recognise and manage risk</b>		
<p><b>Recommendation 7.1</b></p> <p>The Board of a listed entity should:</p> <ul style="list-style-type: none"> <li>a. have a committee or committees to oversee risk, each of which: <ul style="list-style-type: none"> <li>I. has at least three members, a majority of whom are independent Directors; and</li> <li>II. is chaired by an independent Director, and disclose:</li> <li>III. the charter of the committee;</li> <li>IV. the members of the committee; and</li> <li>V. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> </ul> </li> <li>f. if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the process it employs for overseeing the entity's risk management framework.</li> </ul>	YES	<ul style="list-style-type: none"> <li>a. The Company does have an Audit and Risk Committee. The Company's Corporate Governance Plan contains an Audit and Risk Committee Charter that provides for the creation of an Audit and Risk Committee (if it is considered it will benefit the Company), with at least three members, all of whom must be independent Directors, and which must be chaired by an independent Director who is not the Chair. A copy of the Corporate Governance Plan is available on the Company's website.</li> <li>b. The Company does have an Audit and Risk Committee. The Audit and Risk Committee carries out duties under the Audit and Risk Committee Charter, including the following processes to oversee the entity's risk management framework: <ul style="list-style-type: none"> <li>I. the Board devotes time at quarterly Board meetings to fulfilling the roles and responsibilities associated with overseeing risk and maintaining the entity's risk management framework and associated internal compliance and control procedures; and</li> <li>II. monitoring and reviewing any matters of significance affecting financial reporting and compliance, the integrity of the financial reporting of the Company, the Company's internal financial control system and risk management systems and the external audit function.</li> </ul> </li> </ul>
<p><b>Recommendation 7.2</b></p> <p>The Board or a committee of the Board should:</p> <ul style="list-style-type: none"> <li>a. review the entity's risk management framework with management at least annually to satisfy itself that it continues to be sound; and</li> <li>b. disclose in relation to each reporting period, whether such a review has taken place.</li> </ul>	YES	<ul style="list-style-type: none"> <li>a. The Audit and Risk Committee Charter requires that the Audit and Risk Committee (or, in its absence, the Board) should, at least annually, satisfy itself that the Company's risk management framework continues to be sound.</li> <li>b. The Company's Corporate Governance Plan requires the Company to disclose at least annually whether such a review of the company's risk management framework has taken place.</li> </ul>

Recommendations (3 <sup>Rd</sup> Edition)	Comply	Explanation
<b>Principle 7: Recognise and manage risk continued</b>		
<b>Recommendation 7.3</b> A listed entity should disclose: <ul style="list-style-type: none"> <li>a. if it has an internal audit function, how the function is structured and what role it performs; or</li> <li>b. if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.</li> </ul>	YES	<ul style="list-style-type: none"> <li>a. The Audit and Risk Committee Charter provides for the Audit and Risk Committee to monitor the need for an internal audit function.</li> <li>b. The Company does not have an internal audit function. <ul style="list-style-type: none"> <li>I. The Board will continually evaluate and assess risk management and internal control processes, as the Company is limited in scope and size for the foreseeable future, this process can be improved and expanded as the Company grows.</li> </ul> </li> </ul>
<b>Recommendation 7.4</b> A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	YES	<p>The Audit and Risk Committee Charter requires the Audit and Risk Committee (or, in its absence, the Board) to assist management determine whether the Company has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.</p> <p>The Company's Corporate Governance Plan requires the Company to disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks. The Company will disclose this information in its Annual Report and on its ASX website as part of its continuous disclosure obligations.</p>

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## Coporate Governance Statement continued

Recommendations (3 <sup>rd</sup> Edition)	Comply	Explanation
<b>Principle 8: Remunerate fairly and responsibly</b>		
<p><b>Recommendation 8.1</b></p> <p>The Board of a listed entity should:</p> <p>a. have a remuneration committee which:</p> <ol style="list-style-type: none"> <li>has at least three members, a majority of whom are independent Directors; and</li> <li>is chaired by an independent Director, and disclose:</li> <li>the charter of the committee;</li> <li>the members of the committee; and</li> <li>as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> </ol> <p>f. if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p>	YES	<p>a. The Company does not have a Remuneration Committee. The Company's Corporate Governance Plan contains a Remuneration Committee Charter that provides for the creation of a Remuneration Committee (if it is considered it will benefit the Company), with at least three members, a majority of whom must be independent Directors, and which must be chaired by an independent Director.</p> <p>b. The Company does not have a Remuneration Committee as the Board considers the Company will not currently benefit from its establishment. In accordance with the Company's Board Charter, the Board carries out the duties that would ordinarily be carried out by the Remuneration Committee under the Remuneration Committee Charter including the following processes to set the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive:</p> <ol style="list-style-type: none"> <li>the Board devotes time at the annual Board meeting to assess the level and composition of remuneration for Directors and senior executives.</li> </ol>
<p><b>Recommendation 8.2</b></p> <p>A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive Directors and the remuneration of executive Directors and other senior executives and ensure that the different roles and responsibilities of non-executive Directors compared to executive Directors and other senior executives are reflected in the level and composition of their remuneration.</p>	YES	<p>The Company's Corporate Governance Plan requires the Board to disclose its policies and practices regarding the remuneration of Directors and senior executives, which is disclosed on the Company's website.</p>
<p><b>Recommendation 8.3</b></p> <p>A listed entity which has an equity-based remuneration scheme should:</p> <p>a. have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and</p> <p>b. disclose that policy or a summary of it.</p>	YES	<p>a. The Company has an equity based remuneration scheme. The Company has a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme.</p> <p>A copy of the Company's Trading Policy will be provided on the Company's website through its Corporate Governance Plan.</p>







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