Incannex Healthcare Limited
(formerly Impression Healthcare Limited)
ABN 93 096 635 246

Annual Financial Report

For the year ended 30 June 2020

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CORPORATE INFORMATION

Incannex Healthcare Limited
(formerly Impression Healthcare Limited)
ABN 93 096 635 246

Directors

Mr Troy Valentine (Non-Executive Chairman)
Mr Peter Widdows (Non-Executive Director)
Dr Sud Agarwal (Non-Executive Director)
Mr Joel Latham (Managing Director)

Company Secretary

Glenn Fowles

Registered Office

Level 39, South Tower Rialto
525 Collins Street
Melbourne Victoria 3000

Principal Place of Business

27/9 Salisbury Avenue
Castle Hill NSW 2154

Share Register

Automic Pty Ltd
Level 5 126 Phillip Street
Sydney NSW 2000

Auditors

HLB Mann Judd
Level 4, 130 Stirling Street
Perth Western Australia 6000

Securities Exchange Listing

ASX Limited (Australian Securities Exchange)
Home Exchange: Melbourne Victoria
ASX Codes: IHL & IHLOB

Chairman's Message

On behalf of the Board of Directors, I am pleased to present the Annual Report of Incannex Healthcare Limited ("Incannex" or "IHL") for the financial year ended 30 June 2020. The past year has seen much progress, from the foundations laid in the previous year, as the Company accelerated its efforts to build out its medicinal cannabis business and novel drug development program. This culminated in us finishing the year under our new name of Incannex Healthcare, which reflects our commitment to delivering a world class clinical program in our determined pursuit to achieve FDA registration.

As a Company we have continued to build out our cannabis product range and supply business through our partnership with Cannvalate, Australia's largest prescribing network of cannabinoid products. We now have a range of medicinal cannabis oils in a specific product mix to cater to Australian prescribers and patients. Additionally, we have also entered into an exclusive supply agreement with Entourage Therapeutics to import CBD inhalers into Australia, a first for this country.

We have welcomed Cannvalate onto our shareholder's register during the course of the year and have in fact seen them become a significant shareholder in IHL due to them exercising some 32 million options in the Company as they have achieved the milestones upon which they have vested. This has further cemented the relationship between the two organisations as we continue our journey together.

We have continued to refine the process of developing unique and clinically validated cannabinoid medicines in four major, multi-billion-dollar markets; Sleep Apnoea, Concussion and Traumatic Brain Injury, Acute Respiratory Distress Syndrome ('ARDS'), and Temporomandibular Joint Disorder. The Company is committed to pursuing FDA registration and has spared no expense to ensure that its research programs are consistent with the ethos of FDA processes.

During the year we ceased our relationship with AXIM Biotechnologies and the periodontal trial as it was the only research program whereby Incannex did not own the rights to pursue global IP licensing and market exclusivity protection. It was replaced by our focus on ARDS, a condition that has become extremely topical as one of the leading causes of death associated with the current Covid-19 global pandemic.

Our Chief Medical Officer and Non-executive Director Dr Sud Argawal first wrote a research paper into the treatment of ARDS over two years ago with a unique combination of Cannabidiol and Hydroxychloroquine, which become the basis for our work into the establishment of IHL-675A. We were very pleased and highly encouraged to report our first set of scientific results for IHL-675A, which demonstrated dramatic decreases in inflammation following the inducement of sepsis, which is a precursor to the development of deadly ARDS.

We are also proud of partnering with The Alfred Hospital in Melbourne whereby we will conduct our Phase 2b clinical trial into the impact of IHL-42X on Obstructive Sleep Apnoea. This is an exciting time as we await ethics approval to move forward with the Company's first, substantial in-human clinical trial.

Under the supervision of Dr Argawal, Incannex has bolstered the depth and quality of its medical advisory board with the appointments of Dr Mark Bleackley as our Chief Scientific Officer and Ms Rosemarie Walsh as our Clinical Research Manager. Both of whom have already proven themselves to be invaluable members of the Incannex team and, I have no doubt, will play a major role in our future successes.

From a corporate perspective we also welcomed Peloton Capital as corporate advisors to the Company. Peloton were the lead managers to a $5 million placement that the Company conducted in late October 2019. This financing, in conjunction with growing sales, afforded the Company a strong financial position over the course of the year. Their keen interest in Incannex has been fortuitous and greatly appreciated, given the onset of Covid-19 and the subsequent deterioration of financial markets earlier in 2020. We appreciate the contribution of Peloton and their continued support.

IHL pivoted into medicinal cannabis in September of 2018 and the progression and scaling of that business, particularly in relation to our research projects, significantly eclipsed the dental devices business. As such, and to wholly focus our expert team, the decision was made to exit the oral devices business at the conclusion of the financial year. This was a logical decision that became clear to the board due to the substantial potential impact of the Company's research programs.

It is also important for prospective institutional investors in the Company and for potential government funding and research assistance that Incannex may become eligible for as a "pure play" pharmaceutical and biotechnology company. This change will hopefully be reflected in a change of GICS classification soon after the release of this annual report.

As for Covid-19, 2020 will go down for many as one of the most tumultuous and difficult years on record. As a Company, we have always attempted to push forward with full commitment in achieving our objectives and whilst making sure that the health and safety of our staff and employees remain our number one priority.

As Chairman of IHL, I couldn't be prouder of the way our team has handled these challenging times and demonstrated an unwavering commitment to continue to move forward in achieving the best possible outcomes for our shareholders in the fastest possible time. I would particularly like to thank our CEO, Mr Joel Latham, for his tireless work over the course of the past 12 months as well as the rest of my fellow board members for their work and commitment over this period.

I extend to all of our shareholders the best of health and safety to them and their families but in particular to those facing restrictions in Victoria. We very much appreciate your support and look forward to continuing to enjoy our journey together over the next twelve months.

Troy Valentine
Chairman

DIRECTORS' REPORT

Your directors submit the annual financial report of Incannex Healthcare Limited ("**IHL**" or "**the Company**") and its wholly owned subsidiary ('**the Group**") for the financial year ended 30 June 2020 ("**Balance Date**"). In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

DIRECTORS

The names of directors who held office during or since the end of the year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities and other directorships

Mr Troy Valentine – Non-Executive Chairman

B. Comm

Appointed 11 December 2017

Troy Valentine has 26 years' experience in Stockbroking, Corporate Finance and Capital Markets. Originally from Perth he began with Hartley Poynton (now Hartley's Limited) in 1994 before moving to Patersons Securities (Perth) in 2000 and subsequently transferring to Patersons Melbourne where he became an Associate Director of Private Clients. During this time, he was responsible for managing both retail and institutional accounts. Mr Valentine has significant Corporate and Capital raising experience specifically with start-ups and small to mid-cap size companies.

He is currently a director of boutique Melbourne Corporate Advisory Alignment Capital Pty Ltd which he co-founded in 2014.

Mr Peter Widdows – Non-Executive Director

ACA (ICAEW), BTec, MAICD

Appointed 1 March 2018

Peter Widdows is the former Regional CEO of the H. J. Heinz corporation, with responsibility for a large portion of Asia and Australasia. He has extensive experience in Australian and international consumer goods markets and has worked as a senior executive/CEO in numerous geographies, including Europe, the USA and Asia/Pacific. Mr Widdows has a strong track record of driving profitable growth in both small and large companies and turning around poor performing businesses. He is the current Non-executive Chair of Sunny Queen Australia Ltd - Australia's largest shell egg and egg based meal producer.

Dr Sud Agarwal – Non Executive Director

BSc(Hons), MB ChB, FANZCA

Appointed 24 July 2019

Dr Sud Agarwal is an internationally recognised key opinion leader in the clinical use of medicinal cannabis and is regularly invited as a keynote to key industry and pharmaceutical events including the World Cannabis Conference and the Australian Medicinal Cannabis Conference. Dr Agarwal received his medical qualifications in the United Kingdom before immigrating to Australia in 2001. He has since commercialised, scaled and successfully exited three healthcare businesses and has a track record for seeing business opportunities at their earliest stage, and building high performing teams. He was also recently appointed as chief medical officer and chairman of the Company's Medical Advisory Board. Dr Agarwal's appointment will support Incannex Healthcare's focus on streamlining current and future medicinal cannabis clinical trials along with product commercialisation strategies, including investor and stakeholder relations. He also serves as CEO/ Chairman of Cannvalate which is a pre-IPO Medicinal Cannabis company and is Australia's main product distribution and cannabinoid research company.

Mr Joel Latham – Executive Director – Chief Executive Officer

Appointed 24 July 2019

Joel Latham has over 14 years' experience, with blue chip firms including Mars Foods, Tabcorp and Philip Morris International. Prior to his appointment to CEO in July 2019, Mr Latham was a key member of the senior leadership team of Incannex Healthcare for a period of 3 years. During this time, he was instrumental in the marketing and procurement of multiple revenue-generating opportunities and partnerships, including with Pacific Smiles (ASX:PSQ), 1300 Smiles (ASX: ONT), the NRL, the AFL, ONE Fighting Championship, FIT Technologies and Cannvalate. Additionally, Mr Latham was pivotal in the development and execution of Incannex's newly established strategy.

Alistair Blake – Executive Director

Resigned 24 July 2019

No director served as a director of any other listed company during the period of three years immediately before the end of the financial year.

COMPANY SECRETARY

Glenn Fowles

Appointed 7 December 2017

Glenn has over 30 years' experience working with listed companies having worked for HSBC Asset Management and Contango Asset Management in the funds management industry. He has held positions of Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Company Secretary within these organisations as well as serving as a Director and Company Secretary of a number of companies listed on ASX.

DIRECTORS' MEETINGS

The number of meetings of Directors held during the year, and the number of meetings attended by each director were as follows:

Name	Number of meetings eligible to attend	Number of meetings attended
Troy Valentine	13	13
Peter Widdows	13	13
Sud Agarwal	12	12
Joel Latham	12	12
Alistair Blake	2	1

PRINCIPAL ACTIVITIES

During the course of the financial year the principal activities of the Company were:

(1) manufacturer and distributor of professionally made home-impression custom-fit dental products; and
(2) research, development and sales of medicinal cannabinoid products.

On 30 June 2020, the Company ceased its dental product activities to concentrate on its medicinal cannabinoid business.

REVIEW OF OPERATIONS AND SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Operating result for the year

The Group's loss for the year to 30 June 2020 after income tax was $4,697,636 (2019: Loss of $2,718,399).

Board and management changes

24 July 2019	Dr Sud Agarwal was appointed to the Board of Directors as a Non-executive Director.
	Mr Joel Latham was appointed to the Board of Directors as the group Managing Director.
	Mr Alistair Blake resigned as a Non-executive Director.

Name change

At the General Meeting of Shareholders held on 26 June 2020, shareholders approved the change of name from Impression Healthcare Limited to Incannex Healthcare Limited. This change became effective on 29 June 2020.

Business activities and outlook

Incannex has established a clear pathway to develop multiple products for which registration is being pursued from the major registration bodies, including the FDA, EMA and TGA. IHL initiated the full drug discovery process for cannabinoid-based products for Obstructive Sleep Apnoea ('OSA'), Concussion/Traumatic Brain Injury ('TBI'), Temporomandibular Joint Disorder ('TMD') and Sepsis Associated Acute Respiratory Distress Syndrome ('SAARDS'). The Company has undertaken a patent filing strategy whereby the Company anticipates the derivation of wholly owned patent protected products upon research success. Importantly, the Company has chosen areas of research and development whereby there is both urgent therapeutic need and significant economic opportunity.

The key criteria for our research project selection included: total addressable market of each therapeutic area exceeding many billions of dollars per annum; no existing pharmacotherapy (drug) options currently available to patients; existence evidence of efficacy from cannabinoids in the areas of therapy; FDA registration and patent opportunities and by being comfortable that our resulting products may be eligible for public subsidies (e.g. PBS in Australia) upon research success.

Distinct from the sale of medicinal cannabis oils, the business model now encompasses three distinct pathways for value creation:

- Near term: Sales of patent protected cannabinoid medicines under Special Access Scheme ('SAS') prescriptions, in some cases after successful *in-vivo* and *in-vitro* pre-clinical, or other precursory, studies.
- Mid-term: out-licensing of specialist products for indications (revenue and lump sum milestone payment opportunities)
- Long term: development of targeted, scientifically validated products released to market globally via formal registration

Appointment of Chief Scientific Officer and Non-Executive Director – Dr Sud Agarwal

Incannex appointed an internationally recognised key opinion leader in the clinical use of cannabinoid medicines, Dr Sud Agarwal, to the position of non-executive director and Chief Medical Officer for the group. A full medical advisory board with experience highly relevant to Incannex's projects has also been employed and their advice has been invaluable to the expansion and sophistication of the clinical program.

IHL-42X for Obstructive Sleep Apnoea ("OSA")

During the year, Incannex filed a patent over the use of IHL-42X drug to be delivered to patient as a nocturnally administered pill to treat OSA, following this, the company partnered with The Alfred and Novotech on IHL-42X Clinical Program for Obstructive Sleep Apnoea. Professor Terence O'Brien has been named as Principal Investigator; a world-renowned clinician and highly experienced Principal Investigator of more than 100 clinical trials. Professor O'Brien heads the Neuroscience Clinical Trials Unit at The Alfred Hospital and has an experienced team of study coordinators and research nurses. The primary endpoint of the clinical trial is the improvement in AHI as measured by an overnight polysomnography ('PSG') that will be assessed over multiple weeks.

Secondary outcomes include the following:

- Reduction in oxygen desaturation index (ODI)
- Daytime somnolence measured by the Epworth Sleepiness Scale
- Improvement in mood as measured by the POMS (Profile of Moods State), and well-being as measured by the Short Form 36
- Safety of the IHL-42X combination will be established through adverse event monitoring.

The clinical trial protocol has been to be submitted to the Alfred Health Ethics Committee for review with comments and queries expected back from the ethics committee within the September quarter.

Incannex will endeavour to supply IHL-42X for sale in Australia under the Special Access Scheme for unregistered medicinal cannabis products, alongside its existing range of cannabinoid oils and CBD Inhaler. IHL will also proceed to the second Phase 2 'Factorial' clinical trial as it compiles the necessary information for an FDA 505(b)(2) new drug application for exclusive marketability; details of which were released in the announcement on the 25th of March 2020 and entitled, "IHL-42X (OSA) accelerated FDA approval pathway".

Also, during the year, Incannex received its commissioned strategic assessment report from Camargo Pharmaceutical Services ('Camargo'), in which it confirmed that IHL is a potential candidate for the 505(b)(2) New Drug Approval pathway, subject to successful clinical assessment.

OSA is a lethal disease that increases the risk of numerous health complications, affecting approximately 40M adults in the USA alone. The main current treatment option is the mechanical CPAP device. Patient compliance to CPAP devices is low due to discomfort and claustrophobia. IHL anticipates greatly improved patient treatment compliance from a once-nightly oral pharmaceutical product, such as IHL-42X, should it prove successful under clinical assessment.

IHL-216A for Concussion/Traumatic Brain Injury ('TBI') and CTE

IHL-216A is a combination cannabinoid drug, theorised to be administered in the immediate period after primary blunt head injury to prevent development of brain injuries. IHL is assessing its ability to protect the brain against secondary injury mechanisms that cause neuronal cell death and raised intracranial pressure in the days and weeks following head trauma in sports, and all other applicable scenarios resulting in head trauma (falls, vehicle collisions, violence, combat etc.). Ablating secondary brain injury may improve positive outcomes for long term neurological sequelae including chronic traumatic encephalopathy ('CTE'), a major health risk associated with contact sports e.g. MMA, NFL, AFL and NRL.

On the 23rd of April 2020, IHL announced a short presentation on the IHL-216A program. In that document, the Company revealed that Camargo Pharmaceutical Services ('Camargo') in conjunction with CMO Dr Sud Agarwal advised that IHL-216A is also a potential candidate for FDA 505 (b)(2) accelerated drug approval, with the submission to be made subject to a successful pre-clinical animal study which is currently under deployment. This strategy could reduce the development timeframe of this novel cannabinoid significantly.

Incannex filed a patent covering key aspects of IHL-216A to be used as a neuroprotective agent administered post-head trauma. The IHL drug discovery team believes that an optimal fixed dose of APIs within IHL-216A will result in the provision of neuroprotection, defined as reduced neuronal cell death and damage.

Subsequent to the end of the financial year, Incannex commenced an animal study to formally assess the neuroprotective capability of IHL-216A. The trial introduces rodents to head trauma, implemented consistently in a highly controlled environment to inflict a reproducible injury. Eight separate rodent cohorts will be administered components or combinations of IHL-216A at varying doses soon after the trauma. The rodents will then undertake behavioural tests at various intervals to assess their neurocognitive and motor function.

IHL will also monitor secondary injury cascades, assess structural damage to the brain using magnetic resonance imaging and perform micro-scale cellular analysis post-mortem to discern and compare neuronal damage across the cohorts.

The study is being conducted to discern optimal combination dosages for the upcoming in-human clinical trial in MMA fighting athletes and will contribute to the Company's FDA data package. The drug discovery team hypothesise that IHL-216A which, given soon after head trauma, will reduce: neuro-excitation, neuro-inflammation, cerebral blood flow and cerebral oxygen consumption with the result of providing overall neuroprotection, defined as reduced neuronal cell death or disruption. The consequences of neuroprotection will be improved recovery from the neurocognitive and motor deficits that result from TBI.

IHL-216A is designed to satisfy World Antidoping Authority ('WADA') and Australian Anti-Doping Authority's ('ASADA') specifications for use by athletes at risk of TBI and Chronic Traumatic Encephalopathy, otherwise known as CTE.

Incannex's animal study being undertaken now and the future MMA fighters clinical trial will contribute to a FDA 505(b)(2) new drug application for exclusive marketability; details of which were released in the announcement on the 03rd of March 2020 and entitled, "IHL-216A (TBI/Concussion) accelerated FDA approval pathway".

IHL-675A for Sepsis Associated Acute Respiratory Distress Syndrome ("SAARDS")

The Company announced that it is developing a novel small molecule therapeutic IHL-675A comprising hydroxychloroquine and cannabidiol ('CBD') for the potential treatment of sepsis-associated Adult Respiratory Distress Syndrome ('SAARDS'), a major unmet clinical need and a leading cause of mortality associated with COVID-19 and other infections.

Incannex has lodged a provisional patent application over IHL-675A for SAARDS with the Australian Patent Office and has engaged a specialist pharmaceutical research organisation Pharmacology Discovery Services, a Eurofins Discovery Partner Lab, ('Eurofins') to conduct animal pre-clinical testing.

Incannex received positive results from its pre-clinical animal study for the assessment of the key constituents of IHL-675A against SAARDS. IHL-675A is hypothesised to limit the progression of infections to sepsis hyperinflammation caused by the "cytokine storm" feedback loop.

The study was designed in this manner to:

1. Demonstrate the ability of Cannabidiol ('CBD') and Hydroxychloroquine ('HCQ') to inhibit inflammatory cytokine production associated with Sepsis and Sepsis Associated ARDS; and,
2. assess the dose responses of CBD and HCQ to the production of cytokine inflammatory markers in rodents after inducing sepsis to benefit the design of the fixed dose combination product.

Compared to baseline mice, CBD reduced 5 key inflammatory cytokine levels by 31-90%, relative to the vehicle. Compared to baseline mice, HCQ reduced 5 key inflammatory cytokine levels by 39-88%, relative to the vehicle. 80% of results were deemed statistically significant.

Incannex has now commenced an *in vitro* study to assess the formulated combinations of CBD and HCQ that provide an optimal inflammation dampening response ratio. Results are expected in approximately 2-4 weeks. The second animal study to test for the optimal fixed dose combination will immediately follow the *in vitro* study.

Subject to success in stage 2 of animal studies, it is the opinion of FDA consultants Camargo Pharmaceutical Services that IHL-675A will be a candidate for FDA Emergency Use Authorisation resulting from the COVID19 pandemic.

SAARDS is caused by a hyper-inflammatory response and is the leading cause of mortality associated with severe infections, including the COVID-19 coronavirus infection. There is significant unmet need in the treatment of SAARDS and there are no registered pharmacotherapy (drug) treatments available for the condition.

Appointment of Chief Scientific Officer – Dr Mark Bleackley

Incannex recently appointed Dr Mark Bleackley to the position of Chief Scientific Officer, managing the OSA and other clinical programs in conjunction with Dr Sud Agarwal.

Dr Bleackley has a PhD in Cell Biology and Genetics from the University of British Columbia and was hired due to his deep experience in clinical trial design and implementation; being named in 30 peer reviewed scientific publications during his career.

Medicinal Cannabis INCANNEX™ Products

Incannex has now served thousands of patients with Incannex cannabinoid oils since it began selling oils in the December quarter of 2019. Patients who received Incannex CBD oils did so under the Australian Special Access Scheme ('SAS'), as administered by the TGA. Patients have primarily been sourced via the Cannvalate network of prescribing doctors under the Company's broad strategic relationship with Cannvalate, which is the largest distributor of medicinal cannabis products in Australia.

Incannex Acquires CBD Inhalers as a Method of Delivery Relevant to Lung Inflammation

Incannex acquired CBD pressurised metered dose inhalers for distribution under the SAS. There is preliminary evidence to support the use of CBD inhalers for those with lung inflammation and acute lung injury resulting from Asthma and COPD. Pressurised metered dose inhalers are a safe and effective delivery system for CBD whilst avoiding the dangers of smoking or vaping. The Medical Advisory team will also research CBD inhalers relevant to symptoms associated with COVID-19.

IHL considers the purchase significant to the medicinal cannabis industry because there are currently no other suppliers in Australia. CBD inhalers are a preferable delivery application for patients with certain conditions currently being treated with CBD oils, potentially facilitating a significant competitive advantage to IHL. Those advantages include:

- Inhaled CBD is delivered to the blood almost immediately. Maximum blood concentrations are achieved in around 10 minutes versus 1-4hrs for oral CBD
- Bioavailability of inhaled CBD (<45%) is higher than oral CBD (<15%), meaning that lower dosages are required and more doses per unit volume are available to the patient
- Side effects of inhaled CBD are minimised versus high-dosage oral CBD administration.

Finalisation of Oral Device Business

Incannex discontinued the sale of oral devices at the conclusion of the June quarter to focus its resources on cannabinoid sales and development activities. The decision has been reached at a time when sales of Incannex's branded cannabinoid products continue to gain market share. Sales of sports mouthguards have severely diminished due to the cancellation of sport seasons resulting from COVID-19 restrictions. IHL does not expect any normal continuation of the sports season or recovery in mouthguard sales in the medium term that justifies continued financial commitment to the oral devices business segment. Importantly, the decision allows the Company to save expenditures on oral devices. The Company will continue to focus its resources on its medicinal cannabinoid development and sales programs, the key drivers of Company value.

Record Quarter of Cash Sales – June Quarter 2020

IHL achieved a record quarter of cash sales receipts of $671K for June quarter 2020, being an 97% increase over the previous corresponding June 2019 quarter. It represents the largest quarter of sales since the ASX listing of the Company in November of 2016 and coincides with a significant ramp up in the sale of medicinal cannabis products under the Special Access Scheme in Australia.

IHL cannabinoid products are primarily sold under the Company's product supply and distribution relationship with Cannvalate Pty Ltd, which is the largest network of cannabis medicine prescribers in Australia. The CEO of Cannvalate is Dr Sud Agarwal, who is also a Director and Chief Medical Officer of Incannex. Cannvalate and Dr Agarwal are major shareholders of IHL.

DIRECTORS' INTERESTS IN THE COMPANY

As at the date of this report, the interests of the directors in the shares and options of the Company were:

Director	Number of fully paid ordinary shares	Number of options over ordinary shares	No. of performance rights/shares
Mr Troy Valentine	20,234,248	48,355,557	1,500,000
Mr Peter Widdows	12,615,790	3,957,895	1,500,000
Mr Joel Latham	11,829,129	6,687,500	5,000,000
Dr Sud Agarwal	36,000,000	288,000,000	32,303,593

DIVIDENDS

No dividends have been paid or declared since the start of the financial year and the directors do not recommend the payment of a dividend in respect of the financial year.

AFTER BALANCE DATE EVENTS

Events occurring after 30 June 2020 are disclosed in detail in Note 25.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Disclosure of information regarding likely developments in the operations of the consolidated entity in future years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Therefore, this information has not been presented in this report

SHARE OPTIONS

The Company has the following options on issue as at the date of the Directors' Report.

Expiry Date	Exercise Price	Listed/Unlisted	Number
30 September 2020	$0.04	Listed – "IHLOB"	245,926,165
01 December 2020	$0.06	Unlisted	14,000,000
01 December 2020	$0.08	Unlisted	16,000,000
01 December 2020	$0.10	Unlisted	18,000,000
01 December 2020	$0.12	Unlisted	20,000,000
01 December 2020	$0.14	Unlisted	20,000,000
30 September 2021	$0.08	Unlisted	89,919,705
30 September 2021	$0.20	Unlisted	200,000,000
30 June 2025/26/27	$0.05	Unlisted	2,250,000

Unissued Shares under Option

As at the date of this report, there were 626,095,870 unissued ordinary shares under options (2019: 337,729,150).

Option holders do not have any right, by virtue of the options, to participate in any share issue of the Company or any related body corporate.

Shares issued as a result of the exercise of options

During the financial year there were 34,427,321 ordinary shares issued as a result of the exercise of options (2019: Nil).

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Indemnification

The Company has agreed to indemnify the directors of the Company, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

Insurance premiums

The Company has arranged directors' and officers' liability insurance, for past, present or future directors, secretaries, and executive officers. The insurance cover relates to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The insurance policies outlined above do not contain details of the premiums paid in respect of individual directors or officers of the Company.

ENVIRONMENTAL REGULATIONS

The consolidated entity is not subject to any significant environmental regulation.

REMUNERATION REPORT (AUDITED)

This report, which forms part of the Directors' Report, outlines the remuneration arrangements in place for the key management personnel of Incannex Healthcare Limited (the "Company") for the financial year ended 30 June 2020.

The key management personnel of the Company are the Directors of the Company including the Managing Director/Chief Executive Officer.

Remuneration philosophy

The performance of the Company depends upon the quality of the directors and executives. The philosophy of the Company in determining remuneration levels is to:

- set competitive remuneration packages to attract and retain high calibre employees;
- link executive rewards to shareholder value creation; and
- establish appropriate, demanding performance hurdles for variable executive remuneration.

Remuneration Structure

In accordance with best practice Corporate Governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive director remuneration

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders. The amount of aggregate remuneration apportioned amongst directors is reviewed annually. The Board considers the fees paid to non-executive directors of comparable companies when undertaking the annual review process. Independent advice is obtained when considered necessary to confirm that remuneration is in line with market practice.

Each director receives a fee for being a director of the Company. Non-executive directors may receive performance rights (subject to shareholder approval) as it is considered an appropriate method of providing sufficient reward whilst maintaining cash reserves.

Executive director remuneration

Remuneration consists of fixed remuneration and variable remuneration (comprising short-term and long-term incentive schemes).

Fixed remuneration

Fixed remuneration is reviewed annually by the Board. The process consists of a review of relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. The Board has access to external, independent advice where necessary.

The fixed remuneration component of key management personnel is detailed in Tables 1 and 2.

Variable remuneration

The objective of the short-term incentive program is to link the achievement of the Group's operational targets with the remuneration received by the KMP charged with meeting those targets. The total potential short-term incentive available is set at a level so as to provide sufficient incentive to the KMP to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances.

Actual payments granted to each KMP depend on the extent to which specific operating targets set at the beginning of the financial year are met. A short-term incentive remuneration of $90,000 is payable for the financial year ended 30 June 2020 to Joel Latham.

The Company also makes long term incentive payments to reward senior executives in a manner that aligns this element of remuneration with the creation of shareholder wealth. The long-term incentive is provided in the form of performance rights and options over ordinary shares in the Company.

Employee Share Option Plan (ESOP)

The Incannex Healthcare Limited ESOP provides for the directors to set aside shares in order to reward and incentivise employees. Directors will not set aside more than 5% of the total number of issued shares in the Company at the time of the proposed issue. Officers and employees both full and part-time are eligible to participate in the plan.

Performance Rights Plan (PRP)

Shareholders approved the Company's PRP at the Annual General Meeting held on 23 November 2011. The PRP is designed to provide a framework for competitive and appropriate remuneration so as to retain and motivate skilled and qualified personnel whose personal rewards are aligned with the achievement of the Company's growth and strategic objectives.

Executive Employment Contracts

For the year ended 30 June 2020, Mr Joel Latham, was appointed as Chief Executive Officer under an employment agreement. The material terms of the agreement are set out as follows:

- Commencement date: 1 July 2018
- Term: No fixed term
- Fixed remuneration: $246,670 per annum inclusive of superannuation and vehicle allowance
- Variable remuneration up to 50% of base salary subject to achieving certain performance hurdles
- Grant of 1,750,000 ordinary shares and 2,250,000 options which vest upon continuing tenure
- Termination for cause: no notice period
- Termination without cause: three-month notice period

Table 1: Remuneration of key management personnel (KMP) for the year ended 30 June 2020

	Short-term (cash-based payments)			Long-term (share based payments)	Post-employment	Total	Performance
	Salary & fees $	Bonus $	Other $	Performance Rights, Shares and Options $	Superannuation $	$	Related %
Key Management Personnel name							
Mr Troy Valentine[1]	105,500	-	-	-	3,610	109,110	-
Mr Peter Widdows[2]	36,000	-	-	-	3,420	39,420	-
Mr Joel Latham[3]	226,961	90,000	-	53,710[6]	19,709	390,380	13.8
Dr Sud Agarwal[4]	119,067	-	-	511,738[7]	3,246	634,051	80.7
Mr Alistair Blake[5]	60,673	-	-	-	-	60,673	-
Total	**548,201**	**90,000**	-	**565,448**	**29,985**	**1,233,634**	

1) Mr Valentine was appointed as a director on 11 December 2017. Remuneration owed to Mr Valentine at 30 June 2020 is $11,110 included in accrued expenses.
2) Mr Widdows was appointed as a director on 1 March 2018. Remuneration owed to Mr Widdows at 30 June 2020 is $3,420 included in accrued expenses.
3) Mr Latham was appointed as Managing Director on 24 July 2019. Remuneration owed to Mr Latham at 30 June 2020 is $128,790 included in accrued expenses and leave entitlements.
4) Dr Agarwal was appointed as a director on 24 July 2019. Remuneration owed to Dr Agarwal at 30 June 2020 is $17,813 is included in accrued expenses.
5) Fees were paid to Alistair Pty Ltd. Mr Blake was appointed as a director on 20 October 2016 and ceased as a director on 24 July 2019. Mr Blake ceased all employment on 31 October 2019.
6) This represents $28,456 from the issue of shares plus $25,254 from the issue of options
7) This represents $192,000 from the issue of shares plus $130,667 from the issue of options plus $189,071 from the issue of performance rights. A total of 2,000,000 milestone and 30,303,593 value-based performance rights were issued to Dr Agarwal. Milestone performance rights will convert to ordinary shares on attainment of clinical milestones being achieved prior to 31 January 2021, 28 February 2021, and 31 March 2021. Value-based performance rights will convert to ordinary shares on attainment of the Company's market capitalisation reaching specified levels. These milestones and market capitalisation levels are set out in the Notice of Extraordinary General Meeting of Shareholders that was sent to shareholders and posted on the ASX announcements platform on 26 May 2020.

Table 2: Remuneration of key management personnel (KMP) for the year ended 30 June 2019

	Short-term (cash-based payments)			Long-term (share based payments)	Post-employment	Total	Performance
	Salary & fees $	Bonus $	Other $	Performance Rights $	Superannuation $	$	Related %
Key Management Personnel name							
Mr Troy Valentine[1]	30,000	-	-	6,297	-	36,297	-
Mr Peter Widdows[2]	30,000	-	-	6,297	-	36,297	-
Mr Joel Latham[3]	169,980	-	-	20,149	14,344	204,473	-
Mr Alistair Blake[4]	217,949	-	-	10,075	-	228,124	-
Total	**447,929**	**-**	**-**	**42,818**	**14,344**	**505,091**	

1) Mr Valentine was appointed as a director on 11 December 2017. Remuneration owed to Mr Valentine at 30 June 2019 is $2,500 included in accrued expenses.
2) Mr Widdows was appointed as a director on 1 March 2018. Remuneration owed to Mr Widdows at 30 June 2019 is $22,500 - $5,000 is included in accrued expenses and $17,500 is included in trade payables.
3) Mr Latham accepted the position as CEO on 29 June 2018, previously occupying the position of General Manager and was appointed as Managing Director on 24 July 2019. Remuneration owed to Mr Latham at 30 June 2019 is $24,641 included in accrued expenses and leave entitlements.
4) Fees were paid to Alistair Pty Ltd, an entity in which Mr Blake is a director. The amount outstanding to Alistair Pty Ltd at 30 June 2019 for remuneration payments was $25,332 included in trade payables.

Performance rights

Each performance right is convertible into one ordinary share upon achievement of the performance hurdles. No performance right will vest if the conditions are not satisfied, hence the minimum value of the performance rights yet to vest is nil.

The assessed fair value at grant date of performance rights granted is expensed according to the performance or market-based conditions attached to the performance hurdle. Performance based hurdles are expensed to each reporting period evenly over the period from grant date to vesting date. Market based hurdles are expensed on the grant date. The relevant amount is included in the remuneration table (Table 1) above. Fair values at grant date are independently determined using a trinomial pricing model that takes into account the exercise price, term, the share price at grant date and expected price volatility of the underlying share, barrier price / performance hurdles, the expected dividend yield and the risk-free interest rate. For details on the valuation of performance rights, including assumptions used, refer to note 2 of these financial statements.

Performance rights granted to KMP for the year ended 30 June 2020

At a General Meeting of the Company's shareholders held on 26 June 2020, shareholders approved the grant of 2,000,000 milestone-based and 30,303,593 value-based performance rights to Dr Sud Agarwal as stated in the table below.

Key Management Personnel – Performance Rights and Performance Share Holdings

The number of performance rights and performance shares held by Key Management Personnel of the Group during the financial year is as follows:

30 June 2020 – *Performance Rights*

Name	Balance at 1 July 2019	Granted/(Expired) by the Company	Converted to Ordinary shares	Balance at 30 June 2020
Mr Troy Valentine[1]	1,833,334	-	(333,334)	1,500,000
Mr Peter Widdows[1]	1,833,334	-	(333,334)	1,500,000
Mr Joel Latham[1]	6,000,000	-	(1,000,000)	5,000,000
Dr Sud Agarwal[2]	-	32,303,593	-	32,303,593
Mr Alistair Blake[3]	3,000,000	(3,000,000)	-	-

30 June 2019 – *Performance Rights*

Name	Held at 1 July 2018	Granted/(Expired) by the Company	Converted to Ordinary shares	Balance at 30 June 2019
Mr Troy Valentine	-	2,500,000	(666,666)	1,833,334
Mr Peter Widdows	-	2,500,000	(666,666)	1,833,334
Mr Joel Latham	-	8,000,000	(2,000,000)	6,000,000
Mr Alistair Blake	-	4,000,000	(1,000,000)	3,000,000
Mr Matthew Weston	735,021	(735,021)	(1,000,000)	-

[1] Performance rights held on 30 June 2020 by Messrs Valentine, Widdows and Latham at 30 June 2020 were issued upon approval by shareholders at the Company's Annual General Meeting of Shareholders held on 20 November 2018. The terms of these performance rights were set out in detail within the Notice of Annual General Meeting that was sent to shareholders and posted on the ASX announcements platform on 19 October 2018.

[2] A total of 2,000,000 milestone and 30,303,593 value-based performance rights were issued to Dr Agarwal. Milestone performance rights will convert to ordinary shares on attainment of clinical milestones being achieved prior to 31 January 2021, 28 February 2021, and 31 March 2021. Value-based performance rights will convert to ordinary shares on attainment of the Company's market capitalisation reaching specified levels. These milestones and market capitalisation levels are set out in detail within the Notice of General Meeting that was sent to shareholders and posted on the ASX announcements platform on 26 May 2020. Refer to note 13 of these financial statements for the valuation methodology.

[3] Performance rights issued to Mr Blake upon approval by shareholders at the Company's Annual General Meeting of Shareholders held on 20 November 2018 lapsed immediately following his departure from the Company in October 2019.

30 June 2020 - *Performance Shares*[1]

Name	Balance at 1 July 2019 (or on appointment)	Other changes during the period	Balance at 30 June 2020 (or on cessation)
Mr Troy Valentine	929,204	(929,204)	-
Mr Peter Widdows	-	-	-
Mr Joel Latham	-	-	-
Dr Sud Agarwal	-	-	-
Mr Alistair Blake	6,902,655	(6,902,655)	-

30 June 2019 - *Performance Shares*

Name	Balance at 1 July 2018 (or on appointment)	Other changes during the period	Balance at 30 June 2019 (or on cessation)
Mr Troy Valentine	1,858,408	(929,204)	929,204
Mr Peter Widdows	-	-	-
Mr Joel Latham	-	-	-
Mr Alistair Blake	13,805,310	(6,902,655)	6,902,655
Mr Matthew Weston	-	-	-

[1] Performance shares were issued to holders upon the Company's relisting in November 2016. Performance hurdles attaching to these shares related to sales targets within the now discontinued devices business. These targets were not achieved and the performance shares lapsed on 30 June 2020.

Options granted to KMP for the year ended 30 June 2020

Options granted to KMP are set out in the table below.

Key Management Personnel – Option Holdings

The number of options held by Key Management Personnel of the Group during the financial year is as follows:

30 June 2020 - Options

Name	Balance at 1 July 2019	Other changes during the period	Balance at 30 June 2020 (or on cessation)	Exercisable
Mr Troy Valentine[1]	41,238,607	7,116,950	48,355,557	48,355,557
Mr Peter Widdows[2]	3,300,000	657,895	3,957,895	3,957,895
Mr Joel Latham[3]	4,237,500	2,450,000	6,687,500	6,687,500
Dr Sud Agarwal[4]	-	288,000,000	288,000,000	-
Mr Alistair Blake	3,855,184	-	3,855,184	3,855,184

30 June 2019 - Options

Name	Balance at 1 July 2017 (or on appointment)	Other changes during the period	Balance at 30 June 2019 (or on cessation)	Exercisable
Mr Troy Valentine	37,462,149	3,776,458	41,238,607	41,238,607
Mr Peter Widdows	-	3,300,000	3,300,000	3,300,000
Mr Joel Latham	787,500	3,450,000	4,237,500	4,237,500
Mr Alistair Blake	555,184	3,300,000	3,855,184	3,855,184
Mr Matthew Weston	-	-	-	-

[1] Alignment Capital Pty Ltd, a company that Mr Valentine is a director of and 50% shareholder in, received 7,116,950 options as remuneration for management of the capital raising placement in October 2019. Refer to note 13 of these financial statements for the valuation methodology.

[2] Mr Widdows received 657,895 options attaching to shares acquired through the capital raising placement of October 2019.

[3] Mr Latham received 200,000 options attaching to shares acquired through the capital raising placement of October 2019 and a further 2,250,000 options were issued to Mr Latham as part of his remuneration package approved by shareholders on 26 June 2020.

[4] Dr Agarwal received 200,000,000 options as part of his remuneration package approved by shareholders on 26 June 2020. Cannvalate Pty Ltd, a company that Dr Agarwal is a director and significant shareholder of, was issued 120,000,000 options upon approval by shareholders on 9 August 2019 – of these, 32,000,000 options were exercised by Cannvalate during the period.

Key Management Personnel – Shareholdings

The number of ordinary shares in Incannex Healthcare Limited held by each KMP of the Group during the financial year is as follows:

30 June 2020 - Shares

Name	Balance held at 1 July 2019 (or on appointment)	Purchases / Other Acquisitions	Sales / Other Disposals	Balance held at 30 June 2020 (or on cessation)
Mr Troy Valentine[1]	19,900,914	333,334	-	20,234,248
Mr Peter Widdows[2]	10,966,666	1,649,124	-	12,615,790
Mr Joel Latham[2]	9,845,795	1,983,334	-	11,829,129
Dr Sud Agarwal[4]	-	36,000,000	-	36,000,000
Mr Alistair Blake	21,282,518	-	-	21,282,518

30 June 2019 - Shares

Name	Balance held at 1 July 2018 (or on appointment)	Purchases / Other Acquisitions	Sales / Other Disposals	Balance held at 30 June 2019 (or on cessation)
Mr Troy Valentine	19,234,248	666,666	-	19,900,914
Mr Peter Widdows	-	10,966,666	-	10,966,666
Mr Joel Latham	1,395,795	8,450,000	-	9,845,795
Mr Alistair Blake	15,923,182	5,359,336	-	21,282,518
Mr Matthew Weston	-	-	-	-

[1] Mr Valentine received 333,334 shares upon achievement of performance hurdles and conversion of 333,334 performance rights.

[2] Mr Widdows received 333,334 shares upon achievement of performance hurdles and conversion of 333,334 performance rights and acquired 1,315,790 shares through the capital raising placement of October 2019.

[3] Mr Latham received 1,000,000 shares upon achievement of performance hurdles and conversion of 1,000,000 performance rights. Mr Latham also acquired 400,000 shares through the capital raising placement of October 2019 and 583,334 shares were issued to Mr Latham as part of his remuneration package approved by shareholders on 26 June 2020.

[4] Dr Agarwal received 4,000,000 shares as part of his remuneration package approved by shareholders on 26 June 2020. Cannvalate Pty Ltd, a company that Dr Agarwal is a director and significant shareholder of, received 32,000,000 shares resulting from the exercise of options during the period.

Other Key Management Personnel Transactions

There have been no transactions involving equity instruments other than those described in the above tables. Other transactions with key management personnel during the financial year and not disclosed above are noted below:

For the year ended 30 June 2020, $145,200 (2019: $115,864) in fees were paid to Alignment Capital Pty Ltd (“Alignment”), an entity in which Mr Valentine is a director. Alignment was engaged by the Company to act as lead manager in capital raisings conducted during the year. This amount represented the value of 3,821,052 shares issued to Alignment (based on a share price of $0.038 per share).

END OF REMUNERATION REPORT

NON-AUDIT SERVICES

The Company has not engaged the auditor to perform any non-audit services during the year ended 30 June 2020 (2019: $Nil).

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the Company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 20 and forms part of this directors' report for the year ended 30 June 2020.

Signed in accordance with a resolution of the directors.

Troy Valentine
Chairman
Melbourne, Victoria, 11 August 2020

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Incannex Healthcare Limited (previously Impression Healthcare Limited) for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

Perth, Western Australia	**L Di Giallonardo**
11 August 2020	**Partner**

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STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2020

		Consolidated	
		2020	**2019**
	Notes	**$**	**$**
Revenue	**3**	604,884	-
Other revenue	**3**	217,170	1,553
Product costs		(450,345)	-
Administration expense		(457,673)	(330,178)
Advertising and promotion		(406,225)	(94,814)
Research and development costs		(2,110,639)	(736,140)
Compliance, legal and regulatory		(235,163)	(72,181)
Finance cost		-	(85,065)
Share based payments	**13**	(565,448)	(47,854)
Occupancy expenses		(2,084)	(1,519)
Salaries and employee benefit expense		(523,760)	(60,000)
Loss before tax from continuing operations		**(3,929,283)**	**(1,426,198)**
Income tax benefit	**5**	-	-
Loss after tax from continuing operations		**(3,929,284)**	**(1,426,198)**
Loss after tax from discontinuing operations	**6**	(768,352)	(1,292,201)
Other comprehensive income		**-**	**-**
Total comprehensive loss for the year		**(4,697,636)**	**(2,718,399)**
Basic loss per share from continuing and discontinued operations (cents per share)	**7**	(0.69)	(0.61)
Basic loss per share from continuing operations (cents per share)	7	(0.60)	(0.36)

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		Consolidated	
		2020	**2019**
	Notes	**$**	**$**
Assets			
Current assets			
Cash and cash equivalents	9	3,603,390	93,332
Trade and other receivables	10	413,268	97,784
Other assets	12	36,262	39,191
Inventory	14	183,159	152,804
Total current assets		**4,236,079**	**383,111**
Non-current assets			
Intangible assets	15	-	49,377
Property, plant and equipment	11	-	85,423
Total non-current assets		**-**	**134,800**
Total assets		**4,236,079**	**517,911**
Liabilities			
Current liabilities			
Trade and other payables	16	955,006	478,820
Borrowings		-	65,000
Other liabilities	17	116,645	391,271
Total current liabilities		**1,071,651**	**935,091**
Total liabilities		**1,071,651**	**935,091**
Net assets/(liabilities)		**3,164,428**	**(417,180)**
Equity			
Issued capital	18	34,192,043	26,951,744
Reserves	19	1,490,588	451,643
Accumulated losses		(32,518,203)	(27,820,567)
Net equity/(deficiency)		**3,164,428**	**(417,180)**

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

Consolidated	Issued Capital	Equity Reserve	Accumulated Losses	Total
	$	$	$	$
Balance at 1 July 2018	**24,410,905**	**229,725**	**(25,022,948)**	**(382,318)**
Adjustment on initial application of AASB15	-	-	(79,220)	(79,220)
Comprehensive loss for the year	-	-	(2,718,399)	(2,718,399)
Options issued to advisors	-	221,918	-	221,918
Shares issued	2,914,248	-	-	2,914,248
Shares issue costs	(373,409)	-	-	(373,409)
Balance at 30 June 2019	**26,951,744**	**451,643**	**(27,820,567)**	**(417,180)**
Balance at 30 June 2019	**26,951,744**	**451,643**	**(27,820,567)**	**(417,180)**
Comprehensive loss for the year	-	-	(4,697,636)	(4,697,636)
Options exercised	1,077,093	-	-	1,077,093
Options issued to advisors	-	449,093	-	449,093
Share based payments	-	589,852	-	589,852
Shares issued	7,105,354	-	-	7,105,354
Shares issue costs	(942,148)	-	-	(942,148)
Balance at 30 June 2020	**34,192,043**	**1,490,588**	**(32,518,203)**	**3,164,428**

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

		Consolidated	
		2020	**2019**
	Notes	**$**	**$**
Cash flows from operating activities			
Receipts from customers		1,389,254	1,149,963
Payments to suppliers and employees		(5,299,667)	(3,371,103)
Interest received		3,079	1,633
Finance costs paid		-	(92,249)
Research and development tax refund		-	151,323
Net cash (used in) operating activities	9(i)	(3,907,334)	(2,160,433)
Cash flows from investing activities			
Payments for property, plant and equipment		-	(24,442)
Proceeds from disposal of property, plant and equipment		13,000	-
Net cash from/(used in) investing activities		13,000	(22,942)
Cash flows from financing activities			
Proceeds from shares issued (net of costs)		7,469,392	2,184,801
Debt repaid		(65,000)	(200,000)
Proceeds from borrowing		-	65,000
Net cash from financing activities		7,404,392	2,049,801
Net increase/(decrease) in cash and cash equivalents		3,510,058	(135,074)
Cash and cash equivalents at beginning of the year		93,332	228,406
Cash and cash equivalents at end of the year	9	**3,603,390**	**93,332**

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

1. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. This has had no material effect on the consolidated entity.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Historical cost convention

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

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 26.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Incannex Healthcare Limited ('company' or 'parent entity') as at 30 June 2020 and the results of all subsidiaries for the year then ended. Incannex Healthcare Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

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

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

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

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

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

Operating segments

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

Foreign currency translation

The financial statements are presented in Australian dollars, which is Incannex Healthcare Limited's functional and presentation currency.

Foreign currency transactions

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

Revenue recognition

The consolidated entity recognises revenue as follows:

Sale of goods

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

Interest and Other revenue

Interest revenue is recognised when it is received or when the right to receive it is established.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liabili transaction that is not a business combination and that, at the time of the transaction, affects neither the accounti taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, a timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the forese future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Discontinued operations

A discontinued operation is a component of the consolidated entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of comprehensive income.

Current and non-current classification

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

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

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

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

Cash and cash equivalents

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. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Other financial assets

Other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, it's carrying value is written off.

Financial assets at fair value through profit or loss

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include equity investments which the consolidated entity intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

Impairment of financial assets

The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, at least every 3 years, valuations by external independent valuers, less subsequent depreciation and impairment for buildings. The valuations are undertaken more frequently if there is a material change in the fair value relative to the carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Increases in the carrying amounts arising on revaluation of land and buildings are credited in other comprehensive income through to the revaluation surplus reserve in equity. Any revaluation decrements are initially taken in other comprehensive income through to the revaluation surplus reserve to the extent of any previous revaluation surplus of the same asset. Thereafter the decrements are taken to profit or loss.

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Buildings	40 years
Leasehold improvements	3-10 years
Plant and equipment	3-7 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Intangibles

Research and development

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources and intent to complete the development; and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date 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 reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Retirement benefit obligations

All employees of the consolidated entity are entitled to benefits from the consolidated entity's superannuation plan on retirement, disability or death. The consolidated entity has a defined benefit section and a defined contribution section within its plan. The defined benefit section provides defined lump sum benefits based on years of service and final average salary. The defined contribution section receives fixed contributions from entities in the consolidated entity and the consolidated entity's legal or constructive obligation is limited to these contributions.

A liability or asset in respect of defined benefit superannuation plans is recognised in the statement of financial position, and is measured at the present value of the defined benefit obligation at the reporting date less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries 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 reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised, in the period in which they occur, in other comprehensive income.

Past service costs are recognised immediately in profit or loss, unless the changes to the superannuation fund are conditional on the employees remaining in service for a specified period of time ('the vesting period'). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Share-based payments

Equity-settled compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, performance rights or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Fair value measurement

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

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

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

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

Issued capital

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.

Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the company.

Earnings/(loss) per share

Basic earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the profit attributable to the owners of Incannex Healthcare Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings/(loss) per share

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

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

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

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

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

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2020. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

Conceptual Framework for Financial Reporting (Conceptual Framework)

The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 January 2020 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the consolidated entity has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the consolidated entity may need to review such policies under the revised framework. At this time, the application of the Conceptual Framework is not expected to have a material impact on the consolidated entity's financial statements.

2. Critical accounting judgements, estimates and assumptions

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

Coronavirus (COVID-19) pandemic

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

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees and third parties by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the trinomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity. Refer to notes 13 and 19 for further information.

3. Revenue & expenses

	Consolidated	
	2020	**2019**
	$	**$**
(a) Revenue (point in time)		
Cannabinoid oils sales	604,884	-
	604,884	-
(b) Other income		
Revenue from other contractual arrangements	123,125	-
Government grants	89,500	-
Interest	4,545	1,553
	217,170	1,553
(c) Expenses		
Executive directors' remuneration	539,923	217,949

4. Segment Information

Identification of reportable operating segments

AASB 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker in order to allocate resources to the segment and to assess its performance.

The Group's operating segments have been determined with reference to the monthly management accounts used by the Chief Operating Decision maker to make decisions regarding the Group's operations and allocation of working capital. Due to the size and nature of the Group, the Board as a whole has been determined as the Chief Operating Decision Maker.

Based on the quantitative thresholds included in AASB 8, for the financial year ended 30 June 2020, the consolidated entity was organised into two operating segments based on differences in products and services provided (1) medicinal cannabis and (2) dental devices. On 30 June 2020, the Company disposed of the dental devices segment (refer note 6) to focus entirely on medicinal cannabis product sales and development from 1 July 2020. The consolidated entity will have no dental devices activities after 30 June 2020.

The consolidated entity has only one geographical segment, namely Australia.

The revenues and results of these segments of the Group as a whole are set out in the condensed statement of comprehensive income and the assets and liabilities of the Group as a whole are set out in the condensed statement of financial position. A summary of revenue and expenses for the period and assets and liabilities at the end of the period for each segment is shown below.

Segment results

30 June 2020	**Oral and Dental Devices (discontinued)**	**Medicinal Cannabis**	**Unallocated**	**Consolidated**
Revenue from external customers	718,656	604,884[1]	-	1,446,665
Interest revenue	8	2	4,544	4,555
Other revenue	140,816	212,625	-	230,316
Depreciation	(14,854)	-	-	(14,854)
Amortisation	(21,688)	-	-	(21,688)
Other expenses	(1,591,290)	(2,899,761)	(1,851,578)	(6,342,630)
Segment loss after income tax	**(768,352)**	**(2,082,250)**	**(1,847,034)**	**(4,697,636)**
Segment assets	**-**	**662,414**	**3,573,665**	**4,236,079**
Segment liabilities	**-**	**(567,423)**	**(504,228)**	**(1,071,651)**
30 June 2019				
Revenue from external customers	1,178,466	-	-	1,178,466
Interest revenue	80	-	1,553	1,633
Other revenue	1,800	-	-	1,800
Interest expense	-	-	(85,065)	(85,065)
Depreciation	(20,198)	-	-	(20,198)
Amortisation	(21,688)	-	-	(21,688)
Other expenses	(2,581,984)	(736,140)	(606,546)	(3,924,670)
Income tax benefit	151,323	-	-	151,323
Segment loss after income tax	**(1,292,201)**	**(736,140)**	**(690,058)**	**(2,718,399)**
Segment assets	**479,553**	**8,237**	**30,121**	**517,911**
Segment liabilities	**(403,636)**	**(23,441)**	**(508,014)**	**(935,091)**

[1] Of the total revenue from medicinal cannabis in the current year, 100% was through Cannvalate Pty Ltd's distribution network.

5. Income tax

The prima facie income tax (expense)/benefit on pre-tax accounting (loss)/profit from operations reconciles to the income tax benefit in the financial statements as follows:	Consolidated 2020 $	2019 $
Accounting loss before tax	(4,697,636)	(2,869,722)
Income tax benefit at the applicable tax rate of 27.5% (2019: 27.5%)	1,291,850	789,174
Non-deductible expenses at the applicable tax rate of 27.5% (2019:27.5%)	(155,498)	(13,160)
Deferred tax assets not recognised	(1,136,352)	(776,014)
Research and Development Grant in relation to prior year	-	151,323
Income tax benefit	-	151,323

Unrecognised Deferred Tax Asset

Deferred tax asset not recognised in the financial statements:		
Unused tax losses at 27.5% (2019: 27.5%)	3,872,022	2,735,670
Deductible temporary differences	-	-
Net unrecognised tax benefit	3,872,022	2,735,670

The potential deferred tax benefit has not been recognised as an asset in the financial statements because recovery of the asset is not considered probable in the context of AASB 112 Income Taxes.

The benefit will only be realised if:

a) the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit to be realised.
b) the Company complies with the conditions for deductibility imposed by the law; and
c) no changes in tax legislation adversely affect the Company in realising the benefit.

6. Discontinued operations

Description

On 30 June 2020 the consolidated entity sold its 100% subsidiary - Gameday International Pty Ltd ("Gameday"), for consideration of $29,277 which was the carrying value of its assets at that date so no loss on disposal was incurred. Gameday produced and sold the consolidated entity's dental devices and had been a loss maker since 2016. As a result of the COVID-19 pandemic it suffered further as a result of the shut-down of community sport which directly affected the sale of its main product being sporting mouthguards. The disposal of Gameday will allow the consolidated entity to pursue and focus entirely on its medicinal cannabis activities.

Financial performance information	Consolidated 2020 $	2019 $
Revenue from sale of goods	718,676	1,178,466
Interest	8	80
Other revenue	140,816	1,800
Product costs	(589,570)	(582,209)
Administration expense	(39,005)	(297,771)
Advertising and promotion	(218,865)	(610,042)
Depreciation and amortisation	(36,542)	(41,866)
Loss on disposal of property, plant and equipment	(13,654)	-
Impairment cost	(82,989)	-
Compliance, legal and regulatory costs	-	(27,241)
Occupancy expenses	(81,493)	(153,830)
Salaries and employee benefit expense	(565,734)	(910,911)
Loss before income tax	**(768,352)**	**(1,443,524)**
Income tax benefit	-	151,323
Loss after income tax from discontinued operations	**(768,352)**	**(1,292,201)**

Carrying amounts of assets and liabilities disposed

Cash and cash equivalents	17,970	-
Inventories	6,000	-
Other current assets	6,100	-
Trade and other payables	(793)	-
Total proceeds from disposal	**29,277**	**-**

7. Loss per share

Basic loss per share – continuing and discontinued operations - cents per share	(0.69)	(0.61)
Basic loss per share – continuing operations - cents per share	(0.60)	(0.36)

Basic loss per share

The loss and weighted average number of ordinary shares used in the calculation of basic loss per share is as follows:

- Loss from continuing and discontinued operations ($)	(4,697,636)	(2,718,399)
- Loss from continuing operations ($)	(4,075,011)	(1,623,100)
- Weighted average number of ordinary shares (number)	684,035,399	447,439,263

8. Dividends

The Company has not declared a dividend for the year ended 30 June 2020.

9. Cash and cash equivalents	Consolidated 2020 $	2019 $
Cash at bank and on hand	3,603,390	93,332
	3,603,390	93,332

Cash at bank earns interest at floating rates based on daily bank deposit rates.

i. Reconciliation of loss for the year to net cash flows from operating activities:

Loss after income tax	(4,697,636)	(2,718,399)
Non-cash based expenses:		
Share based payments	565,448	47,854
Depreciation and amortisation	36,542	41,886
Interest expense capitalised as equity	-	75,000
Non-cash element of new business development costs	-	583,896
Other non-cash expenses	97,221	9,413
Changes in net assets and liabilities:		
(Increase)/Decrease in receivables	(315,484)	(43,681)
(Increase)/Decrease in inventory	(30,355)	70,268
Decrease in other current assets	2,928	10,009
(Increase)/Decrease in trade payables and accrued expenses	464,223	(257,451)
Increase/(Decrease) in other liabilities	(30,221)	20,772
Cash flows from (used in) operations	(3,907,334)	(2,160,433)

ii. Non-cash financing activities

The proceeds of $29,277 from disposal of the discontinued operations disclosed in note 6, were still to be received at balance date.

10. Trade and other receivables (Current)

Current		
Receivables	276,151	66,605
GST recoverable	137,117	31,179
	413,268	97,784

Expected credit losses

The consolidated entity applies the AASB 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due and also according to the geographical location of customers.

11. Property, plant and equipment

	Consolidated 2020 $	Consolidated 2019 $
Property, plant & equipment – at cost	-	166,342
Less: accumulated depreciation	-	(80,919)
Total property, plant & equipment	-	85,423

Reconciliation: 30 June 2020	Plant & Equipment $	Computer Equipment $	Office Furniture $	Total $
Carrying value as at 1 July 2019	81,151	-	4,272	85,423
Disposals	(23,065)	-	(3,589)	(26,654)
Depreciation	(14,618)	-	(236)	(14,854)
Impairment	(43,468)	-	(447)	(43,915)
Balance at 30 June 2020	-	-	-	-

Reconciliation: 30 June 2019	Plant & Equipment $	Computer Equipment $	Office Furniture $	Total $
Carrying value as at 1 July 2018	92,339	-	5,339	97,678
Additions	7,942	-	-	7,942
Depreciation	(19,130)	-	(1,067)	(20,197)
Balance at 30 June 2019	81,151	-	4,272	85,423

12. Other assets (current)

	Consolidated 2020 $	Consolidated 2019 $
Prepayments	11,083	4,683
Office rental bond	25,179	17,179
Work in progress (contract assets)	-	17,329
	36,262	39,191

13. Share based payments

From time to time, the Company may issue equity securities (i.e. shares, options or performance rights) to its employees, directors or advisors to more closely align rewards for performance with the achievement of the Company's growth and strategic objectives. Where the recipient is a director of the Company, shareholder approval must be sought under the ASX Listing Rules prior to the issue of any equity securities to any director.

Fair value of shares issued
The fair value of shares issued to employees is determined using the closing price of shares on the grant date and expensed over the vesting period.

Fair value of options and performance rights granted
The fair values at grant date are independently determined using either a trinomial pricing or Black-Scholes option model that take into account any price to exercise, the term of the options or rights, the share price at grant date, the price volatility of the underlying share and the risk-free interest rate for the term of the options or rights. The expensed fair value in the tables below represents the proportion of the total fair value that has been allocated to the current period with the balance to be expensed in future periods.

The following share-based payment arrangements were put in place during the period:

A. Shares	**Number**	**Approval Date[1]**	**Escrow Date**	**Exercise Price**	**Total fair value**	**Expensed fair value**
Ordinary shares	4,583,334	26-Jun-2020	n/a	n/a	220,000	220,000
Ordinary shares (escrowed)	583,333	26-Jun-2020	30-Jun-2021	n/a	28,000	304
Ordinary shares (escrowed)	583,333	26-Jun-2020	30-Jun-2022	n/a	28,000	152
Total shares	**5,750,000**					**220,456**

B. Options	**Number**	**Grant Date[2]**	**Expiry Date**	**Exercise Price**	**Total fair value**	**Expensed fair value**
Unlisted options	750,000	26-Jun-2020	30-Jun-2025	$0.05	24,817	24,817
Unlisted options	750,000	26-Jun-2020	30-Jun-2026	$0.05	26,424	286
Unlisted options	750,000	26-Jun-2020	30-Jun-2027	$0.05	27,754	151
Unlisted options	200,000,000	26-Jun-2020	30-Sep-2021	$0.20	306,299	130,667
Total options	**202,250,000**					**155,921**

C. Performance rights	**Number**	**Grant Date[2]**	**Expiry Date**	**Exercise Price**	**Total fair value**	**Expensed fair value**
Milestone-based	2,000,000	26-Jun-2020	Various[3]	n/a	64,000	1,341
Value-based	30,303,593	26-Jun-2020	24-Nov-2021	n/a	811,503	187,730
Total performance rights	**32,303,593**					**189,071**

Total share based payments expense	**$565,448**

[1] These shares were issued to Directors so shareholder approval was sought and provided at a general meeting of shareholders held on 26 June 2020.

[2] Grant date is the date of the general meeting of shareholders, being 26 June 2020, at which these options and performance rights were approved by shareholders.

[3] The milestone-based performance rights have non-market milestones which must be met at various dates ranging from 31 January 2021 to 31 March 2021.

Performance Rights

The value-based performance rights have milestones which are market-based. In arriving at the fair value of these rights the probability of achieving these milestones (related to various levels of market capitalisation) has been estimated using a trinomial option model, with major inputs being grant date share price of $0.048; risk-free rate of

0.25%; and volatility of 95%, for a total value of $469,324, of which $183,730 has been expensed in the current period commencing on 24 July 2019, being the commencement date of Dr Agarwal's contract.

The milestone performance rights are valued at the share price at grant date ($0.048) taking into account management's estimate s of the likelihood of meeting the milestones.

Options

The fair value of the equity-settled share options granted in the above table is estimated as at the grant date using a Black-Scholes option model (for all $0.05 options) and a trinomial option model (for the $0.20 options) taking into account the terms and conditions upon which the options were granted, as follows:

	$0.05 Options 30-Jun-2025	**$0.05 Options 30-Jun-2026**	**$0.05 Options 30-Jun-2027**	**$0.20 Options 30-Sep-2021**
Number	750,000	750,000	750,000	2,000,000
Dividend yield (%)	0%	0%	0%	0%
Expected volatility (%)	92%	92%	92%	93%
Risk-free interest rate (%)	0.39%	0.48%	0.58%	0.25%
Expected life of option (years)	5	6	7	1.25
Exercise price (cents)	5.0	5.0	5.0	20.0
Grant date share price (cents)	4.8	4.8	4.8	4.8
Vesting date	30-Jun-2020	30-Jun-2021	30-Jun-2022	Refer (a) below

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

(a) The options vest upon the shares having a closing price of 20 cents per share or more for any 5 trading days at any time from the date of grant of the options until the expiry date of the options (30 September 2021).

Securities issued to third parties

Refer to note 19 for details of options issued to advisors and Cannvalate Pty Ltd.

14. Inventories

	Consolidated 2020 $	**Consolidated 2019 $**
Current		
Devices raw materials – at cost	-	152,804
Medicinal cannabis products in-transit	183,159	-
Total inventories	183,159	152,804

15. Intangible assets

	2020	2019
Non-current		
Trademarks & IP	-	49,377
	-	49,377
Movement schedule – Trademarks & IP		
Opening Balance	49,377	71,066
Amortisation expense	(21,689)	(21,689)
Impairment	(27,688)	-
Closing Balance	-	49,377

16. Trade and other payables (current)

	Consolidated 2020 $	2019 $
Trade payables	590,099	376,124
Accrued expenses	316,046	65,797
Employee leave entitlements	48,861	36,899
	955,006	478,820

17. Other current liabilities

	2020	2019
Income received in advance[1]	-	146,868
Provision for sales refunds[1]	116,645	-
Options issues awaiting shareholder approval[2]	-	244,403
	116,545	391,271

[1] Under the terms of the sale agreement for the disposal of the devices business (refer to note 6) the Company is liable to pay to the buyer of the devices business the value of any sales proceeds already received by the Company where devices will be delivered to the customer by the buyer of the devices business after 30 June 2020. In prior years, this item related to sales proceeds that had been received where the device had yet to be produced and shipped to the customer and was treated under AASB15 as income received in advance.

[2] On 9 August 2019, at a general meeting of shareholders, the issue of 120,000,000 options to Cannvalate Pty Ltd as remuneration for Cannvalate's management of the Company's clinical program was approved. This amount was transferred to the equity based premium reserve upon approval (refer also to note 19).

18. Issued capital

(a) Issued Capital	34,192,043	26,951,744

(b) Ordinary shares - movements during year	**Year ended 30 June 2020 (No. of shares)**	**Year ended 30 June 2019 (No. of shares)**
At start of year	581,897,040	288,288,248
Issues of new shares – placements	114,663,460	195,203,398
Issues of new shares - rights issues	-	73,572,062
Issues of new shares – share based payments	5,750,000	-
Conversion of performance rights	11,916,668	24,833,332
Exercise of options	34,427,321	-
At end of year	**748,654,489**	**581,897,040**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. On a show of hands, every shareholder present at a meeting 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.

(c) Movement in number of options on issue for the year

At 30 June 2020

Expiry date and exercise price	Balance at start of year	Granted during year	Exercised / (expired) during year	Balance at end of year
30-Sep-2020 $0.04 IHLOB	**262,960,728**	-	(2,427,321)	260,533,407
01-Jan-2020 $0.02 unlisted[1]	-	10,000,000	(10,000,000)	-
01-May-2020 $0.03 unlisted[1]	-	10,000,000	(10,000,000)	-
01-May-2020 $0.04 unlisted[1]	-	12,000,000	(12,000,000)	-
01-Dec-2020 $0.06 unlisted[1]	-	14,000,000	-	14,000,000
01-Dec-2020 $0.08 unlisted[1]	-	16,000,000	-	16,000,000
01-Dec-2020 $0.10 unlisted[1]	-	18,000,000	-	18,000,000
01-Dec-2020 $0.12 unlisted[1]	-	20,000,000	-	20,000,000
01-Dec-2020 $0.14 unlisted[1]	-	20,000,000	-	20,000,000
30-Sep-2021 $0.08 unlisted[2]	-	89,919,705	-	89,919,705
30-Sep-2021 $0.20 unlisted[3]	-	200,000,000	-	200,000,000
30-Jun-2025 $0.05 unlisted[4]	-	750,000	-	750,000
30-Jun-2026 $0.05 unlisted[4]	-	750,000	-	750,000
30-Jun-2027 $0.05 unlisted[4]	-	750,000	-	750,000
Total	**262,960,728**	**412,169,705**	**(34,427,321)**	**640,703,112**
Weighted average price ($)	$0.04	$0.139	$0.031	$0.104

At 30 June 2019

Expiry date and exercise price	Balance at start of year	Granted during year	Expired during year	Balance at end of year
31-Dec-2019 $0.12 (IHLOA)	17,266,857	-	(17,266,857)	-
31-Dec-2019 $0.12 unlisted	11,750,000	-	(11,750,000)	-
31-Dec-2019 $0.128 unlisted	1,171,879	-	(1,171,879)	-
30-Sep-2020 $0.04 IHLOB	126,570,156	136,390,572	-	262,960,728
Total	**156,758,892**	**136,390,572**	**(30,188,736)**	**262,960,728**
Weighted average price ($)	$0.055	$0.040	$0.120	$0.040

[1] A total of 120,000,000 options were issued to Cannvalate Pty Ltd upon approval by shareholders on 9 August 2019.

[2] 22,368,422 options were issued to participants of the July 2019 equity capital raisings attaching to shares subscribed for under those raisings and 33,000,000 options were issued to brokers who supported those equity capital raisings. A further 34,551,283 options were issued to participants of the October 2019 capital raising attaching to shares subscribed for under that raising.

[3] 200,000,000 options were issued as remuneration for the Company's Chief Medical Officer (Dr Sud Agarwal), after approval by shareholders on 26 June 2020.

[4] 2,250,000 options were issued as remuneration for the Company's Chief Executive Officer (Mr Joel Latham), after approval by shareholders on 26 June 2020.

(d) Movement in number of Performance Shares and Performance Rights for the year

At 30 June 2020

Security Description	Balance at start of year	Granted by the Company	Converted or Expired	Balance at end of year
Performance Rights[1]	24,166,668	32,303,593	(14,916,668)	41,553,593
Performance Shares[2]	20,000,002	-	(20,000,002)	-

At 30 June 2019

Security Description	Balance at start of year	Granted by the Company	Converted or Expired	Balance at end of year
Performance Rights	735,021	49,000,000	(25,563,533)	24,166,668
Performance Shares	40,000,004	-	(20,000,002)	20,000,002

[1] 32,303,593 performance rights were issued as remuneration for the Company's Chief Medical Officer (Dr Sud Agarwal), after approval by shareholders on 26 June 2020. 11,916,668 performance rights converted into ordinary shares upon achievement of designated performance hurdles and 3,000,000 performance rights expired.

[2] Performance shares were issued to holders upon the Company's relisting in November 2016. Performance hurdles attaching to these shares related to sales targets within the now discontinued devices business. These targets were not achieved and the performance shares lapsed on 30 June 2020.

19. Reserves

Equity based premium reserve	Consolidated 2020 $	Consolidated 2019 $
Balance at 1 July 2019	451,643	228,725
Options issued to advisors[1]	449,093	175,064
Options issued to Cannvalate Pty Ltd[2]	244,403	-
Equity instruments issued to management and directors	345,449	47,854
At 30 June 2020	1,490,588	451,643

[1] During the year, 33,000,000 options exercisable at $0.08 and expiring on 30 September 2021, were issued to brokers who supported the July 2019 capital raisings. These options have been valued using a Black-Scholes option model with inputs being grant date share price of $0.04 risk-free rate of 0.24% and volatility of 92%.

[2] On 9 August 2019, at a general meeting of shareholders, the issue of 120,000,000 options to Cannvalate Pty Ltd as remuneration for Cannvalate's management of the Company's clinical program was approved. This amount was initially recorded as a payable as at 30 June 2019 (refer also to note 17) and transferred to the reserve in the current year. Details of these options are set out in note 18(c) and have been valued using Black-Scholes option model with inputs being grant date share price of $0.02; risk-free rate of 1.07% and volatility of 59%.

The equity based premium reserve is used to record the value of equity issued to raise capital, and for share-based payments.

20. Remuneration of auditors

Audit or review of the financial reports of the company

Amounts received & receivable by the auditor:		
Audit services – HLB Mann Judd	37,000	37,500
	37,000	37,500

21. Financial Instruments

The Group's principal financial instruments comprise cash and short-term deposits and convertible notes.

The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial liabilities such as trade payables, which arise directly from its operations. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

(a) Interest rate risk
The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short-term deposits with a floating interest rate.
The Group's exposure to interest rate on financial assets and financial liabilities is detailed in the sensitivity analysis section of this note.

(b) Sensitivity analysis
During 2020, if interest rates had been 50 basis points higher or lower than the prevailing rates realised, with all other variables held constant, there would have been an immaterial change in post-tax result for the year. The impact on equity would have been the same.

(c) Net fair values
The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and liabilities approximates their carrying value.

(d) Commodity price risk
The Group's exposure to price risk is minimal.

(e) Credit risk
There are no significant concentrations of credit risk within the Group.
With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.
Since the Group trades only with recognised third parties, there is no requirement for collateral.

(f) Liquidity risk
The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of share issues and convertible notes.

The Group's contractual liabilities at 30 June 2020 were as follows:

Description	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Total
Consolidated	**$**	**$**	**$**	**$**	**$**
Payables & accruals	906,144	-	-	-	906,144
	906,144	-	-	-	906,144

The Group's contractual liabilities at 30 June 2019 were as follows:

Description	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Total
Consolidated	**$**	**$**	**$**	**$**	**$**
Payables & accruals	478,820	-	-	-	478,820
Borrowings	65,000	-	-	-	65,000
	543,820	-	-	-	543,820

(g) Capital Management
The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it may continue to provide returns for shareholders and benefits for other stakeholders. Due to the nature of the Group's past activities, being mineral exploration, it does not have ready access to credit facilities and therefore is not subject to any externally imposed capital requirements, with the primary source of Group funding being equity raisings and unsecured convertible notes. Accordingly, the objective of the Group's capital risk management is to balance the current working capital position against the requirements to meet exploration programmes and corporate overheads. This is achieved by maintaining appropriate liquidity to meet anticipated operating requirements, with a view to initiating fund raisings as required.

22. Commitments and contingencies

Operating lease commitments – group as lessee

In 2017, the Group entered into a commercial lease for its office premises and office equipment. The lease expires on 31 October 2020. Future minimum payments under these contracts as at 30 June are as follows:

	Consolidated	
	2020	**2019**
	$	**$**
Within one year	9,697	11,500
Total minimum contract payments	9,697	11,500

23. Key Management Personnel compensation and related party disclosure

The Key Management Personnel of Incannex Healthcare Limited during the year were:

Troy Valentine
Peter Widdows
Joel Latham
Sud Agarwal (commenced 24 July 2019)
Alistair Blake (ceased as a director on 24 July 2019 and ceased employment on 31 October 2019)

Key management personnel compensation	Consolidated	
	2020	**2019**
	$	**$**
Short-term employee benefits	638,201	447,929
Long-term employment benefits	565,448	42,818
Post-employment benefits	29,985	14,344
Total KMP compensation	1,233,634	505,091

Transactions with related entities

Transactions between related parties are on commercial terms and conditions, no more favourable than those available to other parties unless otherwise stated.

During the year ended 30 June 2020, $145,200 (2019: $115,864) fees were paid to Alignment Capital Pty Ltd ("Alignment"), an entity in which Mr Valentine is a director. Alignment was engaged by the company to act as lead manager in the various capital raisings conducted during the year.

24. Details of the controlled entity

The consolidated financial statements include the financial statements of Incannex Healthcare Limited ('IHL') and its wholly owned subsidiary Incannex Pty Ltd ('IXPL'). IXPL is incorporated in Australia and IHL owns 100% of the issued ordinary shares in IXPL (2019: 100%).

On 30 June 2020, the consolidated entity disposed entirely of its 100% subsidiary - Gameday International Pty Ltd, ('Gameday'). As at 30 June 2019, the consolidated entity owned 100% of the issued ordinary shares of Gameday.

25. Events Subsequent to Reporting Date

Since the end of the financial period, holders of options have provided $584,290 to exercise a total of 14,607,242 'IHLOB' options into IHL ordinary shares.

There have been no other material events subsequent to balance date.

26. Parent entity disclosures

The individual financial statements for the parent entity show the following aggregate amounts. The information presented has been prepared using accounting policies as discussed in Note 1.

Financial Position	**2020** **$**	**2019** **$**
Current assets	3,573,665	30,120
Non-Current assets (i)	-	7,383,665
Total assets	3,573,665	7,413,785
Current liabilities	(504,228)	(508,014)
Non-current liabilities	-	-
Total liabilities	(504,228)	(508,014)
Net assets	2,237,151	6,905,771
Issued capital	34,192,043	26,951,744
Reserves	1,490,588	451,643
Accumulated losses	(32,613,194)	(20,497,616)
Shareholders' equity	2,237,151	6,905,771

(i) In the current year, the loan to the subsidiary company has been fully impaired.

Contingencies of the Parent Entity

There are no contingent liabilities involving the parent entity (2019: Nil).

Guarantees of the Parent Entity

There are no guarantees involving the parent entity (2019: Nil)

DIRECTORS' DECLARATION

1. In the opinion of the Directors:

   a. the accompanying financial statements, notes and additional disclosures are in accordance with the Corporations Act 2001 including:

      i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the year then ended; and

      ii. complying with Accounting Standards and Corporations Regulations 2001; and

   b. there are reasonable grounds to believe the Company will be able to pay its debts as and when they become due and payable.

   c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2020.

This declaration is signed in accordance with a resolution of the Board of Directors.

Troy Valentine
Chairman
11 August 2020

HLB MANN JUDD
ADVISORY AND ACCOUNTING

INDEPENDENT AUDITOR'S REPORT
To the members of Incannex Healthcare Limited (previously Impression Healthcare Limited)

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Incannex Healthcare Limited (previously Impression Healthcare Limited) ("the Company") and its controlled entities ("the consolidated entity"), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its financial performance for the year then ended; 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 consolidated entity 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.

We have determined the matters described below to be the key audit matters to be communicated in our report.

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Key Audit Matter	How our audit addressed the key audit matter
Revenue Recognition Refer to Note 2 *Revenue and Expenses*	
A substantial amount of the consolidated entity's revenue relates to the sale of mouthguards, impression kits & more recently medical cannabinoid products and oils. Revenue was recognised from sales of goods. Revenue recognition was a key audit matter due to the importance of the matter to users' understanding of the financial report.	Our procedures included but were not limited to: - We evaluated management's processes and key controls regarding accounting for the consolidated entity's sales revenues; - We ensured that the consolidated entity's accounting policies comply with Australian Accounting Standards; - We performed testing over a sample of revenue transactions to supporting evidence; and - We considered the amounts included within deferred revenue for compliance with the consolidated entity's accounting policies.
Valuation of Share Based Payments Refer to Note 13 *Share based payments*	
The securities issued to directors as part of their remuneration was a complex area of accounting and valuation. The securities issued to directors included market-based performance rights and non-market-based options, requiring different accounting methodologies and valuation techniques. Valuation of share based payments was a key audit matter due to the complex nature of the valuation principles, and the material amount of the resulting expense.	Our procedures included but were not limited to: - We assessed management's valuation, classification and calculation of each category of share based payments; and - We ensured that the accounting for, and disclosure of, the share based payments complied with Australian Accounting Standards.

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 consolidated entity's annual financial report for the year ended 30 June 2020, 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 accordingly we do not express any form of assurance conclusion thereon.

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

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

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the consolidated entity 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 consolidated entity 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 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the consolidated entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the consolidated entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the consolidated entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included within the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Incannex Healthcare Limited (previously Impression Healthcare Limited) for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

L Di Giallonardo
Partner

Perth, Western Australia
11 August 2020

CORPORATE GOVERNANCE STATEMENT

Incannex Healthcare Limited, ("IHL" or "the Company") and its controlled entities (the "Group") have adopted the corporate governance framework and practices set out in this statement. The Board of the Company is responsible for its corporate governance, that is, the system by which the Group is managed. The corporate governance framework and practices have been in place throughout the financial year, and comply with the third edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("Recommendations"), unless otherwise stated below.

This statement has been approved by the Board, and the information in the statement remains current as at 10 August 2020. Company policies and charters are available in the 'Investors' section of the Company's website at www.incannex.com.au

Principle 1: Lay Solid Foundations for Management and Oversight

1.1 Role of the Board and Management

The Board is responsible for evaluating and setting the strategic direction for the Group, establishing goals for management and monitoring the achievement of those goals.

The Board has responsibility for the following:

- appointing and removing the Chief Executive Officer ("CEO") and managing director, chief financial officer ("CFO"), company secretary and any other executives and approving their remuneration;
- determining the strategic direction of the Group and measuring performance of management against approved strategies;
- review of the adequacy of resources for management to properly carry out approved strategies and business plans;
- adopting operating and capital expenditure budgets at the commencement of each financial year, approving acquisitions and divestitures, and monitoring progress by both financial and non-financial key performance indicators;
- monitoring the Group's medium-term capital and cash flow requirements;
- approving and monitoring financial and other reporting to regulatory bodies, shareholders and other organisations;
- determining that satisfactory arrangements are in place for auditing the Group's financial affairs;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and compliance with legislative requirements; and
- ensuring that policies and compliance systems consistent with the Group's objectives and best practice are in place and that the Company and its officers act legally, ethically and responsibly on all matters.

The Board's role and the Group's corporate governance practices are continually reviewed and improved as required.

1.2 Information on New Directors

The Company has access to an external supplier to undertake appropriate checks on any potential director appointments. Under the Company's Constitution, all directors appointed throughout the year as an additional director or to fill a casual vacancy hold office to the AGM. Current directors hold office and are required to be considered by Shareholders for re-election under the Listing Rules.

All directors, whether appointed throughout the year as an additional director or to fill a casual vacancy or who are due for election under the Listing Rules, are disclosed in the Notice of AGM, with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director. The company's constitution provides that at each annual general meeting, one third of the Board (other than any managing director in office from time to time) or, if their number is not a multiple of three, the number nearest to one third, must retire and, if the retiring directors so chose, may offer themselves for re-election.

1.3 Contracts with Directors

On appointment, directors are provided with a formal letter of appointment and executive management with written employment agreements incorporating job descriptions (where relevant).

1.4 Professional Advice

The Board has determined that individual directors have the right in connection with their duties and responsibilities as directors, to seek independent professional advice at the Group's expense. The engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably. If appropriate, any advice so received will be made available to all Board members.

The finance function is outsourced to an external consultant with appropriate skills. The company secretarial function is currently performed by Glenn Fowles. The Company Secretary is accountable to the Board through the Chairman on corporate governance matters pertaining to the company secretarial role. All directors have access to the Company Secretary.

1.5 Diversity

Recommendation 1.5 is that the Company should establish and disclose a diversity policy. Due to the Company’s size and nature of operations, the Board has not yet implemented a diversity policy but the Board recognises the value of diversity and the opportunities that it brings. As the Company grows and positions become available, the Board remains conscious of the requirement to establish a diversity policy and will seek to promote and increase diversity.

Recommendation 1.5 also states that the Company should report against a set of measurable objectives for achieving gender diversity. Due to the Company’s size and nature of operations, the Board has not yet established measurable objectives for achieving gender diversity.

The Company currently has two permanent full-time employees (one male and one female) and uses the services of a number of consultants. There are four directors on the Board, all of whom are male.

1.6 Performance Review – Board and Directors

Due to the size of the Company and the Board, an informal self-assessment is normally undertaken in relation to the Board’s collective performance and the performance of the Chairman and individual directors during each financial year. There are currently no formal policies in place for these evaluations. The Board, its committees and non-executive directors continually monitors its performance during the year in accordance with the processes described above.

Recommendation 1.6 includes the requirement to disclose whether a performance evaluation for the Board and Directors has taken place in the reporting period - a formal self-assessment was performed during the 2020 financial year.

1.7 Performance Review – senior executives

Arrangements put in place by the Board to monitor the performance of the Group's executives include:

- a review by the Board of the Group's financial performance;
- annual performance appraisal meetings, incorporating analysis of key performance indicators with each individual, to ensure that the level of reward is aligned with respective responsibilities and individual contributions made to the success of the Group;
- an analysis of the Group's prospects and projects; and
- a review of feedback obtained from third parties, including advisors.

Recommendation 1.7 includes a requirement to disclose whether a performance evaluation for senior executives has taken place in the reporting period - performance evaluation for senior executives was undertaken during the 2020 financial year.

Principle 2: Structure of the Board to Add Value

2.1 Nomination Committee

Recommendation 2.1 is that the Board should establish a nomination committee. The Board considers that the Group is not currently of a size, nor are its affairs of such complexity to justify the formation of a nomination committee at this time. The Board as a whole considers the following factors when selecting new directors and when recommending directors to shareholders for appointment or re-election:

- the aim of having a majority of independent directors on the Board and of having an independent non-executive chairman;
- the aim of having an independent director, other than the Board chairman, as the chairman of the Audit and Risk Management Committee;

- that between them, the directors have the appropriate skill base and range of expertise, experience and diversity to discharge the Board's mandate;
- that each individual director has sufficient time to meet his/her commitments as a director of the Company;
- the duration of each existing director's tenure, noting the retirement provisions of the Constitution as set out below; and
- whether the size of the Board is appropriate to facilitate effective discussions and efficient decision-making.

Where appropriate, independent consultants will be engaged to identify possible new candidates for the Board. To date, new candidates to join the Board have predominantly been sought through referrals, rather than through professional intermediaries.

Directors are initially appointed by the full Board, subject to election by shareholders at the next annual general meeting. Under the Company's Constitution a director (other than the managing director and only one managing director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following his/her last appointment. The nomination of existing directors for reappointment is not automatic and is contingent on performance and on the current and future needs of the Company.

2.2 Board Skills Matrix

The Board has developed a Board skills matrix, to simplify the process for identifying any 'gaps' in the Board's skills, expertise and experience. As part of the review of the skills matrix the Board monitor the skills, expertise and experience that are relevant to the Company and assesses those requirements against the collective attributes of the directors. The Board skills matrix will be reviewed by the directors on an annual basis.

Details of the Directors' skills, experience, expertise and attendance at meetings are set out in the Directors' Report in each year's Annual Report.

2.3/2.4 Independent Directors

During the financial year ended 30 June 2019, the Company had the following Board members, who served as directors throughout.

- Mr Troy Valentine Non-Executive Chairman (appointed 11 December 2017)
- Mr Peter Widdows Non-Executive Director (appointed 1 March 2018)

On 24 July 2019, Mr Alistair Blake (Executive Director - appointed 20 October 2016) resigned from the Board, and on that same day, the following appointments to the Board were made:

- Dr Sud Agarwal Non-Executive Director
- Mr Joel Latham Managing Director

The Board currently consists of one executive and three Non-executive Directors.

Details of the directors' skills, experience, expertise, special responsibilities, attendance at Board meetings and dates of appointment are set out in the directors' report.

In assessing the independence of the directors, the Board has defined an independent director as a director who:

- is non-executive;
- is not a substantial shareholder (i.e. greater than 5%) of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- has not within the last three years been employed in an executive capacity by the Company or another Group member;
- has not within the last three years been a principal or employee of a material professional adviser or a material consultant to the Company or another Group member, or an employee materially associated with the service provided;
- is not a material supplier or customer of the Company or another Group member, or an officer of or otherwise associated, directly or indirectly, with a material supplier or customer;
- has no material contractual relationship with the Company or another Group member other than as a director of the Company; and

- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

Materiality for these purposes is determined on both quantitative and qualitative bases. An amount which is greater than five percent of either the net assets of the Company or an individual director's net worth is considered material for these purposes.

Troy Valentine is a substantial shareholder of the Company and is therefore not independent.

Peter Widdows is deemed to be an independent director.

Sud Agarwal is deemed to be an independent director.

Joel Latham is the Group Managing Director and Chief Executive Officer and is therefore not independent.

During his time on the Board during FY20, Alistair Blake was the technical adviser of Incannex Healthcare Limited and not considered independent.

The Company's Constitution provides that the number of directors shall not be less than three and not more than seven. The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the appointment and further expense of additional independent non-executive directors.

The Board believes that the four individuals on the Board can, and do, make independent judgments and act in the best interests of shareholders.

In accordance with the Corporations Act 2001 and the Company's Constitution, directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Group. Where the Board believes that a significant conflict exists, the director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered.

2.5 Chairman

Troy Valentine performs the role of chairman.

The Chairman’s responsibilities include leadership of the Board and the efficient organisation and conduct of the functioning of the Board. The Board generally manages the day-to-day affairs of the Group.

2.6 Director Induction

The Board implements an induction program for new Directors which involves providing information about the company, its constitution and policies and practices. The Board is continually informed by Senior Management of key developments in the Company’s business and the industry in which the Company operates.

Principle 3. Act ethically and responsibly

3.1 Code of Conduct

The Group has a Code of Business Conduct in place which provides guidelines aimed at maintaining high ethical standards, corporate behavior and accountability within the Group.

All Group personnel and directors are expected to:

- respect the law and act in accordance with it;
- respect confidentiality and not misuse Group information, assets or facilities;
- value and maintain professionalism;
- avoid real or perceived conflicts of interest;
- act in the best interests of shareholders;
- by their actions contribute to the Group's reputation as a good corporate citizen, which seeks the respect of the community and environment in which it operates;
- perform their duties in ways that minimise environmental impacts and maximise workplace safety;
- exercise fairness, courtesy, respect, consideration and sensitivity in all dealings within their workplace and with customers, suppliers and the public generally; and
- act with honesty, integrity, decency and responsibility at all times.

Any member of Group personnel that breaches the Code of Ethics and Conduct may face disciplinary action. If a member of Group personnel suspects that a breach of the Code of Ethics and Conduct has occurred or will occur, he or she must report that breach to management. No member of Group personnel will be disadvantaged or prejudiced if he or she reports in good faith a suspected breach. All reports will be acted upon and kept confidential.

Principle 4. Safeguard Integrity in Corporate Reporting

4.1 Audit Committee

Recommendation 4.1 is that the Board should establish an Audit and Risk Management Committee. The Board considers that the Group is not currently of a size, nor are its affairs of such complexity to justify the formation of an audit committee at this time. During the year, the full Board reviews the integrity of the Company's financial reporting and the processes to ensure the independence and competence of the external auditors.

The Board currently fulfils the responsibilities which are usually assigned to an audit committee including:

- considering whether the Company's financial statements reflect the understanding of the Committee members of, and otherwise provide a true and fair view of, the financial position and performance of the Company;
- ensuring that the quality of financial controls is appropriate for the business of the Company;
- considering the appointment or removal of the external auditor, the rotation of the external audit partner and approving the remuneration and terms of engagement of the external auditor;
- monitoring and reviewing the external auditor's independence, objectivity and performance, taking into consideration relevant professional and regulatory requirements; and
- reviewing the Company's risk management and internal control systems.

4.2 CEO/CFO declarations

The Board has received a written assurance from each of the Chief Executive Officer and Chief Financial Officer for each financial reporting period that in their opinion, the declaration provided by them in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

4.3 External Auditors present at the Annual Meeting

The Company's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is considered annually and applications for tender for external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. The audit engagement partner is rotated periodically, as required by the Corporations Act.

A representative from the external auditor is invited to attend each annual general meeting to answer any questions concerning the audit of the Group and the contents of the auditor's report.

Principle 5. Make Timely and Balanced Disclosure

5.1 Market Disclosure Policy

The Market Disclosure Policy requires executive management to determine when a market release is required to comply with the ASX Listing Rule continuous disclosure requirements. The Policy sets out details of accountability for the preparation and approval of ASX releases, and is available on the Company's website.

Principle 6. Respect the Rights of Shareholders

6.1 Website Information

The Company discloses information about itself, ASX announcements, its Corporate Governance Statement and all its Corporate Governance Policies on the Company's website.

6.2 Investor Relations

The Group places considerable importance on effective communications with shareholders.

The Group communicates with shareholders and other stakeholders in an open, regular and timely manner, so that the market has sufficient information to make informed investment decisions on the operations and results of the Group. The following communications are posted on the Company's website:

- ASX Quarterly Cash Flow Reports;
- Half Yearly Report;
- presentations at the Annual General Meeting/General Meetings;
- Annual Report; and
- other announcements lodged with ASX.

6.3 Participation at Shareholder Meetings

The Board encourages full participation of shareholders at the Annual General Meeting. Shareholders who are unable to attend general meetings are encouraged to lodge proxy appointments in advance of the meeting.

6.4 Electronic Communications

Shareholders may elect to receive electronic notifications when the Annual Report is available on the Company's website, and may electronically lodge proxy instructions for items of business to be considered at general meetings.

Principle 7. Recognise and Manage Risk

7.1 Risk Committee

Recommendation 7.1 is that the Board should establish a committee to oversee risk. The Board considers that the Group is not currently of a size, nor are its affairs of such complexity to justify the formation of a risk committee at this time.

The Board currently fulfils the responsibilities which are usually assigned to a risk committee. Senior executives and the Board regularly consider strategic and operational areas of risk for the Group and records any remedial action the Group has taken in the management of those risks.

7.2 Risk Management Review

Recommendation 7.2 is that the Board or a Committee should review the risk management framework at least annually. During the year, ongoing monitoring, mitigating and reporting on material risks by senior executives and the Board took place in accordance with the processes disclosed.

The Board has established a framework for the management of the Group including a system of internal controls, a business risk management process and the establishment of appropriate ethical standards. The identification and effective management of risk, including calculated risk-taking, is viewed as an essential part of the Group's approach to creating long-term shareholder value.

Management is responsible for designing, implementing and reporting on the adequacy of the Group's risk management and internal control system.

Key elements of the Group's internal control systems include:

- the Code of Conduct, which sets out an ethical and legal framework for all employees in the conduct of the Group's business; and
- financial and reporting systems to provide timely, relevant and reliable information to management and the Board.

During the year and up to the date of this statement, management and the Company Secretary reported directly to the Board on the Group's key risks and the effectiveness of the Company's management of those risks.

7.3 Internal Audit Function

The Board, has determined not to have an internal audit function due to the size of the Company.

The Company's external auditors are engaged to perform a half year review and full year audit as required under the Corporations Act 2001. Senior executives and the Board have regular meetings and contact with the external auditors during the year and for the review and audits.

7.4 Material Exposure to Risk

Recommendation 7.4 is that the Board should disclose whether it has any material exposure to economic, environmental and social sustainability risks and if so, how it manages those risks. The Group believes that the following operational risks are inherent in the industry in which the Group operates, having regard to the Group's circumstances (including financial resources, prospects and size):

- fluctuations in commodity prices and exchange rates;

- accuracy of mineral reserve and resource estimates;
- reliance on licenses, permits and approvals from governmental authorities;
- ability to obtain additional financing;
- acquisition of new business opportunities; and
- changed operating, market or regulatory environments.

These risk areas are provided here to assist investors to understand better the nature of the risks faced by the Group, and are not necessarily an exhaustive list.

Principle 8. Remunerate Fairly and Responsibly

8.1 Remuneration Committee

Recommendation 8.1 is that the Board should establish a remuneration committee. The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of a remuneration committee. The Board as a whole is responsible for the remuneration arrangements for directors and executives of the Company.

Details of the Group's remuneration policy are set out in the remuneration report.

8.2 Remuneration Disclosure for Non-Executive and Executive Directors

The remuneration of non-executive directors is determined by the Board as a whole having regard to the level of fees paid to non-executive directors by other companies of similar size in the industry. Due to the size of the Company, the structure of both executive and non-executive directors' remuneration includes a long-term incentive component, linked to the performance of the Group.

The non-executive directors receive no retirement benefits, other than statutory superannuation contributions. Any increase in the maximum total remuneration of the non-executive directors of the Company, which is set at $500,000 is subject to the approval of shareholders. Further information on directors' and executives' remuneration is set out in the directors' report under the heading Remuneration Report in the Directors' Report in each year's Annual Report.

Any directors or IHL personnel participating in equity-based remuneration schemes are prohibited from entering into transactions in associated products which limit the economic risk of their unvested entitlements.

SECURITIES EXCHANGE INFORMATION

Additional information required by the ASX Limited Listing Rules, and not disclosed elsewhere in this report.

SHAREHOLDINGS

No individual shareholder is recorded as being a substantial shareholder (>5% of the Company's ordinary share capital). The Company received a "Notice of Substantial Shareholder" on 11 July 2019 advising a 6.52% position held by an associated group of shareholders. Please refer to the ASX announcement made by IHL on 11 July 2019 for further details of this position. No further update has been received by the Company.

CLASS OF SHARES AND VOTING RIGHTS

The voting rights attached to the Fully Paid Ordinary shares of the Company are:

a) at a meeting of members or classes of members each member entitled to vote may vote in person or by proxy or by attorney; and
b) on a show of hands every person present who is a member has one vote, and on a poll every person present in person or by proxy or attorney has one vote for each ordinary share held.

Options do not carry any voting rights.

TWENTY LARGEST SHAREHOLDERS (as at 7 August 2020)

	HOLDER NAME	NUMBER HELD	PERCENTAGE
1	CANNVALATE PTY LTD	32,000,000	4.20%
2	CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	30,916,693	4.06%
3	MR ANTHONY MICHAEL MALYNIAK <EJM A/C>	24,500,000	3.21%
4	CIPATER PTY LTD	19,200,000	2.52%
5	FOOTPRINT CAPITAL PTY LIMITED <POSWELL FAMILY A/C>	18,200,000	2.39%
6	MISS FRANCINE ELIZABETH PLANEL	17,562,500	2.30%
7	EZR SYSTEMS PTY LTD	17,309,187	2.27%
8	MR BRIAN PETER BYASS	16,210,000	2.13%
9	BAGBO PTY LTD	15,750,696	2.07%
10	SLADE TECHNOLOGIES PTY LTD <EMBREY FAMILY S/F A/C>	14,676,316	1.93%
11	MR PETER WIDDOWS	12,615,790	1.66%
12	MR JOEL BRADLEY LATHAM	11,829,129	1.55%
13	ALIGNMENT CAPITAL PTY LTD	11,194,248	1.47%
14	JAPL NOMINEES PTY LTD <JAPL INVESTMENT A/C>	10,004,370	1.31%
15	MR PETER FRANCIS SCANLAN	9,178,958	1.20%
16	GUINA NOMINEES PTY LTD <THE BYASS SUPER FUND A/C>	8,650,000	1.14%
17	PORTCULLIS HOUSE PTY LTD	6,410,260	0.84%
18	ALISTAIR PTY LTD	6,000,000	0.79%
19	DERAHN NOMINEES PTY LTD <LOVI SUPER FUND A/C>	5,901,137	0.77%
20	ELLAZ PTY LTD <THE RIPPER FAMILY A/C>	5,095,000	0.67%
		229,919,671	**36.32%**

DISTRIBUTION OF SHAREHOLDERS (as at 7 August 2020)

Range	Total Holders	Units	% of Total
1 - 1,000	72	23,509	0.00%
1,001 - 5,000	61	175,302	0.02%
5,001 - 10,000	366	2,919,420	0.38%
10,001 - 100,000	1,353	54,452,518	7.14%
100,001 and above	707	704,544,901	92.45%
Total	**2,559**	**762,115,650**	**100.00%**

There were 313 shareholders holding less than a marketable parcel (less than 6,250 shares at $0.065) at 4 August 2020 - a total of 1,373,409 shares.

TWENTY LARGEST OPTIONHOLDERS – "IHLOB" $0.040 30/09/20 (as at 7 August 2020)

	HOLDER NAME	NUMBER HELD	PERCENTAGE
1	MR RAYMOND LAURENCE CARROLL	20,000,000	8.10%
2	TRANAJ NOMINEES PTY LTD <FT FAMILY A/C>	14,036,804	5.68%
3	EKIRTSON NOMINEES PTY LTD <GFCR INVESTMENT A/C>	12,436,803	5.04%
4	ALIGNMENT CAPITAL PTY LTD	12,025,000	4.87%
5	MR PETER ANDREW PROKSA	12,000,000	4.86%
6	BAGBO PTY LTD	11,344,290	4.59%
7	R KRATZKE HOLDINGS PTY LTD	8,483,845	3.44%
8	MR SAM BOAKE	6,211,800	2.52%
9	MR FRANCESCO LUCIO MOLINO <SMILE LIKE YOU MEAN IT A/C>	6,000,000	2.43%
10	MR JOEL BRADLEY LATHAM	4,237,500	1.72%
11	MR WEE JIM GOH	4,200,000	1.70%
12	MR ANTHONY MICHAEL MALYNIAK <EJM A/C>	4,000,000	1.62%
13	MR LINDSAY PEARCE	3,801,371	1.54%
14	MR HARVEY WILLIAM GREEN	3,500,000	1.42%
15	MR PETER WIDDOWS	3,300,000	1.34%
16	MR GILBERT TUNG THANH NGUYEN	3,200,000	1.30%
17	MR ANTHONY MICHAEL MALYNIAK	3,200,000	1.30%
18	CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	3,050,000	1.24%
19	PELRUS PTY LTD	3,000,000	1.21%
20	NEXUS SUPERANNUATION PTY LTD <RUSSO SUPER FUND A/C>	3,000,000	1.21%
		141,027,413	**57.11%**

DISTRIBUTION OF OPTIONHOLDERS – "IHLOB" $0.040 30/09/20 (as at 7 August 2020)

Range	Total Holders	Units	% of Total
1 - 1,000	6	1,213	0.00%
1,001 - 5,000	18	51,091	0.02%
5,001 - 10,000	12	86,161	0.03%
10,001 - 100,000	77	3,993,028	1.61%
100,001 and above	181	243,394,622	98.33%
Total	**294**	**247,526,115**	**100.00%**

There is no current on-market buy back taking place.

During the reporting year the Company used its cash and assets in a manner consistent with its business objectives.

The Company had the following unlisted equity securities on issue as at 7 August 2020:

Class	Number
Performance rights	41,553,593
Options (refer to note 18 of the financial statements)	640,703,112