

ASX Release

**Appendix 4E and financial report
for year ended 30 June 2019****Key points:**

- **Income during period was \$1,683,479, resulting from recognition of Detach[®] deferred licensing income, R&D tax incentive refund and finance income**
- **Anatara remains funded until the anticipated partnering of its first human gastrointestinal product, GaRP (Gastrointestinal ReProgramming) dietary supplement, in the second half of calendar 2020**
- **Detailed development plans announced for GaRP dietary supplement in July 2018**
- **Board renewal with appointment of experienced human health Board members Sue MacLeman, Dr Jane Ryan and Dr David Brookes**
- **Product Development Advisory Board with world-leading scientists and clinicians formed in October 2018**
- **Australian Pesticides and Veterinary Medicines Authority (APVMA) approval for Detach[®] to aid in the control of scour in piglets in October 2018**
- **Appointment of Steven Lydeamore as CEO in December 2018**
- **Successful GaRP proof of concept studies demonstrating significant reduction inflammation thereby restoring gut integrity in February 2019**
- **Anatara regained global rights to Detach[®] in June 2019**
- **Advisory meeting held with external animal health experts in August 2019 informing strategy for partnering Detach[®] in 2020**

BRISBANE & MELBOURNE, 27 August 2019: Anatara Lifesciences (ASX: ANR) today released its Appendix 4E and review of operations for the period ending 30th June 2019.

Anatara's CEO, Mr Steven Lydeamore said, "We are happy to release our FY 2019 financial results following what has been a year of transition for Anatara Lifesciences. We commenced the financial year with a clear focus on successfully transitioning Anatara into a human health company, through pursuing the global gastrointestinal health market. By February 2019, we released excellent efficacy data received from our *in vitro* proof-of-concept studies for our first human product candidate, our innovative Gastrointestinal ReProgramming (GaRP) dietary supplement."

“GaRP has been uniquely designed to address the primary underlying factors associated with gastrointestinal disorders such as Irritable Bowel Syndrome (IBS) and Inflammatory Bowel Disease (IBD). Unlike others commonly marketed, Anantara’s dietary supplement has a triple-targeted therapeutic approach (anti-adhesion; anti-inflammatory; mucosal regeneration) and will deliver components to where they can be most effective. Feedback from gastroenterologists to date has been very positive and indicate that GaRP may be a breakthrough dietary product in the gastrointestinal health space.”

“Shareholders can find confidence in the Company’s future strategy as we continue the development of our GaRP dietary supplement to meet the unmet need for IBS and IBD patients. Following on from our successful *in vitro* studies, we have commenced pre-clinical animal studies in IBD and anticipate initiation of a human clinical study in IBS in late 2019, with a view to partnering in the second half of calendar 2020.”

“IBS affects around 11% of the global population¹ and 50% of patients² turn to dietary supplements and complementary medicines to manage the symptoms of their disease. IBD affects >5 million patients worldwide³ and due to the failure of current drugs, 30-50% of patients⁴ turn to complementary and alternative medicines.”

“Furthermore, the Company was pleased to have met a key commercial milestone in obtaining regulatory approval for our animal health product, Detach[®], in October 2018 by the Australian Pesticides and Veterinary Medicines Authority (APVMA). We reported in June 2019 that Zoetis Inc. gave notice of termination of the global licencing agreement. Following this, the Company held an advisory meeting with external animal health experts in August 2019 informing our strategy for partnering Detach[®] in 2020.”

“Anantara remains confident a strong market exists for a non-antibiotic solution to control scour in livestock, with Detach[®] benefiting from growing concerns over traditional antimicrobials and the global threat of antibiotic resistance. We are committed to delivering value to our shareholders through partnering this asset with multi-national animal health companies.”

“Looking ahead to 2020, Anantara remains focused on its new business strategy in human health, and in particular, the partnering of its GaRP dietary supplement to target the significant unmet market need for evidence-based complementary medicines in gastrointestinal health.”

¹ Clinical Gastroenterology and Hepatology 2012: 10, 712-721

² World J. Gastroenterol 2014: 346-362

³ Crohn's and Colitis Australia

⁴ Gastroenterology 2017: 152:415-429

For more information please contact:

| Investor and Media inquiries | |
|---|---|
| Steven Lydeamore Chief Executive Officer Anatara Lifesciences Ltd. +61 (0) 438 027 172 slydeamore@anatara.com | Sue MacLeman Chair Anatara Lifesciences Ltd. +61 (0) 437 211 200 smacleman@anatara.com |

About Anatara Lifesciences

Anatara Lifesciences Ltd (ASX:ANR) is developing and commercialising innovative, evidence-based products for gastrointestinal health where there is significant unmet need. Anatara is a life sciences company with expertise in developing products for animal and human health. Anatara is focused on building a pipeline of human gastrointestinal health products. Underlying this product development program is our commitment to delivering real outcomes for patients and strong value for our shareholders.

Anatara Lifesciences Ltd

Appendix 4E

Year ended 30 June 2019

| | |
|------------------|--------------------------|
| Name of entity: | Anatara Lifesciences Ltd |
| ABN: | 41 145 239 872 |
| Year ended: | 30 June 2019 |
| Previous period: | 30 June 2018 |

Results for announcement to the market

| | | | | | \$ |
|---|------|-----------|----|-------------|----|
| Revenue from ordinary activities | Up | 10,158.3% | to | 663,405 | |
| Loss from ordinary activities after tax attributable to members | Down | 19.6% | to | (2,868,272) | |
| Net loss for the period attributable to members | Down | 19.6% | to | (2,868,272) | |

Distributions

No dividends have been paid or declared by the company for the current financial year. No dividends were paid for the previous financial year.

Explanation of results

Please refer to the review of operations and activities on pages 2 to 3 for explanation of the results.

Additional information supporting the Appendix 4E disclosure requirements can be found in the review of operations and activities, directors' report and the financial statements for the year ended 30 June 2019.

Net tangible assets per security

| | 2019 Cents | 2018 Cents |
|---|---------------|---------------|
| Net tangible asset backing (per security) | 11.96 | 17.36 |

Changes in controlled entities

There have been no changes in controlled entities during the year ended 30 June 2019.

Other information required by Listing Rule 4.3A

| | |
|--|-----|
| a. Details of individual and total dividends or distributions and dividend or distribution payments: | N/A |
| b. Details of any dividend or distribution reinvestment plans: | N/A |
| c. Details of associates and joint venture entities: | N/A |
| d. Other information | N/A |

Audit

The financial statements have been audited by the group's independent auditor without any modified opinion, disclaimer or emphasis of matter.

Anatara Lifesciences Ltd

ABN 41 145 239 872

Annual report for the year ended 30 June 2019

Anatara Lifesciences Ltd
ABN 41 145 239 872
Annual report - 30 June 2019

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| | |
|--|--|
| Directors | Ms Sue MacLeman <i>Non-Executive Chair</i> Dr Tracie Ramsdale <i>Non-Executive Director</i> Dr Jane Ryan <i>Non-Executive Director</i> Dr David Brookes <i>Non-Executive Director</i> |
| Secretary | Mr Stephen Denaro |
| Registered office and principal place of business | 433 Logan Road Brisbane QLD 4120 Australia Telephone: +61 (0)7 3394 8202 |
| Share register | Computershare Investor Services Pty Limited Level 1, 200 Mary Street Brisbane QLD 4000 Telephone: +61 (0)7 3237 2100 |
| Auditor | Grant Thornton Audit Pty Ltd Collins Square Tower 5, 727 Collins Street Melbourne VIC 3008 Telephone: +61 (0)3 8320 2222 |
| Solicitors | Thomson Geer Level 16, Waterfront Place 1 Eagle Street Brisbane QLD 4000 |
| Bankers | Commonwealth Bank of Australia Melbourne VIC 3000 |
| Stock exchange listings | Anatara Lifesciences Ltd shares are listed on the Australian Securities Exchange (ASX code: ANR) |
| Website | www.anataralifesciences.com |

During the year to 30 June 2019, the Company made significant steps towards taking its first human gastrointestinal health product, GaRP (Gastrointestinal ReProgramming dietary supplement), to market. Expenditure in furthering this effort resulted in a loss after tax of \$2,868,272 for the period (2018: \$3,569,016).

Detach®

In October 2018, the Australian Pesticides and Veterinary Medicines Authority (APVMA) registered Detach® for use in piglets in Australia. We reported in June 2019 that Zoetis gave notice of termination of the global licencing agreement. An advisory meeting was held with external animal health experts in August 2019 informing our strategy for partnering Detach® in 2020. As Anatara moves forward, the Board believes that a substantial market opportunity for Detach® exists, with more pressure than ever on producers to reduce their antibiotic use and find suitable alternatives which minimise illnesses, such as scour, on farms. Effective, registered alternatives to antibiotics for scour prevention in piglets are limited.

Human Health

In October 2018, the Company formed a Product Development Advisory Board with world-leading scientists and clinicians in gastrointestinal health. The Company reported positive efficacy data from its in vitro Proof of Concept studies of its GaRP dietary supplement product in reducing inflammation and restoring gut integrity. GaRP is a unique, natural dietary supplement designed to restore and maintain a healthy human gut and microbiome. Following these positive results, Anatara has commenced pre-clinical animal studies in IBD and anticipates initiation of a human clinical study in IBS in late 2019, with a view to partnering in the second half of calendar 2020. The human study is anticipated to be funded from existing resources.

CEO appointment

In November 2018, Anatara announced the appointment of Steven Lydeamore as Chief Executive Officer. Steve has a deep understanding of the human health space and brings a strong track record of success in sales and marketing; research and development, business development, mergers and acquisitions, manufacturing and finance spanning Asia Pacific, Europe, Latin America and North America and is leading the next phase of Anatara's growth.

Board renewal

In August 2018, Anatara was pleased to announce the appointment of two human health focused directors, with Sue MacLeman joining as Non-Executive Chairman and Dr. Jane Ryan as Non-Executive Director. Sue has more than 25 years' experience as a pharmaceutical, biotechnology and medical technology executive and brings a unique set of experiences in technology commercialisation, strategic planning, capital markets and fund raising, M&A and alliance management. Jane too, has over 25 years of international experience in the pharmaceutical and biotechnology industries where she has managed research and development programs and held key roles in business development and alliance management both in Australia and internationally.

As a result of these appointments, Paul Grujic stood down from the Board of Directors in August 2018 and Dr Jay Hetzel retiring as Chairman and Director in November 2018.

In January 2019, Anatara announced the further appointment of Dr David Brookes as Non-Executive Director and Chair of the Company's Audit and Risk Committee. Dr. Brookes has extensive experience in the health and biotechnology industries, having held Board positions in a number of listed biotechnology companies. Dr. Brookes, MBBS (Adelaide), maintains a role as a clinician and is a Fellow of the Australian College of Rural and Remote Medicine.

Together, each new Board member brings a strong background and the relevant human health experience necessary to lead the Company through the next stage of development as it turns its focus to developing a human product pipeline for gastrointestinal health applications.

Partnering

Anatara participated in the 2019 BIO International Convention (Philadelphia, USA) in June 2019 exploring partnering opportunities for its GaRP dietary supplement and potential new human health projects.

Investor outreach

Anatara was pleased to continue an active market awareness program during the period, delivering presentations directly to shareholders and investors in Brisbane, Melbourne (December 2018), Brisbane (February 2019), Adelaide, Brisbane, Melbourne, Sydney (March 2019), Sydney (April 2019) and Gold Coast, Perth (June 2019). Financial news media interviews were recorded in April and May 2019.

In July 2019, the external equity research teams at PAC Partners and Pitt Street Research independently updated their analyst coverage of Anatara. PAC Partners provided a Buy rating and price target of \$0.90/share and Pitt Street Research providing a base case valuation of \$1.09/share.

Commercial focus

Looking ahead, Anatara will continue to execute its human health development plans, and in parallel, the Company has prioritised a strategic review of all options to deliver on the global value of the Company's animal health assets, including the launch of Detach® in Australia and global licensing.

Your directors present their report on the consolidated entity consisting of Anatara Lifesciences Ltd and the entities it controlled at the end of, or during, the year ended 30 June 2019. Throughout the report, the consolidated entity is referred to as the group.

Directors and company secretary

The following persons held office as directors of Anatara Lifesciences Ltd during the whole of the financial year and up to the date of this report, except where otherwise stated:

Ms Sue MacLeman, Non-Executive Chair (appointed 1 September 2018)
Dr Tracie Ramsdale, Non-Executive Director
Dr Jane Ryan, Non-Executive Director (appointed 1 September 2018)
Dr David Brookes, Non-Executive Director (appointed 23 January 2019)
Dr Jay Hetzel, Interim Chairman (resigned 12 November 2018)
Mr Iain Ross, Non-Executive Director (resigned 30 September 2018)
Mr Paul Grujic, Non-Executive Director (resigned 31 August 2018)

Effective 7 January 2019, Dr Tracie Ramsdale resigned as Interim CEO changing her role from Executive Director to Non-Executive Director.

The following persons held office as company secretary of Anatara Lifesciences Ltd during the whole of the financial year and up to the date of this report, except where otherwise stated:

Mr Stephen Denaro

Principal activities

The group is developing non-antibiotic oral solutions for gastrointestinal diseases in animals and humans and continues to develop and commercialise Detach, a non-antibiotic therapy that prevents and treats diarrhea (also known as scour) in piglets.

Dividends - Anatara Lifesciences Ltd

No dividends were declared or paid to members for the year ended 30 June 2019. The directors do not recommend that a dividend be paid in respect of the financial year.

Review of operations

Information on the operations and financial position of the group and its business strategies and prospects is set out in the review of operations and activities on pages 2 to 3 of this annual report.

Significant changes in the state of affairs

Significant changes in the state of affairs of the group during the financial year were as follows.

On 3 December 2018, the company appointed Mr Steven Lydeamore as Chief Executive Officer (CEO). Interim CEO Dr Tracie Ramsdale reverted to her previous role as Non-Executive Director. The remaining Non-Executive Directors all retired in the year ended 30 June 2019, replaced by three new appointments: Ms Sue MacLeman (Chair), Dr Jane Ryan and Dr David Brookes.

These board and management changes coincide with the company's new business strategy in human health, shifting focus towards building a pipeline of gastrointestinal health products. Through a targeted development program, the company is committed to delivering positive outcomes for patients and driving value for shareholders, by developing scientifically innovative and commercially attractive products for gut health in areas needing improved or new therapeutic options. The company's lead program is focused on the development of a dietary supplement to fill a gap in currently available treatment options for sufferers of gastrointestinal conditions such as irritable bowel syndrome (IBS) and inflammatory bowel disease (IBD), which affects more than 14% of the Australian population.

Significant changes in the state of affairs (continued)

On 14 June 2019, the company announced that Zoetis Inc. has given notice of termination of the exclusive worldwide license of Detach. The company is currently assessing and closely reviewing all options to unlock the global value of the company's animal health assets, including Detach. Discussions are currently in progress with an Australian contract manufacturer and with potential veterinary sales, marketing and distribution partners to investigate sale of Detach in Australia following regulatory approval from the Australian Pesticides and Veterinary Medicines Authority (APVMA) in October 2018. Prior discussions with multinational animal health companies are being further evaluated for product licensing opportunities and a review is underway of the global regulatory environment for Detach to determine fastest path to market in other jurisdictions. The company continues to research potential applications for Detach in areas outside of piglets.

Events since the end of the financial year

No matter or circumstance has arisen since 30 June 2019 that has significantly affected the group's operations, results or state of affairs, or may do so in future years.

Likely developments and expected results of operations

Other than the information disclosed in the review of operations and activities on pages 2 to 3, there are no likely developments or details on the expected results of operations that the group has not disclosed.

Environmental regulation

The group is not affected by any significant environmental regulation in respect of its operations.

Information on directors

The following information is current as at the date of this report.

| Ms Sue MacLeman <i>Non-Executive Chair</i> | |
|---|---|
| Experience and expertise | <p>Sue has more than 30 years' experience as a pharmaceutical, biotechnology and medical technology executive with senior roles in corporate, medical, commercial and business development. Sue has served as CEO and Board member of several ASX and NASDAQ listed companies in the sector and is currently Chair - Anatara Lifesciences (ASX:ANR), Chair - MTPConnect (Medical Technology and Pharmaceuticals Industry Innovation Growth Centre), Chair of Novita Healthcare Ltd (ASX:NHL), Non-Executive Director of Palla Pharma Ltd (ASX:PAL), Non-Executive Director - Oventus Medical Ltd (ASX: OVN), and Non-Executive Director of veski.</p> <p>Sue is also appointed to a number of academic and government advisory committees. Her broad commercial experience is underpinned by graduate qualifications in pharmacy and post graduate qualifications in corporate governance, commercial law, business administration and marketing.</p> |
| Other current public directorships | <p>Novita Healthcare Ltd (ASX: NHL), since 6 September 2018 Oventus Medical Ltd (ASX: OVN), since 27 November 2015 Palla Pharma Limited (ASX: PAL), since 27 November 2018</p> |
| Former public directorships in last 3 years | <p>RHS Limited (ASX: RHS), until June 2018</p> |
| Special responsibilities | <p>Member of the audit and risk management committee Member of the remuneration and nominations committee</p> |

Information on directors (continued)

| Dr Tracie Ramsdale <i>Non-Executive Director*</i> | |
|--|---|
| Experience and expertise | <p>Tracie holds a PhD in Biochemistry from the University of Queensland, a Master of Pharmacy from the Victorian College of Pharmacy and a Bachelor of Applied Science (Chemistry) from the Royal Melbourne Institute of Technology. Following a successful career as a Principal Investigator and Commercial Manager of the Centre for Drug Design and Development at the University of Queensland, Tracie co-founded Alchemia Limited, a drug discovery and development company and served as the company's CEO for almost 10 years. During this time, she was responsible for multiple financing transactions and licensing the company's technology to major international pharmaceutical and manufacturing partners.</p> <p>Dr Ramsdale has served on a number of industry and government advisory groups and provided independent consulting advice to the biotechnology industry, academia and government.</p> <p>Tracie is a Fellow of the Australian Academy of Technological Sciences and Engineering, and a member of the Australian Institute of Company Directors.</p> |
| Other current public directorships | None |
| Former public directorships in last 3 years | None |
| Special responsibilities | <p>Member of the audit and risk management committee</p> <p>Member of the remuneration and nominations committee</p> |

*Effective 7 January 2019, Dr Tracie Ramsdale resigned as Interim CEO changing her role from Executive Director to Non-Executive Director.

Information on directors (continued)

| Dr Jane Ryan <i>Non-Executive Director</i> | |
|---|---|
| Experience and expertise | <p>Jane has over 30 years of international experience in the pharmaceutical and biotechnology industries where she has held executive roles in management of research and development programs as well as business development and alliance management. Jane has worked in Australia, the United States and United Kingdom with companies including Peptech, Roche, Cambridge Antibody Technology and Biota Holdings. Throughout her career, she has led many successful fundraising campaigns and licensing initiatives including the awarding of a \$230 million US Government contract.</p> <p>Jane currently chairs the Advisory Board at the ithree Institute at the University of Technology Sydney (UTS) which studies how microbes grow, live, adapt and survive. She is also currently a Board Member of unlisted company, Kayban, and Technology Development Investments (TDI), a part time Vice President Research and Development at Reef Pharmaceuticals and strategic advisor to Immunexus and Opal Pharmaceuticals. Jane was previously a Board Member of the Victorian endowment for Science Knowledge and Innovation (veski), Diabetes Victoria, TechInSA, and the Diabetes Vaccine Development Centre. Jane is assisting CSIRO with its GMP protein manufacture initiative.</p> |
| Other current public directorships | None |
| Former public directorships in last 3 years | None |
| Special responsibilities | <p>Member of the audit and risk management committee</p> <p>Chair of the remuneration and nominations committee</p> |

Information on directors (continued)

| Dr David Brookes <i>Non-Executive Director</i> | |
|---|---|
| Experience and expertise | <p>Dr. Brookes has extensive experience in the health and biotechnology industries, first becoming involved in the biotechnology sector in the late 1990's as an analyst. Dr. Brookes has since held Board positions in numerous ASX listed biotechnology companies, including Chairman of genomics solutions company, RHS Ltd, which was acquired by PerkinElmer Inc (NYSE:PKI \$9B biotech company) in June 2018. He has also Chaired and been a member of a number of risk and audit committees in ASX listed companies. He is currently a Non-Executive Director of Factor Therapeutics (ASX: FTT) as well as Non-Executive Chairman of the Better Medical group (unlisted).</p> <p>Dr. Brookes maintains roles as a clinician and as a biotechnology industry consultant. Dr Brookes, MBBS (Adelaide), is a Fellow of the Australian College of Rural and Remote Medicine and a Fellow of the Australian Institute of Company Directors.</p> |
| Other current public directorships | Factor Therapeutics Limited (ASX: FTT), since 10 April 2019 |
| Former public directorships in last 3 years | <p>AtCor Medical Holdings Limited (ASX: ACG), until 3 April 2018</p> <p>RHS Limited (ASX: RHS), until 15 June 2018</p> |
| Special responsibilities | <p>Chair of the audit and risk management committee</p> <p>Member of the remuneration and nominations committee</p> |

| Dr Jay Hetzel <i>Non-Executive Director and Interim Chairman</i> | |
|---|--|
| Experience and expertise | <p>Dr Hetzel has a background in life sciences research, product development and commercialisation. He had a distinguished research career with CSIRO for more than 20 years in animal genetics and genomics. In 1998 he co-founded Genetic Solutions to commercialise genomics technology in livestock. The company was sold to Pfizer Animal Health in 2008. He has since worked on commercialising a range of bio-based products in early-stage ventures and is currently Chairman of UniQuest Pty, Ltd, the commercialisation company of the University of Queensland. He is a Fellow of the Australian Academy of Technology and Engineering and a Fellow of the Australian Institute of Company Directors.</p> |
| Date of resignation | 12 November 2018 |
| Special responsibilities | <p>Member of the audit and risk management committee</p> <p>Member of remuneration and nominations committee</p> |

Information on directors (continued)

| Mr Ian Ross <i>Non-Executive Director</i> | |
|---|---|
| Experience and expertise | <p>Iain is a biochemistry graduate of London University, and is an experienced businessman with more than 30 years' experience largely in the international life sciences and technology sectors. Following a career with multi-national companies, including Sandoz AG, Fisons plc, Hoffman La Roche, Celltech plc and Reed International plc, for the past 18 years he has undertaken a number of company turnarounds and start-ups as a board member on behalf of banks and private equity groups.</p> <p>Iain's track record includes multiple financing transactions as well as extensive experience of divestments and strategic restructurings and more than 20 years in cross-border management as a Chairman and CEO. He has led and participated in four initial public offerings and has direct experience of M&A transactions in Europe, USA and Pacific Rim.</p> <p>Currently he is Chairman of e-Therapeutics plc and RedX Pharma plc, each of which is listed on the London Stock Exchange. In addition, Iain is Chairman of Biomer Technology Limited, a private UK Company, and Chairman and Non-Executive Director of Kazia Therapeutics (ASX: KZA) which is listed in Australia on the ASX. He is a qualified Chartered Director of the UK Institute of Directors and former Vice-Chairman of the Council of Royal Holloway, University of London.</p> |
| Date of resignation | 30 September 2018 |
| Special responsibilities | Chair of the remuneration committee Chair of the audit and risk management committee Member of the nominations committee |
| Mr Paul Grujic <i>Non-Executive Director</i> | |
| Experience and expertise | <p>Paul is a graduate in Applied Biology and in Marketing with more than 30 years' experience in the Animal Health industry. His roles have included Sales, Marketing, Business Development and General Management in the UK, USA and Australia.</p> <p>He was previously the President of CSL Animal Health with 250 staff and operations in the USA, Australia and New Zealand. He has also held senior positions with Glaxo, Pitman-Moore, Webster Animal Health, American Cyanamid and Fort Dodge (Wyeth). In addition, he has worked as an advisor to several Animal Health companies and was a Non-Executive Director of Catapult Genetics, an Executive Director of Peptech Animal Health and a Director of NOAH the UK Animal Health trade association.</p> <p>Paul has wide experience in acquisition, divestment and integration of companies and played a major role in the sale of CSL Animal Health and Catapult Genetics to Pfizer and Peptech Animal Health to Virbac, a global Animal Health company.</p> |
| Date of resignation | 31 August 2018 |
| Special responsibilities | Member of the audit and risk management committee Member of the remuneration and nominations committee |

Company secretary

The company secretary is Mr Stephen Denaro, appointed to the position on 24 February 2014. Stephen has extensive experience in mergers and acquisitions, business valuations, accountancy services, and income tax compliance gained from positions as Company Secretary and Chief Financial Officer of various public companies and with major chartered accountancy firms in Australia and the United Kingdom. He provides company secretarial services for a number of start-up technology and ASX listed and unlisted public companies.

Stephen has a Bachelor of Business in accountancy, Graduate Diploma in Applied Corporate Governance and is a member of the institute of Chartered Accountants in Australia and the Australian Institute of Company Directors.

Meetings of directors

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2019, and the numbers of meetings attended by each director were:

| | Full meetings of directors | | Meetings of committees | | | |
|--------------------|-------------------------------|----|------------------------|---|--------------|---|
| | | | Audit | | Remuneration | |
| | A | B | A | B | A | B |
| Ms Sue MacLeman | 7 | 7 | 1 | 1 | 2 | 2 |
| Dr Tracie Ramsdale | 10 | 10 | 1 | 1 | 1 | 1 |
| Dr Jane Ryan | 7 | 7 | 1 | 1 | 1 | 1 |
| Dr David Brookes | 4 | 4 | 1 | 1 | 1 | 1 |
| Dr Jay Hetzel | 5 | 5 | 1 | 1 | 1 | 1 |
| Mr Iain Ross | 4 | 4 | 1 | 1 | 1 | 1 |
| Mr Paul Grujic | 3 | 3 | 1 | 1 | - | - |

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

Remuneration report (audited)

The directors present the Anatara Lifesciences Ltd 2019 remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded this year.

The report is structured as follows:

- (a) Key management personnel (KMP) covered in this report
- (b) Remuneration policy and link to performance
- (c) Elements of remuneration
- (d) Link between remuneration and performance
- (e) Remuneration expenses
- (f) Contractual arrangements with executive KMPs
- (g) Non-executive director arrangements
- (h) Additional statutory information

(a) Key management personnel covered in this report

Ms Sue MacLeman, Non-Executive Chair (appointed 1 September 2018)
Dr Tracie Ramsdale, Non-Executive Director*
Dr Jane Ryan, Non-Executive Director (appointed 1 September 2018)
Dr David Brookes, Non-Executive Director (appointed 23 January 2019)
Dr Melvyn Bridges, Executive Chairman and Chief Executive Officer (resigned 17 May 2018)
Dr Jay Hetzel, Non-Executive Director and Interim Chairman (resigned 12 November 2018)
Mr Paul Grujic, Non-Executive Director (resigned 31 August 2018)
Mr Iain Ross, Non-Executive Director (resigned 30 September 2018)

Other key management personnel

Mr Steven Lydeamore, Chief Executive Officer (appointed 3 December 2018)
Dr Michael West, Chief Operating Officer
Dr Tracey Mynott, Chief Scientific Officer and R&D Director (resigned 24 August 2018)
Dr Tracey Brown, Chief Development Officer

*Effective 7 January 2019, Dr Tracie Ramsdale resigned as Interim CEO changing her role from Executive Director to Non-Executive Director.

(b) Remuneration policy and link to performance

Our remuneration and nominations committee is made up of independent non-executive directors. The committee reviews and determines our remuneration policy and structure annually to ensure it remains aligned to business needs, and meets our remuneration principles. In particular, the board aims to ensure that remuneration practices are:

- competitive and reasonable, enabling the company to attract and retain key talent
- aligned to the company's strategic and business objectives and the creation of shareholder value
- transparent and easily understood, and
- acceptable to shareholders.

Remuneration report (audited) (continued)

(b) Remuneration policy and link to performance (continued)

| Element | Purpose | Performance metrics | Potential value |
|-------------------------|--|---|--|
| Fixed remuneration (FR) | Provide competitive market remuneration | Nil | Positioned at the market rate |
| STI | Reward for in-year performance and retention | KPI achievement, determined by remuneration and nominations committee | CEO: 40% of FR COO: 30% of FR CDO: 30% of FR |
| LTI | Alignment to long-term shareholder value | KPI achievement, determined by remuneration and nominations committee | CEO: 600,000 unlisted 5-year options at \$0.736 exercise price COO: 210,000 unlisted 5-year options at \$1.70 exercise price CDO: 210,000 unlisted 5-year options at \$1.70 exercise price |

Assessing performance

The remuneration and nominations committee is responsible for assessing performance against KPIs and determining the STI and LTI to be paid. To assist in this assessment, the committee receives data from independently run surveys.

Performance is monitored on an informal basis throughout the year and a formal evaluation is performed annually.

Securities trading policy

Anatara Lifesciences Ltd's securities trading policy applies to all directors and executives, see <https://anatalarlifesciences.com/investors/corporate-governance/>. It only permits the purchase or sale of company securities during certain periods.

(c) Elements of remuneration

(i) Fixed annual remuneration (FR)

Key management personnel may receive their fixed remuneration as cash, or cash with non-monetary benefits such as health insurance and car allowances. FR is reviewed annually, or on promotion. It is benchmarked against market data for comparable roles in companies in a similar industry and with similar market capitalisation. The committee aims to position executives at or near the median, with flexibility to take into account capability, experience, value to the organisation and performance of the individual.

(ii) Short-term incentives

All executives are entitled to participate in a short-term incentive scheme which provides for executive employees to receive a combination of short-term incentive (STI) as part of their total remuneration if they achieve certain performance indicators as set by the board. The STI can be paid either by cash, or a combination of cash and the issue of equity in the company, at the determination of the remuneration and nominations committee and board.

Remuneration report (audited) (continued)

(c) Elements of remuneration (continued)

(ii) Short-term incentives (continued)

The company's CEO, COO and CDO are entitled to short-term incentives in the form of cash bonus up to 40%, 30% and 30% of FR, respectively, against agreed various key performance indicators (KPIs), including target EBITDA, appreciation in share price value, retention of key talent, and achievement of major project milestones.

On an annual basis, KPIs are reviewed and agreed in advance of each financial year and include financial and non-financial company and individual performance goals that relate to:

- Operational management
- Investor relations and shareholder value creation
- R&D activities
- Product development and commercialisation

(iii) Long-term incentives

Executives may also be provided with longer-term incentives through the company's 'executive option plan' (EOP), that was approved by shareholders at the annual general meeting held on 13 November 2017. The aim of the EOP is to allow executives to participate in, and benefit from, the growth of the company as a result of their efforts and to assist in motivating and retaining those key employees over the long-term. Continued service is the condition attached to the vesting of the options. The board at its discretion determines the total number of options granted to each executive.

(d) Link between remuneration and performance

Statutory performance indicators

We aim to align our executive remuneration to our strategic and business objectives and the creation of shareholder wealth. The table below shows measures of the group's financial performance over the last five years as required by the *Corporations Act 2001*. However, these are not necessarily consistent with the measures used in determining the variable amounts of remuneration to be awarded to KMPs. As a consequence, there may not always be a direct correlation between the statutory key performance measures and the variable remuneration awarded.

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|-----------|-----------|-----------|---------|-----------|
| Loss for the year attributable to owners (\$) | 2,868,272 | 3,569,016 | 1,705,002 | 723,934 | 1,795,228 |
| Basic loss per share (cents) | 5.80 | 7.22 | 3.5 | 1.4 | 5.3 |
| Share price at year end (\$) | 0.255 | 0.635 | 1.00 | 1.26 | 1.00 |

The company's earnings have remained negative since inception due to the nature of the business. Shareholder wealth reflects this speculative and volatile market sector. No dividends have ever been declared by Anatara Lifesciences Ltd. The company continues to focus on revenue growth with the objective of achieving key commercial milestones in order to add further shareholder value.

Remuneration report (audited) (continued)

(e) Remuneration expenses

The following tables show details of the remuneration expense recognised for the group's key management personnel for the current and previous financial year measured in accordance with the requirements of the accounting standards.

The following table shows details of remuneration expenses of each director or other key management personnel recognised for the year ended 30 June 2019.

| 2019 | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | | Total |
|-------------------------|----------------------|------------|--------|--------------------------|---------------------|----------------------|---------|-----------|
| | Cash salary and fees | Cash bonus | Other* | Super-annuation | Long service leave* | Termination benefits | Options | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | |
| Non-executive directors | | | | | | | | |
| Ms Sue MacLeman | 115,769 | - | - | 10,998 | - | - | - | 126,767 |
| Dr Tracie Ramsdale | 232,407 | 46,073 | 16,579 | 23,885 | - | - | - | 318,944 |
| Dr Jane Ryan | 62,019 | - | - | 5,892 | - | - | - | 67,911 |
| Dr David Brookes | 32,347 | - | - | 3,073 | - | - | - | 35,420 |
| Dr Jay Hetzel | 37,692 | - | - | 3,581 | - | - | - | 41,273 |
| Mr Iain Ross | 21,900 | - | - | - | - | - | - | 21,900 |
| Mr Paul Grujic | 12,114 | - | - | 1,151 | - | - | - | 13,265 |
| Other KMP | | | | | | | | |
| Mr Steven Lydeamore | 257,190 | 67,853 | 13,537 | 21,649 | 259 | - | 75,216 | 435,704 |
| Dr Michael West | 250,000 | - | (42) | 27,312 | 2,592 | - | 18,201 | 298,063 |
| Dr Tracey Mynott | 38,463 | - | 1,032 | 12,284 | - | 125,000 | - | 176,779 |
| Dr Tracey Brown | 250,000 | 28,500 | 8,612 | 29,094 | 2,504 | - | 18,201 | 336,911 |
| Total KMP compensation | 1,309,901 | 142,426 | 39,718 | 138,919 | 5,355 | 125,000 | 111,618 | 1,872,937 |

*The amount disclosed in this column represent the movements in the associated provisions.

Notes

- Cash bonus includes estimation of the bonus for the current year and any adjustments to the bonus for prior years.

Remuneration report (audited) (continued)

(e) Remuneration expenses (continued)

The following table shows details of remuneration expenses of each director or other key management personnel recognised for the year ended 30 June 2018.

| 2018 | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | | Total |
|-------------------------|----------------------|------------|--------|--------------------------|--------------------|----------------------|---------|-----------|
| | Cash salary and fees | Cash bonus | Other | Super-annuation | Long service leave | Termination benefits | Options | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | |
| Non-executive directors | | | | | | | | |
| Dr Tracie Ramsdale | 156,568 | 19,615 | 6,029 | 11,610 | 59 | - | 581 | 194,462 |
| Dr Jay Hetzel | 84,170 | - | - | 3,879 | - | - | 581 | 88,630 |
| Mr Iain Ross | 82,581 | - | - | - | - | - | 581 | 83,162 |
| Mr Paul Grujic | 70,000 | - | - | 6,650 | - | - | 581 | 77,231 |
| Executive directors | | | | | | | | |
| Dr Melvyn Bridges | 260,932 | - | - | 19,256 | - | - | 714 | 280,902 |
| Other KMP | | | | | | | | |
| Dr Michael West | 250,000 | 132,500 | 14,931 | 29,212 | 1,255 | - | 43,164 | 471,062 |
| Dr Tracey Mynott | 250,000 | 12,500 | 27,251 | 24,937 | 10,030 | - | 17,318 | 342,036 |
| Dr Tracey Brown | 250,000 | 132,500 | 17,525 | 29,212 | 1,171 | - | 43,164 | 473,572 |
| Total KMP compensation | 1,404,251 | 297,115 | 65,736 | 124,756 | 12,515 | - | 106,684 | 2,011,057 |

Notes

- Cash bonus includes estimation of the bonus for the current year and any adjustments to the bonus for prior years.

(f) Contractual arrangements with executive KMPs

Name: Dr Tracie Ramsdale
Position: Interim Chief Executive Officer
Contract duration: 17 May 2018 - 7 January 2019
Notice period: 3 months by either party
Fixed remuneration: \$340,000 per annum, plus 9.5% superannuation

Name: Mr Steven Lydeamore
Position: Chief Executive Officer
Contract duration: Unspecified
Notice period: 6 months by either party
Fixed remuneration: \$395,000 per annum, plus 9.5% superannuation

Name: Dr Michael West
Position: Chief Operating Officer
Contract duration: Unspecified
Notice period: 3 months by either party
Fixed remuneration: \$250,000 per annum, plus 9.5% superannuation

Name: Dr Tracey Brown
Position: Chief Development Officer
Contract duration: Unspecified
Notice period: 3 months by either party
Fixed remuneration: \$250,000 per annum, plus 9.5% superannuation

Remuneration report (audited) (continued)

(g) Non-executive director arrangements

Non-executive directors receive a board fee and fees for chairing but not participating on board committees, see table below. They do not receive performance-based pay or retirement allowances. The fees are exclusive of superannuation. The chair receives double the base fee of other non-executive directors, reflective of the additional demands and responsibilities of this role.

Fees are reviewed annually by the board taking into account comparable roles and market data provided by the board's independent remuneration adviser.

The maximum annual aggregate directors' fee pool limit is \$500,000, adopted on initial public offering of Anatara Lifesciences Ltd on 14 October 2014.

Base fees

| | |
|-------------------------------|-----------|
| Chair | \$140,000 |
| Other non-executive directors | \$70,000 |

Additional fees

| | |
|---|---------|
| Audit and risk management committee - chair | \$5,000 |
| Audit and risk management committee - member | \$0 |
| Remuneration and nominations committee - chair | \$5,000 |
| Remuneration and nominations committee - member | \$0 |

(h) Additional statutory information

(i) Relative proportions of fixed vs variable remuneration expense

The following table shows the relative proportions of remuneration that are linked to performance and those that are fixed, based on the amounts disclosed as statutory remuneration expense on page 14 above:

| Name | Fixed remuneration | | At risk - STI | | At risk - LTI | |
|-------------------------------|--------------------|-----------|---------------|-----------|---------------|-----------|
| | 2019 % | 2018 % | 2019 % | 2018 % | 2019 % | 2018 % |
| Non-executive director | | | | | | |
| Ms Sue MacLeman | 100 | - | - | - | - | - |
| Dr Tracie Ramsdale | 86 | 90 | 14 | 10 | - | - |
| Dr Jane Ryan | 100 | - | - | - | - | - |
| Dr David Brookes | 100 | - | - | - | - | - |
| Dr Jay Hetzel | 100 | 99 | - | - | - | 1 |
| Mr Iain Ross | 100 | 99 | - | - | - | 1 |
| Mr Paul Grujic | 100 | 99 | - | - | - | 1 |
| Executive directors | | | | | | |
| Dr Melvyn Bridges | - | 100 | - | - | - | - |
| Other KMP | | | | | | |
| Mr Steven Lydeamore | 67 | - | 16 | - | 17 | - |
| Dr Michael West | 94 | 63 | - | 28 | 6 | 9 |
| Dr Tracey Mynott | 100 | 91 | - | 4 | - | 5 |
| Dr Tracey Brown | 86 | 63 | 8 | 28 | 5 | 9 |

Remuneration report (audited) (continued)

(h) *Additional statutory information (continued)*

(ii) *Terms and conditions of the share-based payment arrangements*

Options

The terms and conditions of each grant of options affecting remuneration in the current or a future reporting period are as follows:

| Grant date | Vesting and exercise date | Expiry date | Exercise price (\$) | Value per option at grant date (\$) | Vested (%) |
|------------|---------------------------|-------------|---------------------|-------------------------------------|------------|
| 2016-09-23 | 2019-09-23 | 2021-09-23 | 1.700 | 0.5796 | 0.0% |
| 2019-04-10 | 2019-02-18 | 2024-02-17 | 0.736 | 0.2731 | 100.0% |
| 2019-04-10 | 2020-02-18 | 2024-02-17 | 0.736 | 0.2731 | 0.0% |
| 2019-04-10 | 2021-02-18 | 2024-02-17 | 0.736 | 0.2731 | 0.0% |

For detailed disclosures please refer to note 17 on page 42.

(iii) *Reconciliation of options and ordinary shares held by KMP*

Option holdings

| 2019 | Balance at start of the period ¹ | Granted as remuneration | Exercised | Other changes ² | Balance at end of the period ³ | Vested and exercisable |
|---------------------|---|-------------------------|-----------|----------------------------|---|------------------------|
| Options | | | | | | |
| Ms Sue MacLeman | - | - | - | - | - | - |
| Dr Tracie Ramsdale | 65,000 | - | - | (65,000) | - | - |
| Dr Jane Ryan | - | - | - | - | - | - |
| Dr David Brookes | - | - | - | - | - | - |
| Dr Jay Hetzel | 65,000 | - | - | (65,000) | - | - |
| Mr Iain Ross | 65,000 | - | - | (65,000) | - | - |
| Mr Paul Grujic | 65,000 | - | - | (65,000) | - | - |
| Mr Steven Lydeamore | - | 600,000 | - | - | 600,000 | 200,000 |
| Dr Michael West | 210,000 | - | - | - | 210,000 | - |
| Dr Tracey Mynott | 500,000 | - | - | (500,000) | - | - |
| Dr Tracey Brown | 210,000 | - | - | - | 210,000 | - |
| | 1,180,000 | 600,000 | - | (760,000) | 1,020,000 | 200,000 |

Notes

¹ Balance may include shares held prior to individuals becoming KMP. For individuals who became KMP during the period, the balance is as at the date they became KMP.

² Other changes incorporates changes resulting from the expiration/forfeiture of options.

³ For former KMP, the balance is as at the date they cease being KMP.

Share holdings

Remuneration report (audited) (continued)

(h) Additional statutory information (continued)

(iii) Reconciliation of options and ordinary shares held by KMP (continued)

Share holdings (continued)

| 2019 | Balance at the start of the period ¹ | Granted as remuneration | Received on exercise of options | Other changes ² | Balance at the end of the period ³ |
|------------------------|---|----------------------------|---------------------------------------|----------------------------|---|
| Ordinary shares | | | | | |
| Ms Sue MacLeman | - | - | - | 12,477 | 12,477 |
| Dr Tracie Ramsdale | 45,614 | - | - | - | 45,614 |
| Dr Jane Ryan | - | - | - | - | - |
| Dr David Brookes | - | - | - | 50,000 | 50,000 |
| Dr Jay Hetzel | 486,109 | - | - | - | 486,109 |
| Mr Iain Ross | 1,427,942 | - | - | - | 1,427,942 |
| Mr Paul Grujic | 71,219 | - | - | - | 71,219 |
| Mr Steven Lydeamore | - | - | - | 50,000 | 50,000 |
| Dr Michael West | - | - | - | - | - |
| Dr Tracey Mynott | 4,391,337 | - | - | - | 4,391,337 |
| Dr Tracey Brown | - | - | - | - | - |
| | 6,422,221 | - | - | 112,477 | 6,534,698 |

Notes

¹ Balance may include shares held prior to individuals becoming KMP. For individuals who became KMP during the period, the balance is as at the date they became KMP.

² Other changes incorporates changes resulting from the acquisition of shares.

³ For former KMP, the balance is as at the date they cease being KMP.

Remuneration report (audited) (continued)

(h) *Additional statutory information (continued)*

(iv) *Other transactions with key management personnel*

Aggregate amounts of other transactions with key management personnel of Anatara Lifesciences Ltd:

| | 2019 | 2018 |
|---|---------------|---------|
| | \$ | \$ |
| <i>Amounts recognised as expense</i> | | |
| Consultancy fees paid to Dr Tracie Ramsdale | - | 129,923 |
| Consultancy fees paid to Mr Iain Ross | 20,000 | 20,000 |
| | 20,000 | 149,923 |

(v) *Voting of shareholders at last year's annual general meeting*

Anatara Lifesciences Ltd received more than 75 percent of favourable votes on its remuneration report for the 2018 financial year. The company did not receive any specific feedback at the 2018 annual general meeting or throughout the year on its remuneration practices.

[This concludes the remuneration report, which has been audited]

Shares under option

(a) *Unissued ordinary shares*

Unissued ordinary shares of Anatara Lifesciences Ltd under option at the date of this report are as follows:

| Date options granted | Expiry date | Issue price of shares (\$) | Number under option |
|----------------------|-------------|----------------------------|---------------------|
| 2015-12-14 | 2020-12-14 | 1.450 | 765,000 |
| 2016-09-23 | 2021-09-23 | 1.700 | 420,000 |
| 2017-11-28 | 2022-11-17 | 2.270 | 36,000 |
| 2018-09-10 | 2020-12-14 | 1.450 | 750,000 |
| 2019-04-10 | 2024-02-17 | 0.736 | 600,000 |
| Total | | | 2,571,000 |

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

(b) *Shares issued on the exercise of options*

No ordinary shares of Anatara Lifesciences Ltd were issued during the year ended 30 June 2019 on the exercise of options granted.

Insurance of officers and indemnities

(a) *Insurance of officers*

During the financial year, Anatara Lifesciences Ltd paid a premium of \$44,788 to insure the directors and secretaries of the company and its Australian-based controlled entities, and the general managers of each of the divisions of the group.

Insurance of officers and indemnities (continued)

(a) Insurance of officers (continued)

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

(b) Indemnity of auditors

Anatara Lifesciences Ltd has agreed to indemnify their auditors, Grant Thornton Audit Pty Ltd, to the extent permitted by law, against any claim by a third party arising from Anatara Lifesciences Ltd's breach of their agreement. The indemnity stipulates that Anatara Lifesciences Ltd will meet the full amount of any such liabilities including a reasonable amount of legal costs.

Proceedings on behalf of the company

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

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the group are important.

Details of the amounts paid or payable to the auditor (Grant Thornton Audit Pty Ltd) for audit and non-audit services provided during the year are set out below.

The board of directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms:

Non-audit services (continued)

| | 2019 \$ | 2018 \$ |
|---|---------------|---------------|
| Taxation services | | |
| Grant Thornton Audit Pty Ltd and its related entities and other Grant Thornton network firms: | | |
| Tax compliance services | 24,000 | 25,650 |
| Total remuneration for taxation services | 24,000 | 25,650 |
| Total remuneration for non-audit services | 24,000 | 25,650 |

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 22.

Rounding of amounts

The company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with the instrument to the nearest dollar.

This report is made in accordance with a resolution of directors.



Ms Sue MacLeman
 Non-Executive Chair

Melbourne
 27 August 2019

Auditor's Independence Declaration

To the Directors of Anantara Lifesciences Ltd

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Anantara Lifesciences Ltd for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



Grant Thornton Audit Pty Ltd
Chartered Accountants



T S Jackman
Partner – Audit & Assurance

Melbourne, 27 August 2019

Grant Thornton Audit Pty Ltd ACN 130 913 594
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Corporate governance statement

Anatara Lifesciences Ltd and the board are committed to achieving and demonstrating the highest standards of corporate governance. Anatara Lifesciences Ltd has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council.

The 2019 corporate governance statement is dated as at 30 June 2019 and reflects the corporate governance practices in place throughout the 2019 financial year. The 2019 corporate governance statement was approved by the board on 27 August 2019. A description of the group's current corporate governance practices is set out in the group's corporate governance statement which can be viewed at <https://anataralifesciences.com/investors/corporate-governance/>.

Anatara Lifesciences Ltd

ABN 41 145 239 872

Annual financial report - 30 June 2019

| | |
|---|----|
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These financial statements are consolidated financial statements for the group consisting of Anatara Lifesciences Ltd and its subsidiaries. A list of major subsidiaries is included in note 12.

The financial statements are presented in the Australian currency.

Anatara Lifesciences Ltd is a company limited by shares, incorporated and domiciled in Australia.

Its registered office and principal place of business is:

433 Logan Road
Brisbane QLD 4120

The financial statements were authorised for issue by the directors on 27 August 2019. The directors have the power to amend and reissue the financial statements.

Anatara Lifesciences Ltd
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2019

| | Notes | 2019 \$ | 2018 \$ |
|--|-------|--------------------|-------------|
| Revenue from contracts with customers | 2 | 663,405 | 6,467 |
| Gross profit | | 663,405 | 6,467 |
| Other income | 3(a) | 877,573 | 1,338,156 |
| General and administrative expenses | 3(b) | (3,775,495) | (4,348,060) |
| Research and development expenses | | (776,256) | (785,931) |
| Operating loss | | (3,010,773) | (3,789,368) |
| Finance income | | 142,501 | 220,352 |
| Loss before income tax | | (2,868,272) | (3,569,016) |
| Income tax expense | 4 | - | - |
| Loss for the period | | (2,868,272) | (3,569,016) |
| Other comprehensive income | | | |
| <i>Items that may be reclassified to profit or loss:</i> | | | |
| Other comprehensive income for the period, net of tax | | - | - |
| Total comprehensive loss for the period | | (2,868,272) | (3,569,016) |
| Total comprehensive income for the period is attributable to: | | | |
| Owners of Anatara Lifesciences Ltd | | (2,868,272) | (3,569,016) |
| | | Cents | Cents |
| Loss per share for loss attributable to the ordinary equity holders of the company: | | | |
| Basic and diluted loss per share | 19 | (5.80) | (7.22) |

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

Anatara Lifesciences Ltd
Consolidated statement of financial position
As at 30 June 2019

| | Notes | 2019 \$ | 2018 \$ |
|--------------------------------------|-------|------------------|------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 5(a) | 1,360,077 | 1,447,732 |
| Trade and other receivables | 5(b) | 895,986 | 2,040,244 |
| Term Deposits | | 4,050,000 | 6,200,000 |
| Other current assets | | 49,021 | 74,459 |
| Total current assets | | 6,355,084 | 9,762,435 |
| Non-current assets | | | |
| Property, plant and equipment | | 20,196 | 42,924 |
| Intangible assets | | 7,046 | 7,046 |
| Total non-current assets | | 27,242 | 49,970 |
| Total assets | | 6,382,326 | 9,812,405 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 5(c) | 364,551 | 419,513 |
| Employee benefit obligations | 6(a) | 88,269 | 120,604 |
| Contract liability | 6(b) | - | 46,281 |
| Total current liabilities | | 452,820 | 586,398 |
| Non-current liabilities | | | |
| Contract liability | 6(b) | - | 617,124 |
| Employee benefit obligations | 6(a) | 13,939 | 21,433 |
| Total non-current liabilities | | 13,939 | 638,557 |
| Total liabilities | | 466,759 | 1,224,955 |
| Net assets | | 5,915,567 | 8,587,450 |
| EQUITY | | | |
| Share capital | 7(a) | 16,941,392 | 16,941,392 |
| Other reserves | 7(b) | 499,070 | 583,749 |
| Accumulated losses | | (11,524,895) | (8,937,691) |
| Total equity | | 5,915,567 | 8,587,450 |

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

Anatara Lifesciences Ltd
Consolidated statement of changes in equity
For the year ended 30 June 2019

| Attributable to owners of Anatara Lifesciences Ltd | | | | |
|--|---------------------|----------------------|-----------------------------|-----------------------|
| Notes | Share capital \$ | Other reserves \$ | Accumulated losses \$ | Total equity \$ |
| Balance at 1 July 2017 | 16,941,392 | 448,422 | (5,368,675) | 12,021,139 |
| Loss for the period | - | - | (3,569,016) | (3,569,016) |
| Total comprehensive loss for the period | - | - | (3,569,016) | (3,569,016) |
| Transactions with owners in their capacity as owners: | | | | |
| Options issued/expensed | 7(b) | - | 135,327 | 135,327 |
| Balance at 30 June 2018 | 16,941,392 | 583,749 | (8,937,691) | 8,587,450 |

| Attributable to owners of Anatara Lifesciences Ltd | | | | |
|--|---------------------|----------------------|-----------------------------|-----------------------|
| Notes | Share capital \$ | Other reserves \$ | Accumulated losses \$ | Total equity \$ |
| Balance at 1 July 2018 | 16,941,392 | 583,749 | (8,937,691) | 8,587,450 |
| Loss for the period | - | - | (2,868,272) | (2,868,272) |
| Total comprehensive loss for the period | - | - | (2,868,272) | (2,868,272) |
| Transactions with owners in their capacity as owners: | | | | |
| Options issued/expensed | 7(b) | - | 196,389 | 196,389 |
| Options forfeited/lapsed | 7(b) | - | (281,068) | 281,068 |
| | | - | (84,679) | 281,068 |
| Balance at 30 June 2019 | 16,941,392 | 499,070 | (11,524,895) | 5,915,567 |

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

Anatara Lifesciences Ltd
Consolidated statement of cash flows
For the year ended 30 June 2019

| | 2019 | 2018 |
|--|-------------------------|--------------------|
| Notes | \$ | \$ |
| Cash flows from operating activities | | |
| Receipts from customers (inclusive of GST) | 669,872 | - |
| Payments to suppliers and employees (inclusive of GST) | (4,397,727) | (4,721,011) |
| Research and development tax incentive and other grants received | 1,301,538 | 1,405,865 |
| Net cash (outflow) from operating activities | 8(a) <u>(2,426,317)</u> | <u>(3,315,146)</u> |
| Cash flows from investing activities | | |
| Payments for investment in term deposits | (7,050,000) | (4,200,000) |
| Payments for property, plant and equipment | - | (23,170) |
| Proceeds from withdrawal from term deposits | 9,200,000 | - |
| Interest received | 188,662 | 219,179 |
| Net cash inflow (outflow) from investing activities | <u>2,338,662</u> | <u>(4,003,991)</u> |
| Net cash inflow (outflow) from financing activities | <u>-</u> | <u>-</u> |
| Net (decrease) in cash and cash equivalents | (87,655) | (7,319,137) |
| Cash and cash equivalents at the beginning of the financial year | 1,447,732 | 8,766,869 |
| Cash and cash equivalents at end of year | 5(a) <u>1,360,077</u> | <u>1,447,732</u> |

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

Contents of the notes to the financial statements

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1 Segment information

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 Chief Executive Officer of Anatara Lifesciences Ltd. The group has identified one reportable segment; that is, the research, development of oral solutions for gastrointestinal diseases and the commercialisation of the Detach diarrhea treatment for piglets. The segment details are therefore fully reflected in the body of the financial statements.

2 Revenue from contract with customers

(a) Disaggregation of revenue from contracts with customers

The group derives revenue from the licensing of its intellectual property over time:

| | 2019 \$ | 2018 \$ |
|----------------|----------------|--------------|
| Licensing fees | <u>663,405</u> | <u>6,467</u> |
| | 663,405 | 6,467 |

(b) Accounting policies

(i) Licensing revenue

The group signed a license, development and commercialisation agreement with Zoetis Services LLC (Zoetis) on 10 May 2018 for the group's Detach product. The first milestone payment of US\$2,500,000 was payable upfront at the effective date of the agreement signed 10 May 2018 (funds were received in July 2018). This comprised consideration for the rights granted, subject to the terms and conditions of the agreement. Of this amount, US\$2,000,000 offset the previously paid option and evaluation agreement entered into in 2016. The balance of US\$500,000 (equivalent to A\$669,872) was be recognised as revenue over time to 26 October 2032 to reflect the license access rights transferred to Zoetis over the term of the license agreement. The unearned revenue was recognised as deferred revenue as disclosed in note 6(b).

On 14 June 2019, the group announced Zoetis had given notice of termination of the Detach licensing agreement. Under the terms of the original agreement, the first milestone payment is non-refundable. Accordingly, the \$663,405 deferred revenue amount recognised at 30 June 2018 was recognised as revenue in the year ended 30 June 2019.

3 Other income and expense items

(a) Other income

| | 2019 \$ | 2018 \$ |
|--|----------------|------------------|
| Research and development tax incentive | 840,932 | 1,162,620 |
| Other grants | 36,641 | 175,536 |
| | <u>877,573</u> | <u>1,338,156</u> |

(i) Fair value of R&D tax incentive

The group's research and development (R&D) activities are eligible under an Australian government tax incentive for eligible expenditure. Management has assessed these activities and expenditure to determine which are likely to be eligible under the incentive scheme. Amounts are recognised when it has been established that the conditions of the tax incentive have been met and that the expected amount can be reliably measured. For the year ended 30 June 2019, the group has included an item in other income of \$840,932 (2018: \$1,162,620) to recognise income over the period necessary to match the grant on a systematic basis with the costs that they are intended to compensate.

(ii) Fair value of other grants

The group's other grant income is recognised when compliance with the conditions attached to the grant have been determined and the group has ascertained the grant will be received. For the year ended 30 June 2019, the group has included an item in other income of \$36,641 (2018: \$175,536) to recognise income over the period necessary to match the grant on a systematic basis with the costs that they are intended to compensate.

(b) Breakdown of expenses by nature

| | Notes | 2019 \$ | 2018 \$ |
|--|-------|------------------|------------------|
| General and administrative expenses | | | |
| Accounting and audit | | 247,998 | 238,815 |
| Consulting | | 233,469 | 219,000 |
| Depreciation | | 22,728 | 21,177 |
| Employee benefits | | 2,044,647 | 2,683,854 |
| Insurance | | 59,046 | 35,198 |
| Investor relations | | 280,739 | 158,439 |
| Legal | | 92,205 | 102,233 |
| Listing and share registry | | 69,607 | 75,531 |
| Occupancy | | 25,215 | 68,459 |
| Share-based payments | 17(b) | 196,389 | 135,327 |
| Superannuation | | 170,281 | 196,971 |
| Travel and entertainment | | 210,178 | 291,108 |
| Other | | 122,993 | 121,948 |
| | | <u>3,775,495</u> | <u>4,348,060</u> |

4 Income tax expense

(a) Numerical reconciliation of income tax expense to prima facie tax payable

| | 2019 \$ | 2018 Represented \$ |
|--|-------------|---------------------------|
| Loss from continuing operations before income tax expense | (2,868,272) | (3,569,016) |
| Tax at the Australian tax rate of 27.5% (2018: 27.5%) | (788,775) | (981,479) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| R&D tax incentive | (231,256) | (319,721) |
| Accounting expenditure subject to R&D tax incentive | 531,624 | 789,787 |
| Blackhole expenditure (Section 40-880, ITAA 1997) | (73,819) | (86,827) |
| Deferred revenue | (182,436) | 182,436 |
| Share-based payments | 54,007 | 37,215 |
| Other items | (18,354) | 94,155 |
| Subtotal | (709,009) | (284,434) |
| Tax losses and other timing differences for which no deferred tax asset is recognised | 709,009 | 284,434 |
| Income tax expense | - | - |

(b) Tax losses

| | 2019 \$ | 2018 Represented \$ |
|---|------------|---------------------------|
| Unused tax losses for which no deferred tax asset has been recognised | 6,168,136 | 3,589,914 |
| Potential tax benefit @ 27.5% | 1,696,237 | 987,226 |

The numerical reconciliation of income tax expense to prima facie tax payable and unused tax losses for the year ended 30 June 2018 have been represented to reflect the income tax return lodged for the same period.

5 Financial assets and financial liabilities

(a) Cash and cash equivalents

| | 2019 \$ | 2018 \$ |
|--------------------------|------------|------------|
| Current assets | | |
| Cash at bank and in hand | 1,360,077 | 947,732 |
| Deposits at call | - | 500,000 |
| | 1,360,077 | 1,447,732 |

(i) Reconciliation to cash flow statement

The above figures reconcile to the amount of cash shown in the consolidated statement of cash flows at the end of the financial year as follows:

5 Financial assets and financial liabilities (continued)

(a) Cash and cash equivalents (continued)

| | 2019 \$ | 2018 \$ |
|--------------------------------------|------------------|------------|
| Balances as above | 1,360,077 | 1,447,732 |
| Balances per statement of cash flows | 1,360,077 | 1,447,732 |

(ii) Classification as cash equivalents

Term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours notice with no loss of interest. See note 21(j) for the group's other accounting policies on cash and cash equivalents.

(iii) Risk exposure

The group's exposure to interest rate risk is discussed in note 10. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

(b) Trade and other receivables

| | 2019 Current \$ | 2019 Non- current \$ | 2019 Total \$ | 2018 Current \$ | 2018 Non- current \$ | 2018 Total \$ |
|-----------------------------------|-----------------------|-------------------------------|---------------------|-----------------------|-------------------------------|---------------------|
| Trade receivables | - | - | - | 669,872 | - | 669,872 |
| | - | - | - | 669,872 | - | 669,872 |
| Accrued receivables (ii) | 848,659 | - | 848,659 | 1,318,785 | - | 1,318,785 |
| Other receivables | 47,327 | - | 47,327 | 51,587 | - | 51,587 |
| | 895,986 | - | 895,986 | 1,370,372 | - | 1,370,372 |
| Total trade and other receivables | 895,986 | - | 895,986 | 2,040,244 | - | 2,040,244 |

(i) Classification as trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

(ii) Accrued receivables

Accrued receivables include \$800,481 from the Australian Taxation Office in relation to the R&D tax incentive (2018: \$1,208,848) and \$48,178 interest income from deposits at call with terms greater than three months (2018: \$94,339).

(iii) Fair value of trade and other receivables

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

5 Financial assets and financial liabilities (continued)

(c) Trade and other payables

| | 2019 Current \$ | Non- current \$ | Total \$ | 2018 Current \$ | Non- current \$ | Total \$ |
|------------------|-----------------------|-----------------------|----------------|-----------------------|-----------------------|----------------|
| Trade payables | 116,764 | - | 116,764 | 80,661 | - | 80,661 |
| Accrued expenses | 214,617 | - | 214,617 | 290,000 | - | 290,000 |
| Other payables | 33,170 | - | 33,170 | 48,852 | - | 48,852 |
| | 364,551 | - | 364,551 | 419,513 | - | 419,513 |

Trade payables are unsecured and are usually paid within 30 days of recognition.

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

6 Non-financial assets and liabilities

(a) Employee benefit obligations

| | 2019 Current \$ | Non- current \$ | Total \$ | 2018 Current \$ | Non- current \$ | Total \$ |
|------------------------------------|-----------------------|-----------------------|----------------|-----------------------|-----------------------|----------------|
| Leave obligations (i) | 88,269 | 13,939 | 102,208 | 104,484 | 21,433 | 125,917 |
| Superannuation payables | - | - | - | 16,120 | - | 16,120 |
| Total employee benefit obligations | 88,269 | 13,939 | 102,208 | 120,604 | 21,433 | 142,037 |

(i) Leave obligations

The leave obligations cover the group's liabilities for long service leave and annual leave which are classified as either other long-term benefits or short-term benefits, as explained in note 21(p).

The current portion of this liability includes all of the accrued annual leave, the unconditional entitlements to long service leave where employees have completed the required period of service and also for those employees that are entitled to pro-rata payments in certain circumstances. The entire amount of the provision of \$88,269 (2018: \$104,484) is presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

(b) Contract liability

| | 2019 Current \$ | Non- current \$ | Total \$ | 2018 Current \$ | Non- current \$ | Total \$ |
|------------------|-----------------------|-----------------------|-------------|-----------------------|-----------------------|----------------|
| Deferred revenue | - | - | - | 46,281 | 617,124 | 663,405 |
| | - | - | - | 46,281 | 617,124 | 663,405 |

6 Non-financial assets and liabilities (continued)

(b) Contract liability (continued)

The group signed a license, development and commercialisation agreement with Zoetis Services LLC (Zoetis) on 10 May 2018 for the group's Detach product. The first milestone payment of US\$2,500,000 was payable upfront at the effective date of the agreement signed 10 May 2018 (funds were received in July 2018). This comprised consideration for the rights granted, subject to the terms and conditions of the agreement. Of this amount, US\$2,000,000 offset the previously paid option and evaluation agreement entered into in 2016. The balance of US\$500,000 (equivalent to A\$669,872) was recognised as revenue over time to 26 October 2032 to reflect the license access rights transferred to Zoetis over the term of the license agreement. The unearned revenue was recognised as deferred revenue.

On 14 June 2019, the group announced Zoetis had given notice of termination of the Detach licensing agreement. Under the terms of the original agreement, the first milestone payment is non-refundable. Accordingly, the \$663,405 deferred revenue amount recognised at 30 June 2018 was recognised as revenue in the year ended 30 June 2019.

7 Equity

(a) Share capital

| | Notes | 2019 Shares | 2018 Shares | 2019 \$ | 2018 \$ |
|-----------------|----------|-------------------|----------------|-------------------|------------|
| Ordinary shares | 7(a)(ii) | | | | |
| Fully paid | | 49,413,236 | 49,413,236 | 16,941,392 | 16,941,392 |
| | 7(a)(i) | 49,413,236 | 49,413,236 | 16,941,392 | 16,941,392 |

(i) Movements in ordinary shares:

There has been no movement in ordinary shares in the year ended 30 June 2019 (2018: nil).

(ii) Ordinary shares

Ordinary shares entitle the holder to participate in dividends, and to share in the proceeds of winding up the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

(iii) Options

Information relating to options, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the reporting period is set out in notes 7(b)(ii) and 17.

(b) Other reserves

The consolidated statement of financial position line item 'other reserves' comprises the 'share-based payments reserve'.

(i) Nature and purpose of other reserves

Share-based payments

The share-based payment reserve records items recognised as expenses on valuation of share options issued to key management personnel, other employees and eligible contractors.

7 Equity (continued)

(b) Other reserves (continued)

(ii) Movements in options:

| Details | Number of options | Total \$ |
|--|-------------------|----------------|
| Balance at 1 July 2017 | 2,400,000 | 448,422 |
| Issue of EOP unlisted options at \$2.27 (2017-11-28) | 36,000 | 11,253 |
| Amortisation of share-based payments for options issued in prior periods | - | 124,074 |
| Balance 30 June 2018 | 2,436,000 | 583,749 |
| Forfeiture of EOP unlisted options at \$1.45 (2018-08-24) | (500,000) | (85,616) |
| Issue of unlisted options at \$1.45 in lieu of payment for services (2018-09-10) | 750,000 | 31,557 |
| Lapse of Pork CRC unlisted options at \$0.50 (2018-09-18) | (375,000) | (115,710) |
| Issue of Pork CRC unlisted options at \$0.50 (2018-10-29) | 375,000 | 36,703 |
| Lapse of EOP unlisted options at \$0.50 (2018-11-11) | (340,000) | (48,297) |
| Issue of EOP unlisted options at \$0.736 (2019-04-10) | 600,000 | 75,216 |
| Lapse of Pork CRC unlisted options at \$0.50 (2019-04-29) | (375,000) | (36,703) |
| Amortisation of share-based payments for options issued in prior periods | - | 58,171 |
| Balance 30 June 2019 | 2,571,000 | 499,070 |

8 Cash flow information

(a) Reconciliation of profit/(loss) after income tax to net cash inflow from operating activities

| | Notes | 2019 \$ | 2018 \$ |
|---|-------|--------------------|--------------------|
| Loss for the period | | (2,868,272) | (3,569,016) |
| Adjustments for | | | |
| Depreciation and amortisation | 3(b) | 22,728 | 21,177 |
| Finance income | | (142,501) | (219,178) |
| Share-based payments | 17(b) | 196,389 | 135,327 |
| Change in operating assets and liabilities: | | | |
| Movement in trade and other receivables | | 1,098,097 | (615,393) |
| Movement in other operating assets | | 25,438 | 2,421 |
| Movement in trade and other payables | | (54,962) | 885,123 |
| Movement in other operating liabilities | | (703,234) | 44,393 |
| Net cash inflow (outflow) from operating activities | | (2,426,317) | (3,315,146) |

(b) Non-cash investing and financing activities

Non-cash investing and financing activities disclosed in other notes are:

- options issued for no cash consideration - note 17.

9 Critical estimates, judgements and errors

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the group's accounting policies.

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. Detailed information about each of these estimates and judgements is included in other notes together with information about the basis of calculation for each affected line item in the financial statements. In addition, this note also explains where there have been actual adjustments this year as a result of an error and of changes to previous estimates.

(a) Significant estimates and judgements

The areas involving significant estimates or judgements are:

- Estimation of R&D tax incentive income accrual - note 3(a)(i)
- Estimation of other grants income accrual - note 3(a)(ii)
- Estimation of employee benefit obligations - note 6(a)(i)
- Estimation of share-based payments - note 17(a)(i)

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

10 Financial risk management

This note explains the group's exposure to financial risks and how these risks could affect the group's future financial performance.

The group's risk management is predominantly controlled by the board. The board monitors the group's financial risk management policies and exposures and approves substantial financial transactions. It also reviews the effectiveness of internal controls relating to market risk, credit risk and liquidity risk.

(a) Market risk

(i) Foreign exchange risk

The majority of the company's operations are denominated in Australian dollars, with the few exceptions on services acquired from overseas suppliers but at a marginally insignificant amount and frequency. Therefore, management has concluded that market risk from foreign exchange fluctuation is not material.

(ii) Cash flow and fair value interest rate risk

The group's main interest rate risk arises from cash and cash equivalents and other financial assets at amortised cost (deposits at call) held, which expose the group to cash flow interest rate risk. During 2019 and 2018, the group's cash and cash equivalents and deposits at call at variable rates were denominated in Australian dollars.

The group's exposure to interest rate risk at the end of the reporting period, expressed in Australian dollars, was as follows:

10 Financial risk management (continued)

(a) Market risk (continued)

| | 2019 \$ | 2018 \$ |
|--|------------------|------------------|
| Financial instruments with cash flow risk | | |
| Cash and cash equivalents | 1,360,077 | 1,447,732 |
| Financial assets at amortised cost | 4,050,000 | 6,200,000 |
| | <u>5,410,077</u> | <u>7,647,732</u> |

Sensitivity

Profit or loss is sensitive to higher/lower interest income from cash and cash equivalents as a result of changes in interest rates.

| | Impact on loss for the period | | Impact on other components of equity | |
|---|----------------------------------|------------|---|------------|
| | 2019 \$ | 2018 \$ | 2019 \$ | 2018 \$ |
| Interest rates - change by 20 basis points (2018: 21 basis points)* | 10,820 | 16,060 | - | - |

* Holding all other variables constant

The use of 0.20 percent (2018: 0.21 percent) was determined based on analysis of the Reserve Bank of Australia cash rate change, on an absolute value basis, at 30 June 2019 and the previous four balance dates. The average cash rate at these balance dates was 1.60 percent (2018: 1.85 percent). The average change to the cash rate between balance dates was 12.69 percent (2018: 11.18 percent). By multiplying these two values, the interest rate risk was derived.

Profit is less sensitive to movements in interest rates in 2019 than 2018 due to decreased cash and cash equivalents and deposits at call. The group's exposure to other classes of financial instruments with cash flow risk is not material.

(b) Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the group.

(i) Risk management

The company manages credit risk and the losses which could arise from default by ensuring that financial assets such as cash at bank and deposits at call are held with reputable organisations.

(ii) Impairment of financial assets

While cash and cash equivalents and term deposits are subject to the impairment requirements of AASB 9, the identified impairment loss was immaterial.

(c) Liquidity risk

Liquidity risk arises from the possibility that the group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The group manages this risk through the following mechanisms:

- preparing forward looking cash flow analyses in relation to its operating, investing and financing activities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- investing cash and cash equivalents and deposits at call with major financial institutions; and

10 Financial risk management (continued)

(c) Liquidity risk (continued)

- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

(i) Maturities of financial liabilities

The tables below analyse the group's financial liabilities into relevant maturity groupings based on their contractual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows.

| Contractual maturities of financial liabilities | Less than 6 months | 6 - 12 months | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total contractual cash flows | Carrying amount (assets)/ liabilities |
|---|--------------------|---------------|-----------------------|-----------------------|--------------|------------------------------|---------------------------------------|
| At 30 June 2019 | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Trade and other payables | 364,551 | - | - | - | - | 364,551 | 364,551 |
| Total | 364,551 | - | - | - | - | 364,551 | 364,551 |

At 30 June 2018

| | | | | | | | |
|--------------------------|----------------|----------|----------|----------|----------|----------------|----------------|
| Trade and other payables | 419,513 | - | - | - | - | 419,513 | 419,513 |
| Total | 419,513 | - | - | - | - | 419,513 | 419,513 |

11 Capital management

(a) Risk management

The group's objectives when managing capital are to

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may issue new shares or reduce its capital, subject to the provisions of the group's constitution. The capital structure of the group consists of equity attributed to equity holders of the group, comprising contributed equity, reserves and accumulated losses. By monitoring undiscounted cash flow forecasts and actual cash flows provided to the board by the group's management, the board monitors the need to raise additional equity from the equity markets.

(b) Dividends

No dividends were declared or paid to members for the year ended 30 June 2019 (2018: nil). The group's franking account balance was nil at 30 June 2019 (2018: nil).

12 Interests in other entities

(a) Subsidiaries

The group's principal subsidiaries at 30 June 2019 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the group, and the proportion of ownership interests held equals the voting rights held by the group. The country of incorporation or registration is also their principal place of business.

| Name of entity | Place of business/ country of incorporation | Ownership interest held by the group | |
|------------------|---|---|-----------|
| | | 2019 % | 2018 % |
| Sarantis Pty Ltd | Australia | 100 | 100 |

13 Contingent liabilities

The group had no contingent liabilities at 30 June 2019 (2018: nil).

14 Commitments

(a) Non-cancellable operating leases

The company leases an office and a laboratory under non-cancellable operating leases expiring on 30 August 2019 and 30 November 2020, respectively. On renewal, the terms of the leases are renegotiated.

| | 2019 \$ | 2018 \$ |
|--|----------------|----------------|
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | |
| Within one year | 80,761 | 72,156 |
| Later than one year but not later than five years | 32,402 | 64,550 |
| | 113,163 | 136,706 |

15 Events occurring after the reporting period

No matter or circumstance has occurred subsequent to period end that has significantly affected, or may significantly affect, the operations of the group, the results of those operations or the state of affairs of the group or economic entity in subsequent financial years.

16 Related party transactions

(a) Subsidiaries

Interests in subsidiaries are set out in note 12(a).

(b) Key management personnel compensation

| | 2019 \$ | 2018 \$ |
|------------------------------|------------------|------------------|
| Short-term employee benefits | 1,492,045 | 1,767,102 |
| Post-employment benefits | 138,919 | 124,756 |
| Long-term benefits | 5,355 | 12,515 |
| Termination benefits | 125,000 | - |
| Share-based payments | 111,618 | 106,684 |
| | <u>1,872,937</u> | <u>2,011,057</u> |

Detailed remuneration disclosures are provided in the remuneration report on pages 11 to 19.

(c) Transactions with other related parties

The following transactions occurred with related parties:

| | 2019 \$ | 2018 \$ |
|--|------------|------------|
| <i>Sales and purchases of goods and services</i> | | |
| Purchases of various goods and services from entities controlled by key management personnel (i) | 20,000 | 149,923 |

(i) Purchases from entities controlled by key management personnel

The group acquired the following goods and services from entities that are controlled by members of the group's key management personnel:

- Consultancy fees

For detailed disclosures please refer to the remuneration report on page 19.

17 Share-based payments

(a) Executive option plan

The establishment of the 'executive option plan' (EOP) was approved by shareholders at the 2017 annual general meeting. The plan is designed to provide long-term incentives for executives (including directors) to deliver long-term shareholder returns. Participation in the plan is at the board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Set out below are summaries of options granted under the plan:

| | 2019 | | 2018 | |
|-----------------------------------|-----------------------|--------------------|-----------------------|------------------|
| | Average | | Average | |
| | exercise price | Number of | exercise price | Number of |
| | per share | options | per share | options |
| | option | | option | |
| As at 1 July | \$1.35 | 2,436,000 | \$1.33 | 2,400,000 |
| Granted during the year | \$1.00 | 1,725,000 | \$2.27 | 36,000 |
| Forfeited/lapsed during the year | \$0.98 | (1,590,000) | - | - |
| As at 30 June | \$1.41 | 2,571,000 | \$1.35 | 2,436,000 |
| Vested and exercisable at 30 June | \$1.37 | 1,727,000 | \$1.30 | 1,573,333 |

Share options outstanding at the end of the year have the following expiry date and exercise prices:

| Grant date | Expiry date | Exercise price (\$) | Share options 30 June 2019 | Share options 30 June 2018 |
|-------------------|--------------------|----------------------------|-----------------------------------|-----------------------------------|
| 2015-09-18 | 2018-09-18 | 0.500 | - | 375,000 |
| 2015-11-11 | 2018-11-11 | 1.350 | - | 340,000 |
| 2015-12-14 | 2020-12-14 | 1.450 | 765,000 | 1,265,000 |
| 2016-09-23 | 2021-09-23 | 1.700 | 420,000 | 420,000 |
| 2017-11-28 | 2022-11-17 | 2.270 | 36,000 | 36,000 |
| 2018-09-10 | 2020-12-14 | 1.450 | 750,000 | - |
| 2019-04-10 | 2024-02-17 | 0.736 | 600,000 | - |
| Total | | | <u>2,571,000</u> | <u>2,436,000</u> |

Weighted average remaining contractual life of options outstanding at end of period

2.36 1.81

(i) Fair value of options granted

The assessed fair value of options at grant date was determined using the Black-Scholes option pricing model that takes into account the exercise price, term of the option, security price at grant date and expected price volatility of the underlying security, the expected dividend yield, the risk-free interest rate for the term of the security and certain probability assumptions.

The model inputs for options granted under EOP during the year ended 30 June 2019 included:

17 Share-based payments (continued)

(a) Executive option plan (continued)

| Grant date | Expiry date | Exercise price (\$) | No. of options | Share price at grant date (\$) | Expected volatility | Dividend yield | Risk-free interest rate | Fair value at grant date per option (\$) |
|------------|-------------|---------------------|------------------|--------------------------------|---------------------|----------------|-------------------------|--|
| 2018-09-10 | 2020-12-14 | 1.450 | 750,000 | 0.57 | 57.76% | 0.00% | 1.99% | 0.0421 |
| 2018-10-29 | 2019-04-29 | 0.500 | 375,000 | 0.46 | 88.67% | 0.00% | 1.97% | 0.0979 |
| 2019-04-10 | 2024-02-17 | 0.736 | 600,000 | 0.49 | 80.00% | 0.00% | 1.51% | 0.2731 |
| | | | 1,725,000 | | | | | |

(b) Expenses arising from share-based payment transactions

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

| | 2019 \$ | 2018 \$ |
|--------------------------|----------------|------------|
| Options issued under EOP | 196,389 | 135,327 |

18 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

(a) Grant Thornton Audit Pty Ltd

(i) Audit and other assurance services

| | 2019 \$ | 2018 \$ |
|---|---------------|------------|
| Audit and review of financial statements | 56,031 | 59,968 |
| Total remuneration for audit and other assurance services | 56,031 | 59,968 |

(ii) Taxation services

| | | |
|--|---------------|--------|
| Tax compliance services | 24,000 | 25,650 |
| Total remuneration for taxation services | 24,000 | 25,650 |

| | | |
|-------------------------------------|---------------|--------|
| Total auditor's remuneration | 80,031 | 85,618 |
|-------------------------------------|---------------|--------|

It is the group's policy to employ Grant Thornton Audit Pty Ltd on assignments additional to their statutory audit duties where Grant Thornton Audit Pty Ltd's expertise and experience with the group are important. These assignments are principally tax advice.

19 Loss per share

(a) Reconciliation of loss used in calculating loss per share

| | 2019 \$ | 2018 \$ |
|--|-------------------|-------------------|
| <i>Basic and diluted loss per share</i> | | |
| Loss attributable to the ordinary equity holders of the company used in calculating loss per share: | | |
| From continuing operations | <u>2,868,272</u> | <u>3,569,016</u> |
| (b) Weighted average number of shares used as the denominator | | |
| | 2019 Number | 2018 Number |
| Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share | <u>49,413,236</u> | <u>49,413,236</u> |

On the basis of the group's losses, the outstanding options as at 30 June 2019 are considered to be anti-dilutive and therefore were excluded from the diluted weighted average number of ordinary shares calculation.

20 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent resemble the consolidated financial statements as the company's subsidiary, Sarantis Pty Ltd is a dormant entity.

(b) Guarantees entered into by the parent entity

The parent entity has not entered into any guarantees in relation to debts of its subsidiaries in the year ended 30 June 2019 (2018: nil).

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2019 or 30 June 2018.

(d) Contractual commitments for the acquisition of property, plant or equipment

The parent entity has not entered into any contractual commitments for the acquisition of property, plant or equipment in the year ended 30 June 2019 (2018: nil).

(e) Determining the parent entity financial information

The financial information for the parent entity has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of Anatara Lifesciences Ltd.

(ii) Tax consolidation legislation

Anatara Lifesciences Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Anatara Lifesciences Ltd, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

20 Parent entity financial information (continued)

(e) Determining the parent entity financial information (continued)

In addition to its own current and deferred tax amounts, Anatara Lifesciences Ltd also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Anatara Lifesciences Ltd for any current tax payable assumed and are compensated by Anatara Lifesciences Ltd for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Anatara Lifesciences Ltd under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Contents of the summary of significant accounting policies

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21 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements to the extent they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the group consisting of Anatara Lifesciences Ltd and its subsidiaries.

(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 and the *Corporations Act 2001*. Anatara Lifesciences Ltd is a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS

The consolidated financial statements of the Anatara Lifesciences Ltd group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis.

(iii) New and amended standards adopted by the group

The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2018:

- AASB 9 *Financial Instruments*
- AASB 15 *Revenue from Contracts with Customers*
- AASB 2016-5 *Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions*
- AASB 2017-1 *Amendments to Australian Accounting Standards - Transfers to Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments*
- Interpretation 22 *Foreign Currency Transactions and Advance Consideration*.

The group also elected to adopt the following amendments early:

- AASB 2018-1 *Amendments to Australian Accounting Standards - Annual Improvements 2015-2017 Cycle*.

The group had to change its accounting policies without making retrospective adjustments following the adoption of AASB 9 and AASB 15. This is disclosed in note 22. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(iv) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods and have not been early adopted by the group. The group's assessment of the impact of these new standards and interpretations is set out below.

21 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

| Title of standard | AASB 16 Leases |
|---|--|
| Nature of change | AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. |
| Impact | <p>The group has reviewed all leasing arrangements in light of the new lease accounting rules in AASB 16. The standard will affect the accounting for the group's operating leases.</p> <p>As at the reporting date, the group has non-cancellable operating lease commitments of \$113,163, see note 14(a).</p> <p>The group expects to recognise right-of-use assets of approximately \$107,962 on 1 July 2019 and lease liabilities of \$109,438 (after adjustments for prepayments and accrued lease payments recognised as at 30 June 2019). Overall net assets will be approximately \$1,746 lower, and net current assets will be \$28,678 lower due to the presentation of a portion of the liability as a current liability.</p> <p>The group expects that net profit after tax will increase by approximately \$314 for the year ended 30 June 2020 as a result of adopting the new rules.</p> <p>Operating cash flows will increase and financing cash flows decrease by approximately \$80,761 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.</p> <p>The group does not act in the capacity as a lessor and hence the group does not expect any lessor impact on the financial statements.</p> |
| Mandatory application date/ Date of adoption by group | <p>The group will apply the standard from its mandatory adoption date of 1 July 2019.</p> <p>The group intends to apply the modified retrospective transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).</p> |

There are no other new standards and interpretations that are not yet effective and that would be expected to have a material impact on the group in the current or future reporting periods and on foreseeable future transactions.

(e) Changes to presentation - classification of expenses

Anatara Lifesciences Ltd decided in the current financial year to change the classification of its expenses in the consolidated statement of profit or loss from a classification by nature to a functional classification. We believe that this will provide more relevant information to our stakeholders as it is more in line with common practice in the industries Anatara Lifesciences Ltd is operating in. The comparative information has been reclassified accordingly.

(b) Principles of consolidation

(i) Subsidiaries

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

21 Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

The acquisition method of accounting is used to account for business combinations by the group.

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

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. This has been identified as the chief executive officer.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollar (\$), which is Anatara Lifesciences Ltd's functional and presentation currency.

(ii) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss on a net basis within other gains/(losses).

(e) Revenue recognition

The accounting policies for the group's revenue from contracts with customers are explained in note 2.

(f) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Note 3 provides further information on how the group accounts for government grants.

(g) Income tax

The income tax expense or credit for the period is the tax payable on the current period'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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

21 Summary of significant accounting policies (continued)

(g) Income tax (continued)

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, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also 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 nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period 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 only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(h) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases (note 14). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(i) Impairment of non-financial assets

Intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(j) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance. See note 5(b) for further information about the group's accounting for trade receivables and note 10(b) for a description of the group's impairment policies.

(l) Investments and other financial assets

(i) Classification

From 1 July 2018, the group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

21 Summary of significant accounting policies (continued)

(I) Investments and other financial assets (continued)

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of profit or loss.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the consolidated statement of profit or loss.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

(iv) Impairment

The group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(v) Income recognition

Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

21 Summary of significant accounting policies (continued)

(m) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 21(i)).

(n) Intangible assets

(i) Research and development

Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in the consolidated statement of profit or loss and other comprehensive income as an expense when it is incurred.

Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, and other development expenditure, is recognised in the consolidated statement of profit or loss and other comprehensive income as an expense as incurred.

(o) Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(p) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(ii) Other long-term employee benefit obligations

The group also has liabilities for long service leave and annual leave that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. These obligations are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

21 Summary of significant accounting policies (continued)

(p) Employee benefits (continued)

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

(iii) Share-based payments

Share-based compensation benefits are provided to employees via the 'employee option plan' (EOP). Information relating to these schemes is set out in note 17.

Employee options

The fair value of options granted under the EOP is recognised as a share-based payment expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (e.g. the company's share price)
- excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining an employee of the company over a specified time period), and
- including the impact of any non-vesting conditions (e.g. the requirement for employees to save or holdings shares for a specific period of time).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

(q) Contributed equity

Ordinary shares are classified as equity.

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

(r) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

(s) Loss per share

(i) Basic loss per share

Basic loss per share is calculated by dividing:

- the loss attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted loss per share

Diluted loss per share adjusts the figures used in the determination of basic loss per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

21 Summary of significant accounting policies (continued)

(t) Rounding of amounts

The company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with the instrument to the nearest dollar.

(u) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

22 Changes in accounting policies

This note explains the impact of the adoption of AASB 9 *Financial Instruments* on the group's financial statements.

(a) AASB 9 Financial Instruments – impact of adoption

AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The adoption of this standard has not materially impacted the amounts disclosed in these financial statements.

(i) Classification and measurement

Except for certain trade receivables, under AASB 9, the group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under AASB 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the group's debt financial assets are as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category comprises other financial assets at amortised cost (deposits at call).

The assessment of the group's business models was made as of the date of initial application, 1 July 2018 and then applied retrospectively to those financial assets that were not derecognised before 1 July 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets. There has been no adjustment made to the amounts disclosed as a result of the application of this standard.

(ii) Impairment of financial assets

The adoption of AASB 9 has altered the group's accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

AASB 9 requires the group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

22 Changes in accounting policies (continued)

(a) AASB 9 Financial Instruments – impact of adoption (continued)

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The adoption of the ECL requirements of AASB 9 has not resulted in any material change in impairment allowances of the group's debt financial assets.

(b) AASB 9 Financial Instruments – accounting policies applied from 1 July 2018

Investments and other financial assets

The accounting policies applied by the group from 1 July 2018 are set out in note 21(l).

(c) AASB 15 Revenue from Contracts with Customers – impact of adoption

AASB 15 supersedes AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The adoption of AASB 15 has not impacted the amounts and the accounting policies disclosed within the financial statements.

In the directors' opinion:

- (a) the financial statements and notes set out on pages 24 to 55 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Note 21(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of directors.



Ms Sue MacLeman
Non-Executive Chair

Melbourne
27 August 2019

Independent Auditor's Report

To the Members of Anataira Lifesciences Ltd

Report on the audit of the financial report

Opinion

We have audited the financial report of Anataira Lifesciences Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the year ended on that date; and
- b 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 Group in accordance with the auditor independence requirements of 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Key audit matter

How our audit addressed the key audit matter

Recognition of research and development tax incentive – Notes 3(a)(i), 5(b)(ii), and 9(a)

The Group receives a 43.5% refundable tax offset (2018: 43.5%) of eligible expenditure under the research and development (R&D) tax incentive scheme. An R&D plan is filed with AusIndustry in the following financial year and, based on this filing, the Group receives the incentive in cash.

Management perform a detailed review of the Group's total research and development expenditure to determine the potential claim under the R&D tax incentive legislation.

The Group recognises R&D tax incentive rebate income on an accruals basis, meaning that a receivable is recorded at the balance date based on the estimated claim that is yet to be received from the Australian Taxation Office. The receivable at year end for the incentive was \$800,481. This represents an estimated claim for the period 1 July 2018 to 30 June 2019.

This area is a key audit matter due to the degree of judgement and interpretation of the R&D tax legislation required by management to assess the eligibility of the R&D expenditure under the scheme.

Our procedures included, amongst others:

- Obtaining the R&D incentive calculations prepared by management and engaging an internal R&D Tax Expert to assist the engagement team in assessing the reasonableness of the estimate;
- Comparing the nature of the R&D expenditure included in the current year estimate to the prior year approved claim;
- Comparing the estimates made in previous years to the amount of cash actually received after lodgement of the R&D tax claim;
- Considering the nature of the expenses against the eligibility criteria of the R&D tax incentive scheme to form a view about whether the expenses included in the estimate were likely to meet the eligibility criteria;
- Assessing the eligible expenditure used to calculate the estimate to ensure it is in accordance with expenditure recorded in the general ledger;
- Agreeing a sample of individual expenditure items included in the estimate to underlying supporting documentation to ensure that they have been appropriately recognised in the accounting records and that they are eligible expenditures;
- Inspecting copies of relevant correspondence with AusIndustry and the ATO related to the claims; and
- Reviewing the appropriateness of the relevant disclosures in the financial statements.

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Chairman's letter and Review of operations and activities, 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 Group 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 Group'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 Group or to cease operations, or have 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 at: http://www.auasb.gov.au/auditors_responsibilities/ar1.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 11 to 19 of the Directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Anantara Lifesciences Ltd, for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Group 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.



Grant Thornton Audit Pty Ltd
Chartered Accountants



T S Jackman
Partner – Audit & Assurance

Melbourne, 27 August 2019