

26 September 2018 | CannPal Animal Therapeutics Limited ACN: 612 791 518 |
ASX:CP1

Updated Annual Report

26th September 2018: Animal health company **CannPal Animal Therapeutics Limited (ASX:CP1)** ("CannPal" or "the Company") wishes to provide a revised copy of its Annual Report for the year ended 30 June 2018. The revised report contains additional information as required by ASX Listing Rule 4.10. The additional information is included at page 56 of the revised Annual Report, a copy of which is attached.

END

For further information, please contact:

CannPal
Layton Mills
Founder and Managing Director
M: +61 431 302 667
E: layton@cannpal.com

Media enquiries
Julia Maguire
The Capital Network
M: +61 419 815 386
E: julia@thecapitalnetwork.com.au



@CannPalAT



facebook.com/CannPal





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CannPal Animal Therapeutics Ltd
Annual Report
For the Year Ended June 2018



CannPal was founded to research, develop and commercialise, regulatory approved medicines for companion animals, using compounds derived from the cannabis plant.

Layton Mills,
Managing Director



Contents

Mission Statement	3
Our Business Model	4
Message from The Chairman and The CEO	9
Operations Review	10
The R&D Team	17
Corporate Directory	18
Directors' Report	19
Independent Auditors Declaration	30
Financial Statements	31
Statement of Profit or Loss and Other Comprehensive Income	32
Statement of Financial Position	33
Statement of Changes in Equity	34
Statement of Cash Flows	35
Notes to the Financial Statements	36
Director's Declaration	50
Independent Auditor's Report	51
Shareholder Information	55

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Mission Statement

Vision/Purpose

Our vision is to be a global leader in cannabinoid derived therapeutics, developing and commercialising products that address clear unmet needs in the animal health market.

Goal

Our goal is to provide pet owners with better access to standardised, dosage controlled and high quality cannabinoid-derived products to treat companion animals in a safe and ethical way.

Objective

Develop regulatory approved or compliant products, which are produced to GMP standards and made available to pet owners through veterinary practices and specialised pet stores.

Our Business Model



ESTABLISH

unmet needs in Animal Health, where current treatments are inferior due to cost or side effects.



IDENTIFY

potential drug candidates for those needs, where Cannabinoids have shown efficacy and safety tolerances in humans and rodent models.



CLINICALLY VALIDATE

the drug candidate in target species with university partners and GMP/GLP approved Clinical Research Organisations.



DEVELOP

successful drug candidates into novel medicines with innovative and bio-available delivery systems with proprietary Intellectual Property.



ALIGN

CP1 with strategic commercialisation partners via an out-licence model for marketing the product after successful phase I and phase II trials.

Year Highlights

Listed on the ASX

Received all Regulatory Permits

Bolstered R&D Team

Imported first batch of clinical trial material

Commenced Phase 1A and Phase 1B clinical trials for CPAT1

Entered Manufacturing Agreement for commencement of DermaCann Development

Expanded research partnerships (CSIRO, Melbourne University, Eurofins, UQ)

Granted SME status with the EMA (European Medicines Agency)

Expanded pipeline to include Epilepsy research and pain in cats



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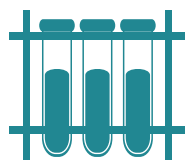
**We are dedicated
to providing leading
innovations and
solutions for the
animal health industry**

Key Company Highlights



Pharmaceutical-focused animal health company

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



Lead product in clinical stage

- ✓ Pre-validated lead drug candidate **developed to target pain in companion animals** (with a growing market size of >US\$1bn p.a.)
- ✓ **Successfully completed Phase 1A study** and commenced **Phase 1B**



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 drug discovery and additional indications 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

Dear Shareholders,

On behalf of the Directors of CannPal Animal Therapeutics Limited (ASX:CP1), we are pleased to present our annual report for the 2018 financial year. Although this was only our first year as a listed company, we are proud of the company's many achievements and the progress we made across all aspects of our operations. We are continuing to focus on driving value for our stakeholders and paving the way for the development of our therapeutic products.

Goal and Strategy

CannPal is an animal health company that was founded to create a new standard of care for companion animals via the development of cannabis-derived therapeutic products. The company is working to create scientifically-validated medicines that will receive regulatory approval and provide a safe and effective alternative to current treatments on the market.

To achieve this, CannPal developed a strategic plan which included the appointment of key personnel, establishment of important research agreements and preparation of our first clinical development program for our lead drug candidate. We are pleased to report that the company achieved each of these objectives in the 2018 financial year and has begun the current financial year with sustained momentum.

The year in review

Broadly speaking, the company's achievements in the 2018 financial year can be divided into three categories: regulatory, collaborative and operational.

On the regulatory front, CannPal established communications with the two largest animal health regulatory organisations, having received an official sponsor fee waiver from the United States Food and Drug Administration (FDA) for one of the Company's drug candidates prior to listing, and receiving SME status (small and medium enterprise) with the EMA (European Medicines Agency) earlier in 2018. Post-listing, the company received ethics approvals to commence CPAT-01 development program as well as licences to import, supply and possess the clinical trial material required for our studies.

With regards to our collaborative efforts, we entered into a number of strategic agreements to advance our cause. These include agreements with leading

institutions such as Queensland University, the University of Melbourne and globally recognised research organisations such as the CSIRO, Invetus and Eurofins.

Operationally, we made key hires and laid the groundwork for the commencement of our clinical research. We appointed Dr Margaret Curtis, Kevin Willard and Dr Jeff Sherman, three industry veterans formerly of global health company Elanco, to lead the development of our cannabis-derived medicines, and chose a world-class site for our first clinical study. Post the financial year, we are pleased to report that we completed the Phase 1A study and have now commenced Phase 1B.

Industry outlook

The companion animal drug market is a large and growing one, with an estimated size of approximately US\$12 billion for dogs and cats alone. In the US and Europe, which account for over three-quarters of the global market, there are over 150 million dogs and over 160 million cats.

This market is underpinned by favourable industry trends and key growth drivers, reflected in the US pet drug market growing by more than 20 per cent from 2015 to 2017. Accompanying this is an increase in pet ownership levels, increased pet lifespans and higher prevalence of ailments such as arthritis, and thus a greater need for medications.

CannPal's lead product is at the forefront of the fast-growing pain treatment market which is worth over US\$1bn per annum. Existing products have a long list of well-known adverse effects and limited product innovation has taken place to date. This puts CannPal in an advantageous position as we continue our research and development activities.

These underlying dynamics give management the confidence that CannPal is operating in a very healthy market.



The year ahead

We're starting the financial year in a strong position with just under \$5m in cash. We have a significant runway to create value for our shareholders over the coming months and the company's short-term objective is to continue the development of CPAT-01, which is being developed as a pain control for companion animals. Following the completion of Phase 1, CannPal plans to commence pilot Phase 2 studies, and ultimately pivotal Phase 3 studies, in the hope of making it available to veterinarians and delivering value to the company's shareholders.

CannPal will also continue to strengthen its intellectual property, a vital aspect of any pharmaceutical company. At the end of the 2018 financial year, we lodged a new provisional patent application with the Australian Patent Office covering specified dosages and ratios of cannabinoids that are safe for use in dogs, based on the results seen in our first study.

Early in the 2019 financial year, the promising safety profile of our first CPAT-01 study encouraged us to expand the development plan of this drug to encompass cats. We have also commenced the

development of DermaCann, our lead nutraceutical product that could provide nearer-term revenue potential than our pharmaceutical products.

With a highly credentialed team consisting of executives from leading companies and strategic partnerships formed with veterinary research organisations and medical cannabis companies, CannPal is confident about the company's future as we strive to become a global leader of cannabinoid-derived therapeutics for companion animals.

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 in the achievement of its goals and looks forward to sharing further progress updates with you.

Yours sincerely,

A stylized black ink signature of Geoff Starr.

Geoff Starr
Chairman

A stylized black ink signature of Layton Mills.

Layton Mills
CEO



CannPal is confident about the Company's future as we strive to become a global leader of cannabinoid derived therapeutics for Companion animals.

Operations Review

A key pillar of CannPal is the mastermind principle, which we have followed by building a company and network of experts and then motivating them to work towards achieving the same goal. This has been the foundation on which every partnership or agreement has been entered and every team member has joined us.

By bringing together world-class veterinary research organisations and specialised animal health industry veterans, we've been able to position CannPal as a leading player in the research and development of compliant cannabis-derived animal health products.

Further to this, we've put a heavy focus on supporting our research partners and personnel with high-quality raw materials and unrivalled technology. Our supply partners are leaders in the production of their cannabis products and CannPal is working with Australia's leading science organisation, CSIRO, to research new and innovative ways to deliver our products.

Through building this platform in the 12 months since listing on the ASX and only two and a half years since our founding, we've been able to hit a number of key milestones this year across the regulatory landscape, product development, research, and partnerships.

Regulatory

Our progress across the regulatory landscape and relationships with market leading supply partners has given us a competitive advantage over other global competitors, as we are now able to import materials for our clinical trials.

In December 2017, CannPal was granted a licence to import medicinal cannabis products and clinical trial material for animal health research by the Australian Government Department of Health, through the Office of Drug Control (ODC).

We also received the corresponding permits to the annual import licences at the State, Federal and Industry level to commence our research. This included an APVMA (Australia Pesticides and Veterinary Medicines Agency) consent to import, NSW State Department of Health Permit to Possess and Supply Prohibited Substances for research, and an import permit from the Department of Agriculture for clinical trial material and cannabis oils.

The permits also allowed us to continue our research and work with partners including Invetust Ltd, the University of Melbourne, Eurofins Animal Health, CSIRO and Tetra Q (University of Queensland).

During the financial year, CannPal was granted SME (Small and Medium Enterprise) status with the EMA (European Medicines Agency), through our relationship with German-based Veterinary Research Organisation, Klifovet. The EMA is the agency responsible for the evaluation and regulation of veterinary medicinal products (VMP's) in Europe and enables us to benefit from administrative and financial assistance for the development of its drug products for European approval.

The EMA SME Status compliments CannPal's sponsor fee waiver, which was granted by the FDA's Centre for Veterinary Medicines on the 20th March 2017. This waiver allows CannPal access to significant financial incentives, speed to market, and additional IP protection, should we seek an Orphan indication for Bone Cancer pain for our lead pain control drug candidate, CPAT-01.

These milestones evidenced our expertise in the animal health regulatory landscape and opened communication with the two largest animal health regulatory bodies globally.

Partnerships

We've placed a heavy focus on securing partners with expertise in three categories, research, product supply and manufacturing. This triangular approach positions CannPal as a fully operational R&D Company, while also keeping overheads to a minimum.

Prior to listing, we entered into master service agreements with leading European veterinary research organisation Klifovet AG, and Australian research organisation Invetust Limited. Both of these organisations are globally recognised contract research organisations with significant experience in the development and regulatory approval of veterinary medicines in global markets.

CannPal expanded its research platform by entering into relationships with leading research institutions such as TetraQ (Queensland University) The Victoria University, The Sydney University and the University of Melbourne to advance its knowledge of the endocannabinoid



system for companion animals, and continues to explore research projects with these institutions.

In late June 2018, CannPal entered into a research collaboration with CSIRO, Australia's national science agency and one of the largest and most diverse research agencies in the world. Under the agreement, CannPal will receive dollar-matched funding to contribute towards a collaborative project with CSIRO researchers to undertake research into the use of food production technologies to enhance the delivery of CannPal's cannabis-derived therapeutic formulations in animals.

We intend to further develop new and existing delivery systems to create proprietary formulations of our therapeutic products, which we believe could provide a significant competitive advantage to CannPal.

Building the Team

As mentioned at the start of this operational review, CannPal is driven by a core mastermind principle that entails getting the right people and organizations aligned and working harmoniously towards a common goal.

We understood early on that for CannPal to be a success, we would need to find the best team possible. Prior to listing, we assembled a highly credentialed management team and advisory board consisting of senior executives with past experience in market-leading companies including Unilever, Jurox, MARS Global and Johnson & Johnson. The advisory Board is headed by Dr Ted Whitem and Dr Rayson Tan who we'd like to thank for their continued support and input

which helps drive CannPals strategic research direction.

During the financial year, CannPal continued its focus on building a world-class team with the appointment of a Head of Research and Development, and toxicology and formulation consultants.

In November 2017, we announced the appointment of animal health Industry executive, Dr Margaret Curtis, as Head of Research and Development. Dr Curtis is a qualified veterinarian with 17 years' of senior executive experience at global market leading animal health company, Elanco (Eli Lilly) and is responsible for managing the clinical development of CannPal's cannabis-derived pharmaceutical and nutraceutical products.

The appointment of Dr Curtis has allowed CannPal to rapidly progress our development plans by leveraging the experience that Margaret has gained through her previous role, where she received approval for over 20 drugs in over 100 countries.

This was followed by the appointment of two key US-based animal health executives in specialised roles.

In February 2018, Dr Jeff Sherman was appointed to assist in the development of its cannabis-derived medicines as the Company's lead toxicology adviser. Dr Jeff Sherman is providing advice on the preparation of the toxicological components of our product dossiers for future regulatory submissions, and is overseeing the execution of CannPal's toxicology studies through third-party research partners.

In March 2018, we also appointed senior formulation chemist Kevin Willard, to assist in the development of proprietary formulations for our therapeutic products. Kevin has expertise in formulation development, processing (clinical trial manufacture and technical transfer), GMP Quality, and Chemistry, Manufacturing and Controls (CMC) technical writing, having worked with market leading Elanco Animal Health and Eli Lilly and Co. for 34 years.

Kevin and Dr Jeff Sherman make invaluable additions to CannPal's growing Research and Development team and together with Dr Ted Whitem and Dr Rayon Tan, bring significant experience in animal health drug development, further building on our breadth of expertise.

CPAT-01D

In recent years, there has been increasing interest in the use of medical cannabis in veterinary science, but the development of effective medicines has been hindered by a lack of quality research.

As we have stated, we aim to develop cannabinoid-derived pharmaceuticals that have been scientifically tested, gained regulatory approval and been validated as safe and efficacious for the treatment of companion animals.

Our lead drug candidate is CPAT-01D, a cannabis-derived pain treatment we are developing for use with dogs. Our ambition is that CPAT-01D will become a market-leading treatment that provides relief for

companion animals and eschews the numerous adverse effects of treatments today.

In 2017 we entered into a strategic MOU with leading cannabis licenced producer, Aphria Inc, to supply raw material for our pharmaceutical products. CannPal successfully imported clinical trial material in March 2018 to commence Phase 1A of the pharmacokinetic and safety study For CPAT-01D, a veterinary medicine being developed as a pain control in dogs. Klifovet AG laid the foundation for our clinical research with the completion of our clinical development framework, and Invetus Ltd was contracted to commence the live phase of our research in a purpose-built research facility in NSW, Australia.

In September 2017 we received Ethics approval to commence our Phase 1A study, with the animal phase starting in March 2018. The study was successfully completed by mid-April 2018 with the laboratory phase concluding in early May 2018. Phase 1A was a pilot study that included 11 dogs in total, with 8 dogs receiving different cannabinoid formulations. Blood samples were taken at periodic time points for analysis, and visual observations were taken and recorded. The formulations used in the study were well tolerated, with no adverse events reported, and significant absorption of the actives observed in the drug plasma concentration analysis.

Excellent safety profiles were seen at the initial target dosages, and all observational endpoints were met.



CPAT-01 showed significant absorption in its current formulation, which paved the way for the continuation of our development plans with Phase 1B. The significant safety profile also encouraged management to enter into a research agreement with Eurofins Animal Health to expand the development plan to include cats, which will commence in this new financial year.

In July 2018, we were awarded ethics approval to commence Phase 1B of the Pharmacokinetic and Safety study for CPAT-01. After completing clinical screening and veterinary examinations, 48 dogs were enrolled for this study, including adult Beagles and Foxhounds of both sexes and over wide weight and age ranges. Phase 1B builds on the pilot data already generated in Phase 1A and includes additional endpoints.

The study is designed to demonstrate cannabinoid pharmacology in dogs according to Good Laboratory Practice (GLP) as a first step in generating pivotal data for regulatory submissions. The study commenced in September and includes advanced gene expression analysis using RT-PCR arrays customised for CannPal to examine the up-regulation or down-regulation of genes in known pain and inflammatory pathways specific to dogs.

Over 350 genetic markers are being analysed before and after consumption of cannabinoids to further support the understanding of the mode of action and effects of cannabinoids on pain and inflammation. CannPal is committed to establishing itself as a global leader of cannabinoid-derived therapeutics for companion animals, and this innovative approach in the pharmaceutical development of animal health products has potential to allow a better understanding of the effects of cannabinoids in dogs in a shorter amount of time and with fewer animals.

We are extremely pleased with the progress that we have made with our lead drug candidate in our first year as a publicly listed company, and the work completed is a testament to our highly credentialed research and management team.

DermaCann

As part of our commitment to driving shareholder value, CannPal is also researching less regulated compounds from the hemp and cannabis plants, to offer short-term revenue generation potential. The lead nutraceutical as part of this strategy is DermaCann, which is being developed as a product for canine skin health.

In May 2018, we entered into a manufacturing agreement with JayChem Industries Ltd, a New Zealand based veterinary contract manufacturing organisation experienced in the development of GMP produced veterinary health products for livestock and companion animals.

As part of CannPal's commitment to quality and due diligence, we commissioned pharmaceutical quality assurance and GMP compliance consultants Seer Pharma to perform a GMP Inspection of Jaychem. Seer Pharma successfully completed the audit and found Jaychem to be an excellent company for the purpose of manufacturing regulated nutraceutical products.

We have now commenced the formulation development for DermaCann and endeavour to commence our stability testing late in 2018 with the aim to have this product ready for commercialisation in 2019, subject to any movements in the regulatory landscape. We are committed to also producing compliant products that fit without the regional regulatory guidelines and we feel this strategy will ultimately be better for the Company in an evolving market.

We are also actively seeking ongoing opportunities to capitalize on the hemp and cannabinoid growth in the animal health market, with the aim to generate revenues that can help support the future development of the Company's pharmaceutical products.

Additional R&D

In August 2018 CannPal entered into a memorandum of understanding with The University of Melbourne to commence research into new epilepsy treatments for dogs. Every year, thousands of dogs are presented to veterinarians with idiopathic epilepsy that aren't responding well to traditional treatments and we hope that compounds from the cannabis plant could be useful in the treatment of this condition.

In June 2018, the U.S Food and Drug Administration approved Epidiolex (cannabidiol) oral solution for the treatment of seizures associated with two rare and severe forms of epilepsy in human patients of 2 years of age and older. CannPal hopes that similar effects can be seen in companion animals using cannabis derived medicines.

Most recently, the Company finalized its YE 30 June 2018 R&D Tax Incentive claim and is pleased to report that the eligible R&D expenditure for CannPal in the 17/18 financial year was \$683,447, which provides a 43.5% refundable R&D Tax Offset (cash rebate) of \$297,299.

We will continue to leverage our research to evaluate new opportunities for the development of products using compounds from the cannabis plant, as we strive to be a leader of cannabinoid-derived therapeutics for companion animals.

“

CannPal is driven by a core mastermind principle that entails getting the right people aligned and working harmoniously towards a common goal.

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.



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.

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
Website: 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 2018

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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 2018 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 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 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	–	500,000	–
Robert Clifford	430,293	500,000	–
Robert Johnston	100,000	500,000	–
Layton Mills	7,509,679	–	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 2018, 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 2018.

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 2018, the Company's largest expense was research and development totalling \$661,317 (2017: \$334,649). The result for the year was a loss of (\$1,694,369) (2017: \$1,688,197) which included an expense of \$325,754 (2017: \$916,189) for share based payments and \$232,347 (2017: \$62,695) for ASX and legal fees associated with the initial public offering of the Company.

Significant Changes in State of Affairs

On 23 October 2017, the Company was admitted to the official list of the ASX and its shares commenced trading. 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. As the company only listed in October 2017 its first determination will be at its Annual General Meeting in November 2018.

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 consolidated 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 2018, 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 \$190,000 (excluding superannuation)

In addition, Layton Mills has been issued with performance rights during the period, refer to page X 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 \$160,000 (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:

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

Directors' Report continued

Remuneration of directors and key management personnel of the Company

2018	Short-term employee benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total	Percentage of remuneration which is performance based
Name	Salary and fees	Annual Leave	Cash STI	Super-annuation	Termination benefits			
	\$	\$	\$	\$	\$	\$	\$	%
<i>Managing Director</i>								
Layton Mills	190,000	16,620	–	18,050	–	112,480	337,150	33
<i>Head of R&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
Total non-executive directors & KMP	451,333	24,862	–	26,917	–	269,178	772,290	

2017	Short-term employee benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total	Percentage of remuneration which is performance based
Name	Salary and fees	Annual Leave	Cash STI	Super-annuation	Termination benefits			
	\$	\$	\$	\$	\$	\$	\$	%
<i>Managing Director</i>								
Layton Mills	126,720	3,840	–	10,032	–	–	140,592	–
<i>Non-executive directors</i>								
Geoff Starr	11,703	–	–	–	–	2,424	14,127	0
Robert Johnston	7,022	–	–	–	–	2,424	9,446	0
Robert Clifford	20,758	–	–	–	–	2,424	23,182	0
Kathryn Adams	6,250	–	–	–	–	2,424	8,674	0
Total non-executive directors & KMP	172,453	3,840	–	10,032	–	9,696	196,021	

Options issued as a share based compensation to Directors and Key Management Personnel during the year ended 30 June 2018

KMP	Number Granted	Date Granted	Option FV at Grant Date	Number Vested	% of compensation of year consisting of Options	Expiry Date
Margaret Curtis	1,000,000	09/11/2017	\$123,920	250,000	27	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.
- 250,000 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.
- 250,000 Options to be issued upon the Company commencing a target animal safety study for CPAT-01 within 24 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 during the year ended 30 June 2018

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 during the period 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 on the next page:

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%	20%
3	625,000	01/07/2017	Nil	\$0.20	\$93,776	0%	0%
4	625,000	01/07/2017	Nil	\$0.20	\$93,776	0%	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 granted and held by the directors or key management personnel during the financial year:

- Mr Layton Mills 2,500,000 performance rights (2017: nil) with 625,000 converted into shares during the year.
- Mr Geoff Starr 500,000 options (2017: 500,000)
- Mr Robert Johnston 500,000 options (2017: 500,000)
- Mr Robert Clifford 500,000 options (2017: 500,000)
- Ms Kathryn Adams 500,000 options (2017: 500,000)
- Ms Margaret Curtis 1,000,000 options (2017: nil) with 250,000 granted during the year.

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.

2018		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			

Directors of CannPal Animal Therapeutics Limited

Ordinary shares

Layton Mills	6,884,679	–	625,000	7,509,679
Robert Clifford	430,293	–	–	430,293
Geoff Starr	–	–	–	–
Robert Johnston	–	–	–	–
Kathryn Adams	–	–	–	–

Performance rights holdings of Key Management Personnel at 30 June 2018

KMP	Balance at the start of the year	Vested and converted	Lapsed	Balance at the end of the year
Layton Mills	2,500,000	625,000	–	1,875,000

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.

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
25 September 2018



Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

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 2018, 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 blue ink, appearing to read 'Neil Smith', with a stylized flourish at the end.

Neil Smith
Partner

BDO Audit (WA) Pty Ltd

Perth, 25 September 2018

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

Financial Statements

for the year ended 30 June 2018

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Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2018

	Notes	30 June 2018 \$	30 June 2017 \$
Income			
Research & Development tax refund		129,113	–
Interest income		76,799	6,392
Total income		205,912	6,392
Expenses			
Employee expenses		110,240	70,296
Legal and ASX fees		232,347	62,695
Research & Development		661,317	334,649
Corporate and Administration costs		570,623	310,760
Share based payments	10	325,754	916,189
Total expenses		(1,900,281)	(1,694,589)
Loss before income tax		(1,694,369)	(1,688,197)
Income tax benefit/(expense)	4	–	–
Loss after income tax		(1,694,369)	(1,688,197)
Net loss for the year attributable to members of CannPal Animal Therapeutics Limited		(1,694,369)	(1,688,197)
Other comprehensive income, net of tax		–	–
Total comprehensive loss for the year attributable to the members of CannPal Animal Therapeutics Limited		(1,694,369)	(1,688,197)
		Cents	Cents
Loss per share attributable to the ordinary equity holders of the company:			
Basic and diluted loss per share	15 (a)	(2.02)	(7.11)

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 2018

	Notes	30 June 2018 \$	30 June 2017 \$
ASSETS			
Current assets			
Cash and cash equivalents	5	5,114,239	754,188
Trade and other receivables	6	26,644	25,579
Total current assets		5,140,883	779,767
Total assets		5,140,883	779,767
LIABILITIES			
Current liabilities			
Trade and other payables	7	102,693	37,823
Employee benefits provisions		28,701	3,840
Total current liabilities		131,394	41,663
Total liabilities		131,394	41,663
Net assets		5,009,489	738,104
EQUITY			
Issued capital	8	6,975,607	1,510,112
Reserves	9 (a)	1,416,448	916,189
Accumulated losses	9 (b)	(3,382,566)	(1,688,197)
Total equity		5,009,489	738,104

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 2018

	Notes	Issued capital \$	Reserves \$	Accumulated losses \$	Total \$
Balance at 1 July 2017		1,510,112	916,189	(1,688,197)	738,104
Total Comprehensive Income					
Loss for the year		–	–	(1,694,369)	(1,694,369)
Total comprehensive loss for the year		–	–	(1,694,369)	(1,694,369)
<i>Transactions with owners in their capacity as owners</i>					
Share based payment	9	–	500,259	–	500,259
Share issues	8	6,000,000	–	–	6,000,000
Share issue costs	8	(534,505)	–	–	(534,505)
Balance at 30 June 2018		6,975,607	1,416,448	(3,382,566)	5,009,489
Balance at 1 July 2016		–	–	–	–
Total Comprehensive Income					
Loss for the year		–	–	(1,688,197)	(1,688,197)
Total comprehensive loss for the year		–	–	(1,688,197)	(1,688,197)
<i>Transactions with owners in their capacity as owners</i>					
Share based payment	9	–	916,189	–	916,189
Share issues		1,510,112	–	–	1,510,112
Balance at 30 June 2017		1,510,112	916,189	(1,688,197)	738,104

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 2018

	Notes	30 June 2018 \$	30 June 2017 \$
Cash flows from operating activities			
Payments to suppliers and employees		(1,485,861)	(762,316)
Research & Development tax refund		129,113	–
Interest received		76,799	6,392
Net cash outflows from operating activities	13	(1,279,949)	(755,924)
Cash flows from financing activities			
Proceeds from the issue of shares	8	6,000,000	1,510,112
Share issue costs	8	(360,000)	–
Net cash inflows from financing activities		5,640,000	1,510,112
Net increase in cash and cash equivalents		4,360,051	754,188
Cash and cash equivalents at the beginning of the financial year		754,188	–
Cash and cash equivalents at end of year	5	5,114,239	754,188

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

Notes to the Financial Statements

30 June 2018

1 Corporate information

The financial report of CannPal Animal Therapeutics Limited (the "Company") for the year ended 30 June 2018 was authorised for issue in accordance with a resolution of the directors on 25 September 2018.

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 2018

(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 consolidated 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 2018

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

Notes to the Financial Statements

30 June 2018

recognised over the remaining vesting period, unless the award is forfeited.

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, revised or amending Accounting Standards and Interpretations adopted

The Company has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Company for the annual reporting period ended 30 June 2018. The Company has not yet adopted the following new or amended standards in preparing these consolidated financial statements.

AASB 16 Leases

To the extent that the entity, as lessee, has significant operating leases outstanding at the date of initial application, 1 July 2019, right-of-use assets will be recognised for the amount of the unamortised portion of the useful life, and lease liabilities will be recognised at the present value of the outstanding lease payments.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI').

Notes to the Financial Statements

30 June 2018

For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Company will adopt this standard from 1 July 2018 and make an assessment of the effect over the next 12-months.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with

customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The Company will adopt this standard from 1 July 2018 and make an assessment of its effect during the next 12-months.

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 2018

4 Income tax expense

	30 June 2018 \$	30 June 2017 \$
(a) Income tax expense		
Current tax expense	—	—
	—	—
(b) Reconciliation of income tax expense to prima facie tax payable		
Loss before income tax expense	(1,694,369)	(1,688,197)
Tax at the Australian tax rate of 27.5% (2017: 27.5%)	(465,951)	(464,254)
Tax losses not brought to account as a deferred tax asset	465,951	464,254
Income tax benefit / (expense)	—	—

5 Cash and cash equivalents

	30 June 2018 \$	30 June 2017 \$
Cash at bank	5,114,239	754,188
	5,114,239	754,188

6 Trade and other receivables

	30 June 2018 \$	30 June 2017 \$
GST receivable	26,644	25,579
	26,644	25,579

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 2018

7 Trade and other payables

	30 June 2018 \$	30 June 2017 \$
Payroll accruals	9,386	2,431
Audit fees	16,000	12,500
Trade creditors	58,582	–
Directors' fees	18,725	22,892
	102,693	37,823

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

8 Issued capital

	30 June 2018 Shares	30 June 2018 \$	30 June 2017 Shares	30 June 2017 \$
Ordinary shares fully paid	93,125,000	6,975,607	62,500,000	1,510,112

Movements in ordinary share capital:

Date	Details	Number of shares	\$
1 July 2017	Opening balance	62,500,000	1,510,112
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	–
30 June 2018	Balance	93,125,000	6,975,607

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

9 Reserves and accumulated losses

	30 June 2018 \$	30 June 2017 \$
(a) Reserves		
Share based payment reserve		
Opening balance	916,189	–
Share issue costs	174,505	–
Expense for the year	325,754	916,189
Closing balance	1,416,448	916,189

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 2018

	30 June 2018 \$	30 June 2017 \$
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(b) Accumulated losses

Movements in accumulated losses were as follows:

Opening balance	1,688,197	–
Net loss after tax attributable to members of the Company	1,694,369	1,688,197
Closing balance	3,382,566	1,688,197

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.

	2018		2017	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding at the beginning of year	9,250,000	0.21	–	–
Granted during the year	3,250,000	0.25	9,250,000	0.21
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	–	–
Expired during the year	–	–	–	–
Outstanding at the end of year	12,500,000	0.22	9,250,000	0.21
Exercisable at the end of the year	12,500,000	0.22	9,250,000	0.21

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)	2018 Number	2018 WAEP	2017 Number	2017 WAEP
Opening balance at the start of the period	7,250,000	\$0.20	0	0
Granted during the period	–	–	7,250,000	\$0.20
Balance Outstanding at the end of period	7,250,000	\$0.20	7,250,000	\$0.20
Exercisable at the end of the period	7,250,000	\$0.20	\$0.20	\$0.20

Notes to the Financial Statements

30 June 2018

10 Share-based payments (SBP) continued

Directors (Class B)	2018 Number	2018 WAEP	2017 Number	2017 WAEP
Opening balance at the start of the period	2,000,000	\$0.25	–	–
Granted during the period	–	–	2,000,000	\$0.25
Balance Outstanding at the end of period	2,000,000	\$0.25	2,000,000	\$0.25
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)	2018 Number	2018 WAEP	2017 Number	2017 WAEP
Opening balance at the start of the period	–	–	–	–
Granted during the period	1,500,000	\$0.25	–	–
Balance Outstanding at the end of period	1,500,000	\$0.25	–	–
Exercisable at the end of the period	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)	2018 Number	2018 WAEP	2017 Number	2017 WAEP
Opening balance at the start of the period	–	–	–	–
Granted during the period	1,500,000	\$0.25	–	–
Balance Outstanding at the end of period	1,500,000	\$0.25	–	–
Exercisable at the end of the period	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)	2018 Number	2018 WAEP	2017 Number	2017 WAEP
Opening balance at the start of the period	–	–	–	–
Granted during the period	1,000,000	\$0.20	–	–
Balance Outstanding at the end of period	1,000,000	\$0.20	–	–
Exercisable at the end of the period	1,000,000	\$0.20	–	–

Notes to the Financial Statements

30 June 2018

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.
- 250,000 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.
- 250,000 Options to be issued upon the Company commencing a target animal safety study for CPAT-01 within 24 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 (page opposite) 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 during the period 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 2018

10 Share-based payments (SBP) continued

Performance Rights (Class F)	2018 Number	2017 Number
Opening Balance at the start of the period	–	–
Granted during the period	2,500,000	–
Converted to shares during the period	625,000	–
Balance Outstanding at the end of the period	1,875,000	–
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 30/06/2018	SBP reserve 30/06/2018
Zelda	A	7,250,000	2017	24/03/2017	24/03/2017	24/03/2020	0.20	0.125	–	\$906,494
Directors	B	2,000,000	2017	01/06/2017	31/05/2019	31/05/2020	0.25	0.1163	\$116,497	\$126,191
Advisors	C	1,500,000	2018	10/07/2017	09/07/2019	09/07/2020	0.25	0.1163	\$56,575	\$56,575
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	\$19,776	\$19,776
Employee	E	250,000	2018	20/11/2017	19/11/2019	08/11/2022	0.20	0.1239	\$9,434	\$9,434
Employee	E	250,000	2018	20/11/2017	19/11/2020	08/11/2022	0.20	0.1239	\$6,281	\$6,281
Employee	E	250,000	2018	20/11/2017	19/11/2021	08/11/2022	0.20	0.1239	\$4,711	\$4,711
Total Options		13,250,000							\$213,274	\$1,303,968
Performance Rights	F	625,000	2018	01/07/2017	01/07/2017	30/06/2022	–	0.15	\$93,776	\$93,776
Performance Rights	F	625,000	2018	01/07/2017	30/06/2022	30/06/2022	–	0.15	\$18,704	\$18,704
Total Performance Rights		1,250,000							\$112,480	\$112,480

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

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

Notes to the Financial Statements

30 June 2018

11 Key management personnel disclosures

Key management personnel compensation

	30 June 2018 \$	30 June 2017 \$
Short-term employee benefits	476,195	176,293
Post-employment benefits	26,917	10,032
Share based payments	269,178	9,696
	772,290	196,021

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.

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

	30 June 2018 \$	30 June 2017 \$
Loss for the year	(1,694,369)	(1,688,197)
Non cash share based expense	325,754	916,189
(Increase) in trade and other receivables	(1,065)	(25,579)
Increase in provisions	28,701	—
Increase in trade and other payables	61,030	41,663
Net cash outflows from operating activities	(1,279,949)	(755,924)

Notes to the Financial Statements

30 June 2018

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 2018 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 2018 Cents	30 June 2017 Cents
Loss per share attributable to the ordinary equity holders of the Company	(2.02)	(7.11)

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

	30 June 2018 \$	30 June 2017 \$
<i>Basic and diluted loss per share</i>		
Loss from continuing operations	(1,694,369)	(1,688,197)
Loss attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share	(1,694,369)	(1,688,197)

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

	30 June 2018 Number	30 June 2017 Number
<i>Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share</i>	83,972,603	23,754,340

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.

Notes to the Financial Statements

30 June 2018

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 2018 (2017: nil).

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Directors' Declaration

30 June 2018

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 2018 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
25 September 2018



Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

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 2018, 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 2018 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.

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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.

Measurement of share based payments

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<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 payment 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"> • Reviewing relevant supporting documentation to obtain an understanding of the contractual nature and terms and conditions of the share-based payment arrangements; • Considering the appropriateness of the valuation methodology used by management to measure and value the share-based payments; • Involving our valuation specialists to assess the assumptions and inputs used in the valuation; • Assessing management's determination of achieving non-market vesting conditions of the performance rights; • Assessing the allocation of the share-based payment expense over management's expected vesting period; and • Assessing the adequacy of the related disclosures in Note 10 of the financial report.

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 2018, 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

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 23 to 29 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of CannPal Animal Therapeutics Limited, for the year ended 30 June 2018, 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 blue ink, appearing to read 'Neil Smith', is written over a faint, blue, stylized 'BDO' logo.

Neil Smith
Partner

Perth, 25 September 2018

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Shareholder Information

Ordinary Fully Paid Shares (Total) as of 17 Sep 2018

Rank	Name	Address	Units	% of Units
1.	THE TRUST COMPANY (AUSTRALIA) LIMITED <MOF A/C>	GPO BOX 4270, SYDNEY NSW, 2001	14,711,707	15.80
2.	GEMELLI NOMINEES PTY LTD	PO BOX 114, APPLECROSS WA, 6153	8,683,382	9.32
3.	PEPAANNE PTY LTD <THE CHAPMAN FAMILY A/C>	PRAEMIUM PO BOX 16167, COLLINS STREET WEST VIC, 8007	7,667,737	8.23
4.	MS TANIA MAREE VIDOVIC <STAR V FAMILY A/C>	1 HILL LANE, 'KINGSWAY', QUEANBEYAN NSW, 2620	6,884,682	7.39
5.	MR LAYTON PATRICK MILLS <DJS FAMILY A/C>	1 POGSON STREET, MONCREIFF ACT, 2914	6,884,679	7.39
6.	MR JOHN ANDREW RODGERS <JOHN RODGERS FAMILY A/C>	PRAEMIUM PO BOX 16167, COLLINS STREET WEST VIC, 8007	3,102,238	3.33
7.	THE TRUST COMPANY (AUSTRALIA) LIMITED <MOF A/C>	GPO BOX 4270, SYDNEY NSW, 2001	2,550,000	2.74
8.	MS ANGELA MAREE BECROFT <CHESWORTH FAMILY A/C>	73 COLEMAN STREET, WAGGA WAGGA NSW, 2650	1,721,170	1.85
9.	MS KATE ELOISE TOFT <JOHNSTONE FAMILY A/C>	20 BIDMEAD CIRCUIT, PIMPANA QLD, 4209	1,721,170	1.85
10.	JOYRESS PTY LTD	PRAEMIUM PO BOX 16167, COLLINS STREET WEST VIC, 8007	1,398,451	1.50
11.	AJAVA HOLDINGS PTY LTD	PRAEMIUM PO BOX 16167, COLLINS STREET WEST VIC, 8007	1,344,664	1.44
12.	MS FREYJA MEI-LIANG BRUUN	PRAEMIUM PO BOX 16167, COLLINS STREET WEST VIC, 8007	1,000,000	1.07
13.	CROFT FAMILY SUPER PTY LTD <CROFT FAMILY SUPER A/C>	34 HEMMING'S CRES, RICHARDSON ACT, 2905	895,000	0.96
14.	JP MORGAN NOMINEES AUSTRALIA LIMITED	LOCKED BAG 20049, MELBOURNE VIC, 3001	880,831	0.95
15.	NESOI INVESTMENT MANAGEMENT LIMITED	UNIT A 18/F WELLGAN VILLA, 148-150 NGA TSIN WAI ROAD, KOWLOON CITY, KOWLOON HONG KONG	860,585	0.92
16.	CITICORP NOMINEES PTY LIMITED	GPO BOX 764G, MELBOURNE VIC, 3001	817,683	0.88
17.	MISS MENG WANG	G52/4 BINDON PLACE, ZETLAND NSW, 2017	665,000	0.71
18.	MR LAYTON PATRICK MILLS	1 POGSON STREET, MONCREIFF ACT, 2914	625,000	0.67
19.	AUTO MANAGEMENT PTY LTD <THE BRANCHI FAMILY A/C>	PRAEMIUM PO BOX 16167, COLLINS STREET WEST VIC, 8007	537,866	0.58
20.	EMAC INVESTMENTS HOLDINGS PTY LTD <THE EMAC SUPERFUND A/C>	PRAEMIUM PO BOX 16167, COLLINS STREET WEST VIC, 8007	537,866	0.58
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)			63,489,711	68.18
Total Remaining Holders Balance			29,635,289	31.82

Ordinary Fully Paid Shares (Total) as of 31 Aug 2018

Range	Total holders	Units	% of Issued Capital
1 – 1,000	20	7,142	0.01
1,001 – 5,000	1,168	3,799,963	4.08
5,001 – 10,000	414	3,545,759	3.81
10,001 – 100,000	532	15,523,599	16.67
100,001 – 9,999,999,999	53	70,248,537	75.43
Total	2,187	93,125,000	100.00

Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum \$ 500.00 parcel at \$ 0.19 per unit	2,632	513	1,090,715

Unlisted Options

		Holders	Units
Expiring 01/06/2020	Exercisable at \$0.25	4	2,000,000
Expiring 24/03/2022	Exercisable at \$0.20	1	7,250,000
Expiring 26/09/2020	Exercisable at \$0.25	1	1,500,000
Expiring 09/11/2022	Exercisable at \$0.20	1	250,000
Expiring 10/07/2020	Exercisable at \$0.25	4	1,500,000
Totals		11	12,500,000

On 23 October 2017, the Company was admitted to the official list of the ASX. For the period from listing to 30 June 2018, the Company used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives.

The Company has no current on-market buy-back.

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CannPal Animal Therapeutics

ACN 612 791 518

Level 3, 45a Bay Street,
Double Bay
NSW 2028

+61 2 6108 3622

www.cannpal.com

info@cannpal.com