CannPal Animal Therapeutics Limited

ABN 88 612 791 518

Financial statements for the period ended 30 June 2017

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Financial statements
for the period ended 30 June 2017

Contents

Directors' report

Your directors present their report with respect to results of CannPal Animal Therapeutics Limited (the "company" or "CannPal") for the period ended 30 June 2017 and the state of affairs for the Company at that date.

DIRECTORS

The following persons were directors of CannPal Animal Therapeutics Limited during the whole of the financial period from the date of incorporation of 3 June 2016 to the date of this report (unless otherwise stated):

Geoff Starr (appointed 21 April 2017)
(Non-Executive Chairman)

Geoff brings 35 years of executive experience to the company, 15 years of which were at Managing Director or CEO level, gained all around the world, but especially in Asia, Europe and Australia/NZ. These positions included high level corporate companies such as Unilever and MARS Group, where Geoff had a very distinguished career running their pet food business in both Asia and Europe with over 20 brands in their portfolio, including Royal Canin, Whiskas, Advance and Pedigree.

Robert Clifford (appointed 1 February 2017)
(Non-Executive Director)

Rob has over 20 years of experience in brand implementation and business strategy and planning. His senior leadership roles have been in large multinational private and public corporations in Australia, China and Ireland. For over 25 years Rob has been at the forefront of Australia and New Zealand's hospitality industry, leading Australia's largest boutique catering brand EPICURE.

Robert Maxwell Johnston (appointed 21 April 2017)
(Non-Executive Director)

Max has over 45 years of experience holding board positions across ASX listed companies such as Medical Developments Ltd, Probiotec Ltd, Enero Group Ltd and Polynovo Ltd. Max has also held several prominent industry roles, including as a past President of ACCORD Australasia Limited and former Vice Chairman of the Australian Food and Grocery Council.

Layton Patrick Mills
(CEO and Managing Director)

Layton is the Co-founder and Managing Director of CannPal and holds a degree in business management and marketing. Layton has spent nine years in the fast moving consumer goods industry and has successfully launched a number of consumer goods into the Australian market, achieving national distribution and a successful brand acquisition.

Kathryn Claire Adams (appointed 21 April 2017)
(Non-Executive Director)

Dr Kate Adams is an entrepreneur and strategist with an interest in innovation, science and tech emerging companies, business development and digital growth marketing. Kate has held a number of government advisory and analyst roles in her career along with private company experience as the Director of Science, Technology and Intellectual Property at Palladion Partners.

Tania Maree Vidovic (appointed 3 June 2016 and resigned 21 April 2017)
(Non-Executive Director)

COMPANY SECRETARY

Baden Maxwell Bowen (appointed 28 September 2016)

Baden has over 30 years accounting and company secretary experience in commercial and financial roles, including financial accounting, external and internal audit. Mr Bowen has served as Director and company secretary for a number of public and private companies. He is a member of the Institute of Chartered Accountants in Australia.

Directors' report (continued)

DIRECTORS' MEETINGS

The numbers of meetings of the Company's Board of Directors held during the period ended 30 June 2017, and the numbers of meetings attended by each director were:

	Directors' meetings	
	A	**B**
Geoff Starr	1	1
Robert Clifford	1	1
Robert Johnston	1	1
Layton Mills	1	1
Kathryn Adams	1	1
Tania Vidovic	-	-

A = Number of meetings attended
B = Number of meetings held during the time the director held office during the period

Directors' interest in Shares and Options

As at the date of this report, the interest of the directors in the shares and options of the Company are:

	No. of shares 30 June 2017	No. of options 30 June 2017
Geoff Starr	-	500,000
Robert Clifford	430,293	500,000
Robert Johnston	-	500,000
Layton Mills	6,884,682	-
Kathryn Adams	-	500,000

DIVIDENDS

No dividends have been paid by the Company or declared by the directors since the commencement of the financial period ended 30 June 2017.

CORPORATE INFORMATION

The Company was incorporated on 3 June 2016. CannPal Animal Therapeutics Limited is incorporated and domiciled in Australia. The registered office is located at Level 3, 45A Bay Street, Double Bay NSW.

Principal activity and Review of Operations

The principal activity of the Company is that of an animal therapeutics company. For the period from incorporation to 30 June 2017, the Company focussed on research and development. The result for the period was a loss of ($1,688,197) which included an expense of $916,189 for share based payments.

Employees

As at 30 June 2017, the Company had one full time employee.

Directors' report (continued)

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

On 2 June 2017, the Company (formerly Cannpal Pty Ltd) was converted to a public company limited by shares. In the opinion of the directors, there were no other significant changes in the state of affairs of the Company that occurred during the period.

SIGNIFICANT CHANGES AFTER BALANCE DATE

On 10 July 2017, the Company resolved to issue 1,500,000 options to advisors of the Company in consideration for the advisors providing their experience, knowledge, assistance and access.

On 28 August 2017, the Company lodged a prospectus with the Australian Securities and Investments Commission. The prospectus is for the issue of 30,000,000 shares of 20 cents each to raise $6,000,000.

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

SHARE OPTIONS

Unissued shares

There were 9,250,000 options outstanding as at 30 June 2017. 2,000,000 of these were issued to the Directors as shown above. The other 7,250,000 were issued to Zelda Therapeutics Limited in exchange for shared services between the two entities to develop and grow their business.

Shares issued on the exercise of Options

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

INDEMNIFICATION OF DIRECTORS AND OFFICERS

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

AUDITOR INDEPENDENCE

The Directors have obtained an independence declaration from the Company's auditors, BDO Audit (WA) Pty Ltd, as presented on page 6 of this financial report.

NON-AUDIT SERVICES

No fees were paid during the period for the provision of non-audit services.

On behalf of the Board
CannPal Animal Therapeutics Limited

Geoff Starr
Chairman

Sydney, NSW
19 September 2017

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Australia

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

As lead auditor of CannPal Animal Therapeutics Limited for the period ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

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

Neil Smith

Director

BDO Audit (WA) Pty Ltd

Perth, 19 September 2017

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

CannPal Animal Therapeutics Limited

ABN 88 612 791 518

Financial statements - 30 June 2017

Contents

	Notes	30 June 2017 $
Income		
Interest income		6,392
Total income		**6,392**
Expenses		
Employee expenses		140,592
Directors fees		45,733
Legal and professional		190,836
Research & Development		333,039
Share based payment	8	916,189
Administration		68,200
Total expenses		**(1,694,589)**
Loss before income tax		**(1,688,197)**
Income tax benefit/(expense)	3	**-**
Loss after income tax		**(1,688,197)**
Net loss for the period attributable to members of CannPal Animal Therapeutics Limited		**(1,688,197)**
Other comprehensive income, net of tax		**-**
Total comprehensive income for the period attributable to the members of CannPal Animal Therapeutics Limited		**(1,688,197)**
		Cents
Earnings/(loss) per share attributable to the ordinary equity holders of the company:		
Basic earnings / (loss) per share	14 (a)	(2.70)

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

	Notes	30 June 2017 $
ASSETS		
Current assets		
Cash and cash equivalents	4	754,188
Trade and other receivables	5	25,579
Total current assets		**779,767**
Total assets		**779,767**
LIABILITIES		
Current Liabilities		
Accruals payable	6	41,663
Total current liabilities		**41,663**
Total liabilities		**41,663**
Net assets		**738,104**
EQUITY		
Issued capital	7	1,510,112
Share based payment reserve	8	916,189
(Accumulated losses) / retained earnings	8	(1,688,197)
Total equity		**738,104**

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

	Notes	**Issued capital**	**Share based payment reserve**	**(Accumulated losses)**	**Total**
		$	**$**	**$**	**$**
Balance at 3 June 2016		**-**	**-**	**-**	**-**
Loss for the period		-	-	(1,688,197)	(1,688,197)
Share based payments		-	916,189	-	916,189
Share issues	7	1,510,112	-	-	1,510,112
Total for the period		**1,510,112**	**916,189**	**(1,688,197)**	**738,104**
Balance at 30 June 2017		**1,510,112**	**916,189**	**(1,688,197)**	**738,104**

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

	Notes	30 June 2017 $
Cash flows from operating activities		
Payments to suppliers and employees		(762,316)
Interest received		6,392
Net outflow to operating activities	12	**(755,924)**
Cash flows from financing activities		
Proceeds from shareholders		1,510,112
Net cash inflow from financing activities		**1,510,112**
Net increase in cash and cash equivalents		**754,188**
Cash and cash equivalents at the beginning of the financial period		-
Cash and cash equivalents at end of period	4	**754,188**

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

1 Corporate information

The financial report of CannPal Animal Therapeutics Limited (the "Company") for the period ended 30 June 2017 was authorised for issue in accordance with a resolution of the directors on 19 September 2017.

The Company was incorporated on 3 June 2016 as CannPal Pty Ltd. On 2 June 2017, the Company changed its status to a public company limited by shares and changed its name to CannPal Animal Therapeutics Limited on 7 June 2017.

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

The nature of the operations and principle activities are described in the Directors' report. The Company is a for-profit entity.

2.1 Summary of significant accounting policies

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards - Reduced Disclosure Requirements and other authoritative pronouncements of the Australian Accounting Standards Board. The Company is a for-profit, private sector entity which is not publicly accountable. Therefore, the financial statements for the Company are tier 2 general purpose financial statements which have been prepared in accordance with Australian Accounting Standards - Reduced Disclosure Requirements.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied, unless otherwise stated. The financial report comprises the financial statements of CannPal Animal Therapeutics Limited.

The financial report is presented in Australian dollars.

(b) Going Concern

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

For the period ended 30 June 2017, the Company generated a loss of $1,688,197 which included a non-cash amount of $916,189 for a share based payment expense and incurred operating cash outflows of $755,924. As at 30 June 2017, the Company had cash and cash equivalents of $754,188 and net current assets of $738,104. On 28 August 2017, the Company lodged a prospectus with the Australian Securities and Investments Commission, to raise $6,000,000 through the issue of 30,000,000 shares of 20 cents each.

The Directors have reviewed the Company's financial position and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the entity will be successful in securing additional funds through equity issues.

Should the Directors not be able to achieve the matters set out above, there is significant uncertainty as to whether the Company will be able to continue as a going concern and whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amount stated in the financial report.

The financial statements do not include any adjustment relating to the recoverability and classification of recorded asset amounts, nor the amounts or classification of liabilities that might be necessary should the Company not be able to continue as a going concern.

(c) Investments and other financial assets

Financial assets are classified as either financial assets held for trading (financial assets at fair value through profit or loss), loans and receivables, held to maturity investments or available for sale investments, as appropriate.

When financial assets are initially recognised they are recorded at fair value, plus in the case of investments not held for trading, directly attributable transaction costs.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition. For financial assets carried at amortised cost, gains and losses are recognised in the statement of comprehensive income when the financial assets are derecognised or impaired, as well as through the amortisation process.

2.1 Summary of significant accounting policies (continued)

(d) Revenue recognition

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

Interest income

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

(e) Income tax

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

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

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

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

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

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

(f) Cash and cash equivalents

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

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

(g) Trade and other receivables

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

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

2.1 Summary of significant accounting policies (continued)

(h) Trade and other payables

Liabilities for creditors and other amounts are carried at amortised cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

Payables include outstanding settlements on the purchase of investments and distributions payable. The carrying period is dictated by market conditions and is generally less than 30 days.

(i) Goods and Services Tax (GST)

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

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

(j) Earnings per share

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

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

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

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

(k) Contributed equity

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

(l) Share based payments

Equity settled transactions

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

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

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

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

At each subsequent reporting date until vesting, the cumulative charge to the statement of comprehensive income is the product of:

(a) The grant date fair value of the award.

(b) The current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met.

(c) The expired portion of the vesting period.

2.1 Summary of significant accounting policies (continued)

(l) Share based payments (continued)

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

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

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

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

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

2.2 Application of new and revised accounting standards

New accounting standards and interpretations

The Company has adopted all new accounting standards and interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for annual reporting periods beginning 1 July 2016. The adoption of these new and revised standards and interpretations did not have any effect on the financial position or performance of the Company.

Accounting standards and interpretations issued but not yet effective

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

Ref	Title	Summary Application date of standard	Impact on Company's financial report	Application date for Company
AASB 9, and relevant amending standards	*Financial Instruments*	AASB 9 replaces AASB *139 Financial Instruments: Recognition and Measurement.* Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss. For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit	The impact on the financial report remains under evaluation.	1 January 2018

Ref	Title	Summary Application date of standard	Impact on Company's financial report	Application date for Company
		risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO. The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9. The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139.		

Ref	Title	Summary Application date of standard	Impact on Company's financial report	Application date for Company
AASB 15, and relevant amending standards	*Revenue from Contracts with Customers*	AASB 15 replaces all existing revenue requirements in Australian Accounting Standards and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 (or AASB 16 Leases, once applied). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps: • Step 1: Identify the contract(s) with a customer • Step 2: Identify the performance obligations in the contract • Step 3: Determine the transaction price • Step 4: Allocate the transaction price to the performance obligations in the contract • Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.	The impact on the financial report remains under evaluation.	1 January 2018
AASB 2016-5	*Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*	This Standard amends AASB 2 *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: • The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments • Share-based payment transactions with a net settlement feature for withholding tax obligations • A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.	The impact on the financial report remains under evaluation.	1 July 2018
IFRS 16	*Leases*	AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.	The impact on the financial report remains under evaluation.	1 January 2019

3 Income tax expense

(a) Income tax expense

	30 June 2017 $
Current tax expense	-
	-

(b) Reconciliation of income tax expense to prima facie tax payable

	30 June 2017 $
Loss before income tax expense	(1,688,197)
Tax at the Australian tax rate of 30%	(506,459)
Tax losses not brought to account as a deferred tax asset	506,459
Income tax benefit / (expense)	-

4 Current assets - Cash and cash equivalents

	30 June 2017 $
Cash at bank	754,188
	754,188

5 Current assets - Trade and other current receivables

	30 June 2017 $
GST receivable	25,579
	25,579

There are no receivables past due or impaired.

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

6 Current liabilities - Accruals payable

	30 June 2017 $
PAYG withholding	2,431
Audit fees	12,500
Director's fees	22,892
Annual leave	3,840
	41,663

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

7 Issued capital

	30 June 2017 Shares	30 June 2017 $
Ordinary shares fully paid	**62,500,000**	**1,510,112**

Movements in ordinary share capital:

Date	Details	Number of shares	$
3 June 2016	**Opening balance**	-	-
	Share issues	62,500,000	1,510,112
30 June 2017	**Balance**	**62,500,000**	**1,510,112**

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

8 Reserves and accumulated losses

	30 June 2017 $
(a) Reserves	
Share based payment reserve	916,189
	916,189

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

(b) Accumulated losses

Movements in accumulated losses were as follows:

	30 June 2017 $
Opening balance	**-**
Net loss after tax attributable to members of the Company	1,688,197
Closing balance	**1,688,197**

9 Share-based payments

(a) Movements during the year

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

9 Share-based payments (continued)

(a) Movements during the year (continued)

Zelda Therapeutics Limited	2017 Number	2017 WAEP
Outstanding at 3 June 2016	-	-
Granted during the year	7,250,000	$0.20
Outstanding at 30 June 2017	**7,250,000**	**$0.20**
Exercisable at 30 June 2017	7,250,000	$0.20

Share options granted during the year were granted on 24 March 2017 and were vested at that date.

Directors	2017 Number	2017 WAEP
Outstanding at 3 June 2016	-	-
Granted during the year	2,000,000	$0.25
Outstanding at 30 June 2017	**2,000,000**	**$0.25**
Exercisable at 30 June 2017	2,000,000	$0.25

Share options granted during the year were granted on 1 June 2017 and were vested at that date.

(b) Inputs to the model

The following table lists the inputs to the model used for the share options issued during the period:

	Zelda 2017	Directors 2017
Fair value at the measurement date	$0.125	$0.116
Dividend yield (%)	0.00	0.00
Expected volatility (%)	100.00	100.00
Risk–free interest rate (%)	2.02	2.02
Expected life of share options (years)	3.00	3.00
Share price ($)	0.20	0.20
Model used	Black Scholes	Black Scholes

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

10 Key management personnel disclosures

Key management personnel compensation

	30 June 2017 $
Short-term employee benefits	140,592
Directors fees	45,733
	186,325

11 Related party transactions

(a) Directors

The names of persons who were Directors of CannPal Animal Therapeutics Limited at any time during the financial period and at the date of this report are as follows: Geoff Starr, Robert Clifford, Layton Mills, Robert Johnstone and Kathryn Adams.

(b) Related party transactions

All related party transactions are made at arm's length on normal commercial terms and conditions.

Outstanding balances at period end are unsecured and settlement occurs in cash.

There were no related party transactions during the period.

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

	30 June 2017 $
Loss for the period	(1,688,197)
Non cash share based expense	916,189
(Increase) in trade and other receivables	(25,579)
Increase in trade and other payables	41,663
Net cash outflow to operating activities	**(755,924)**

13 Financial risk management

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

(a) Credit risk

Credit risk primarily arises from investments in debt securities and from trading derivative products. Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers. None of these assets are impaired nor past due but not impaired.

As at 30 June 2017 the Company does not hold any debt securities.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

The majority of cash assets are held with one bank, which has a credit rating of A-1, which is the significant concentration risk.

(b) Liquidity risk

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

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

14 Earnings per share

(a) Basic earnings per share:

	30 June 2017 Cents
Profit/(loss) per share attributable to the ordinary equity holders of the Company	(2.70)

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

	30 June 2017 $
Basic earnings/(loss) per share	
Profit/((loss) from continuing operations	(1,688,197)

Profit/(loss) attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	(1,688,197)

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

	30 June 2017 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	62,500,000

Basic earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period.

15 Events occurring after reporting date

On 10 July 2017, the Company resolved to issue 1,500,000 options to advisors of the Company in consideration for the advisors providing their experience, knowledge, assistance and access.

On 28 August 2017, the Company lodged a prospectus with the Australian Securities and Investments Commission. The prospectus is for the issue of 30,000,000 shares of 20 cents each to raise $6,000,000.

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

16 Commitments and contingencies

(a) On completion of a successful Initial Public Offering, a 6% success fee (estimate $360,000) is payable to the lead manager.
(b) On completion of the remaining 50% of the Sydney horse trial, a payment of around $35,000 is due.

Directors' declaration

In accordance with a resolution of the directors of CannPal Animal Therapeutics Limited, I state that:

(a) The financial statements and notes of the Company set out on pages 8 to 21 are in accordance with the *Corporations Act 2001*, including

(i) Giving a true and fair view of the financial position as at 30 June 2017 and of its performance for the period ended on that date of the Company.

(ii) Complying with *Australian Accounting Standards* Reduced Disclosure Requirements and the *Corporations Regulations 2001*;

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

On behalf of the Board
CannPal Animal Therapeutics Limited

Geoff Starr
Chairman

19 September 2017
Sydney, NSW

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INDEPENDENT AUDITOR'S REPORT

To the members of CannPal Animal Therapeutics Limited,

Report on the Financial Report

We have audited the accompanying financial report of CannPal Animal Therapeutics Limited (the Company), which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the period then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility 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 – Reduced Disclosure Requirements 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of CannPal Animal Therapeutics Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

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

(a) giving a true and fair view of the company's financial position as at 30 June 2017 and of its performance for the period ended on that date; and

(b) complying with Australian Accounting Standards – Reduced Disclosure Requirements and the Corporations Regulations 2001.

Material uncertainty related to going concern

Without modifying our opinion, we draw attention to the ability of the company to continue as a going concern as disclosed in Note 2.1(b). The company is dependent on the success of the fundraising under the prospectus and the continued financial support from its shareholders. These conditions, indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

BDO Audit (WA) Pty Ltd

BDO

Neil Smith

Neil Smith

Director

Perth, 19 September 2017