

APPENDIX 4E

FOR THE YEAR ENDED 30 JUNE 2020

ZELIRA THERAPEUTICS LTD

(formerly Zelda Therapeutics Ltd)

ABN 27 103 782 378

The following information is given to ASX under listing rule 4.3A.

1. Reporting period

Current Period 12 months ended 30 June 2020

Prior Period 12 months ended 30 June 2019

2. Results for announcement to the market

Consolidated Group	Item		% Change			AUD \$
			AUD \$			
Revenue – excluding interest received	2.1	up	262,746	34	to	1,031,776
Loss after tax attributable to members	2.2	up	3,447,243	97	to	7,015,045
Net loss attributable to members	2.3	up	3,447,243	97	to	7,015,045
Dividend	2.4	N/A				

Overview

The principal activities of Zelira Therapeutics Limited and its controlled entities (“Group”) during the financial year includes the following:

Zelira Therapeutics Ltd (“Zelira”) is a leading global therapeutic medical cannabis company with access to the world’s largest and fastest growing cannabis markets. Zelira owns a portfolio of proprietary revenue generating products and a pipeline of candidates undergoing clinical development that are positioned to enter global markets from 2020. The company is focused on developing branded medicinal products derived from cannabinoids for the treatment of a variety of medical conditions including insomnia, autism and chronic non-cancer pain.

The Company has two proprietary formulations under the HOPE™ brand that are generating revenues in Pennsylvania and have been licensed in Louisiana with other states in the US expected to follow. Zelira has also developed Zenivol™ - a leading cannabinoid-based medicine for treatment of chronic insomnia. Zenivol has successfully completed the worlds first Phase 2a clinical trial for chronic insomnia where it was found to be a safe and effective treatment.

The Company conducts its work in partnership with world-leading researchers and organisations including Curtin University in Perth, Western Australia; the Telethon Kids Institute in Perth; the University of Western Australia, in Perth; St. Vincent’s Hospital in Melbourne, Australia; and the Children’s Hospital of Philadelphia (CHOP) in the United States.

Overview of results

A summary of the operating results for the year ended 30 June 2020 is as follows:

- Loss after tax was \$7,015,045 representing a 97% increase on FY2019 (\$3,567,802).
- Net cash outflow from operating activities was \$6,936,276 representing an 107% increase on FY2019 (\$3,344,223).

Financial Position

The net assets of the consolidated Group increased by \$31,438,962 from \$3,107,963 at 30 June 2019 to \$34,546,925 at 30 June 2020. This increase relates mainly to the following factors:

- Acquisition of Ilera Therapeutics LLC and the recognition of \$32,025,603 of intangible assets and \$1,103,776 of property, plant and equipment on acquisition;
- Research and development expenditure of \$3,691,658;
- All other expenditure of \$4,352,816, including:
 - Changes in fair value of financial assets at fair value through profit and loss of \$106,285; and
 - Share based payments expenditure of \$538,977, being offset by
- Research and development incentive income of \$981,776

Notwithstanding the net loss and increase in cash utilised in operating activities, the Group is able to maintain a healthy working capital ratio. The Group's working capital has decreased from \$2,717,345 as at 30 June 2019 to \$1,162,501 as at 30 June 2020.

Significant Changes in the State of Affairs

Refer to attached financial statements

3. Consolidated Statement of Profit or Loss and Other Comprehensive Income

Refer to attached financial statements.

4. Consolidated Statement of Financial Position

Refer to attached financial statements.

5. Consolidated Statement of Cashflow

Refer to attached financial statements.

6. Dividends Paid or Recommended

The Directors have not recommended or paid a dividend.

7. Details of any Dividend or distribution reinvestment plans

The Company does not have any distribution reinvestment plans.

8. Statement of movements in Retained Earnings

Refer to attached financial statements.

9. Net tangible assets per security

	30 June 2020	30 June 2019
Number of securities	966,298,406	755,341,934
Net tangible assets per security in cents	0.26	0.41

10. Control gained over entities

Name of entity: Ilera Therapeutics LLC

Date control gained: 2 December 2019

	\$
Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material)	(1,467,820)
Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) for the whole of the previous period (where material)	(3,567,802)

11. Details of associates and joint venture entities

The Company does not have any associates or joint venture entities.

12. Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position

Refer to attached financial statements.

13. Foreign entities disclosures

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

14. Additional information

<u>Loss per Share on continuing operations</u>	30 June 2020	30 June 2019
Basic (loss) earnings per share in cents	(0.83)	(0.47)
Diluted (loss) earnings per share in cents	(0.83)	(0.47)

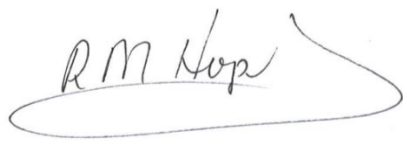
After Balance Date Events

Refer to attached financial statements.

15. Compliance Statement

This report should be read in conjunction with the audited Zelira Therapeutics Limited financial report for the year ended 30 June 2020 and is lodged with the ASX under listing rule 4.3A.

Signed in accordance with a resolution of the Board of Directors of Zelira Therapeutics Limited:

A handwritten signature in dark ink, appearing to read "R M Hopkins", is written over a horizontal line. The signature is stylized, with the first letters of the first and last names being capitalized and prominent. A large, sweeping loop extends from the end of the signature.

Dr. Richard Hopkins

Managing Director

Dated this 28th day of August 2020

ZELIRA THERAPEUTICS LTD
(formerly Zelda Therapeutics Ltd)
ABN 27 103 782 378

ANNUAL REPORT
For the Year Ended
30 June 2020

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All announcements and financial reports are available on our website: www.zeliratx.com.

CORPORATE DIRECTORY

CHAIRMAN

Osagie Imasogie

MANAGING DIRECTORS

Dr Richard Hopkins (excluding USA)

Dr Oludare Odumosu (USA)

NON-EXECUTIVE DIRECTORS

Harry Karelis (Deputy Chair)

Jason Peterson

Lisa Gray

COMPANY SECRETARY

Tim Slate

PRINCIPAL & REGISTERED OFFICE

Level 26, 140 St George's Terrace

PERTH WA 6000

AUSTRALIA

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AUDITORS

HLB Mann Judd

Level 4, 130 Stirling Street

PERTH WA 6000

AUSTRALIA

SHARE REGISTER

Computershare Investor Services Pty Ltd

Level 11, 172 St Georges Terrace

PERTH WA 6000

AUSTRALIA

Telephone: +61 8 9323 2000

Facsimile: +61 8 9323 2033

SECURITIES EXCHANGE LISTING

Australian Securities Exchange (ASX) Code: ZLD

(Home Exchange: Perth, Western Australia)

OTCQB Venture Market (USA) Code: ZLDAF

BANKERS

Westpac Banking Corporation

109 St George Terrace

PERTH WA 6000

AUSTRALIA

ATTORNEYS

Steinepreis Paganin

Level 4, The Read Buildings

16 Milligan Street

PERTH WA 6000

AUSTRALIA

DIRECTORS' REPORT

Your directors present their report on Zelira Therapeutics Limited (**Zelira** or **the Company**) for the financial year ended 30 June 2020.

DIRECTORS

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

Osagie Imasogie	Chairman (appointed 2 December 2019)
Harry Karelis	Deputy Chairman
Richard Hopkins	Managing Director (excluding USA)
Oludare Odumosu	Managing Director (USA) (appointed 2 December 2019)
Jason Peterson	Non-Executive Director
Lisa Gray	Non-Executive Director (appointed 2 December 2019)
Stewart Washer	Non-Executive Director (resigned 2 December 2019)
Mara Gordon	Non-Executive Director (resigned 2 December 2019)

Details on the background and qualifications of directors is contained elsewhere in this report.

COMPANY SECRETARY

Mr. Tim Slate was appointed as Company Secretary on 20 October 2016. Mr. Slate has a Bachelor of Commerce from the University of Western Australia, is a Chartered Accountant, is an Associate Member of the Governance Institute of Australia and is a Graduate of the Australian Institute of Company Directors. Mr. Slate provides accounting and secretarial advice to private and public companies. Mr Slate has over ten years' experience in chartered accounting.

PRINCIPAL ACTIVITIES

Zelira is a leading global therapeutic medical cannabis company with access to the world's largest and fastest growing cannabis markets. Zelira owns a portfolio of proprietary revenue generating products and a pipeline of candidates undergoing clinical development that are positioned to enter global markets from 2020. The company is focused on developing branded medicinal products derived from cannabinoids for the treatment of a variety of medical conditions including insomnia, autism and chronic non-cancer pain.

The Company has two proprietary formulations under the HOPE™ brand that are generating revenues in Pennsylvania and have been licensed in Louisiana with other states in the US expected to follow. Zelira has also developed Zenivol™ - a leading cannabinoid-based medicine for treatment of chronic insomnia. Zenivol has successfully completed the worlds first Phase 2a clinical trial for chronic insomnia where it was found to be a safe and effective treatment.

The Company conducts its work in partnership with world-leading researchers and organisations including Curtin University in Perth, Western Australia; the Telethon Kids Institute in Perth; the University of Western Australia, in Perth; St. Vincent's Hospital in Melbourne, Australia; and the Children's Hospital of Philadelphia (CHOP) in the United States.

DIRECTORS' REPORT

RESULTS

A summary of the operating results for the year ended 30 June 2020 is as follows:

- Loss after tax was \$7,015,045 representing a 95% increase on FY2019 (\$3,567,802).
- Net cash outflow from operating activities was \$6,720,742 representing an 99% increase on FY2019 (\$3,344,223).

The table below sets out summary information about the consolidated entity's earnings and movement in shareholder wealth for the five years to 30 June 2020.

		30 June 2020	30 June 2019	30 June 2018	30 June 2017	30 June 2016
EBITDA ¹	\$	(6,740,368)	(3,657,941)	(1,868,375)	(6,089,700)	(221,263)
Net profit/(loss) before tax	\$	(7,015,045)	(3,567,802)	(1,729,806)	(6,157,415)	(224,428)
Net profit/(loss) after tax	\$	(7,015,045)	(3,567,802)	(1,729,806)	(6,157,415)	(224,428)
Share price at start of year	cps	4.0	9.0	7.4	2.5	1.5
Share price at end of year	cps	4.3	4.0	9.0	7.4	2.5
Basic loss per share (cents per share)	cps	(0.83)	(0.47)	(0.23)	(1.24)	(0.24)
Diluted loss per share (cents per share)	cps	(0.83)	(0.47)	(0.23)	(1.24)	(0.24)
Return on Capital	cps	(0.27)	(0.26)	(0.12)	(0.45)	(224,428)

Note 1: EBITDA is a non-IFRS measure which represents earnings before interest, tax, depreciation and amortisation. This is unaudited.

		30 June 2020	30 June 2019	30 June 2018	30 June 2017	30 June 2016
				\$	\$	
Net profit/(loss) after tax	\$	(7,015,045)	(3,567,802)	(1,729,806)	(6,157,415)	(224,428)
Interest	\$	(374)	90,139	138,569	67,715	3,165
Depreciation and amortisation	\$	275,051	-	-	-	-
EBITDA ¹	\$	(6,740,368)	(3,657,941)	(1,868,375)	(6,089,700)	(221,263)

DIVIDENDS PAID OR RECOMMENDED

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.

REVIEW OF OPERATIONS

The past 12 months have been a transformational year for Zelira with a number of major corporate milestones achieved. Highlights include:

- Completion of a merger with US-based Ilera Therapeutics LLC (Ilera);
- Name change from Zelda Therapeutics Ltd to Zelira Therapeutics Ltd;
- Successful completion of three world-class clinical trials confirming Zelira's early mover advantage;
- Completed two licensing deals leading to Zelira's first revenues; and
- Positioned to launch at least five products into global markets over the next 12 months.

These developments have Zelira poised to complete its transition from a clinical development company to a revenue generating enterprise with unique access to the world's largest and fastest growing cannabis markets. The Zelira Board and management are looking forward to the next exciting phase as the Company looks to confirm its position as a leader in the rapidly emerging global medicinal cannabis sector.

DIRECTORS' REPORT

Business Operations

Deployment of Zelira's Unique Global 'Launch, Learn & Develop' Strategy

Zelira's unique 'Launch Learn and Development' strategy will be used to accelerate the launch of multiple products to global markets over the next 12 months. These include its Zenivol™ and HOPE™ range of products which are on-track for launch during Q3 2020.

- **HOPE™ – targeting symptoms associated with Autism:** The pharmaceutical grade product line HOPE™ was developed to address patient symptoms associated with Autism Spectrum Disorder. The HOPE™ range of products has received support from organisations such as HOPE Grows for Autism, a leading autism advocacy group base in Pennsylvania (USA). HOPE™ was successfully launched in Pennsylvania in May 2019 by Ilera Holdings which holds the license for that state. Since entering the Pennsylvanian market, HOPE™ has shown strong revenue growth establishing itself as the top selling formulation medicinal cannabis product line in Pennsylvania. In December 2019, Zelira announced HOPE™ had been licensed into the State of Louisiana in a deal which attracted an upfront licensing fee and subsequent to the end of the financial year, in August 2020, Zelira announced the launch of the HOPE™ range of products in Louisiana.
- **Zenivol™ – targeting symptoms associated with Chronic Insomnia:** In April 2020, Zelira achieved a world-first when it reported a successful outcome to its Phase 2A trial, which showed that its proprietary medicinal cannabis drug (Zenivol™) is an effective and safe treatment for people suffering from Chronic Insomnia (see below). This outcome paves the way to launch Zenivol™ into global markets as the world's most clinically validated medicinal cannabis-based treatment for Chronic Insomnia.

Clinical trial update

Insomnia clinical trial (Perth, Australia).

The Zelira insomnia trial was designed to evaluate the safety and efficacy of a cannabinoid extract containing THC and CBD in patients with symptoms of clinically diagnosed Chronic Insomnia. The trial used a randomised, double-blinded, placebo controlled, cross over study design to treat 23 patients with Zelira's proprietary insomnia formulation and a placebo formulation delivered sublingually. This trial was the first in the world to incorporate primary endpoints assessing the impact of a full-spectrum cannabis extract on sleep.

Zelira reported the trial was fully enrolled by November 2019 and that the last patient had completed dosing by December 2019. In April 2020, Zelira released the final report, which confirmed the study had met its primary and secondary endpoints for safety and efficacy.

In terms of safety, no serious adverse events were reported. Treatment with ZTL-101 (Zenivol™) was also shown to significantly improve key insomnia symptoms. Treated patients showed 26% improvement in their Insomnia Severity Index (ISI) scores – a current standard for measuring effectiveness of insomnia treatments – while patients on the highest dose achieved a 36% improvement in symptoms.

DIRECTORS' REPORT

Analysis of secondary endpoints showed treated patients slept significantly longer, went to sleep faster and went back to sleep sooner after waking.

Patients also reported significant improvement in quality of life measures including feeling rested after sleep, feeling less stressed, less fatigued and improved overall functioning.

Phase 1 dose escalation study in chronic pain patients (Melbourne, Australia)

In collaboration with St Vincent's Hospital in Melbourne, Zelira undertook a dose escalation study to assess the safety and effectiveness of medicinal cannabis in chronic pain patients on long-term high-dose opioid treatment. Prescription opioids treating chronic pain are linked to serious side effects including physical dependence, which is an acknowledged growing global crisis.

In early July 2019, Zelira commenced recruiting for a Phase I pharmacokinetic trial to evaluate the safety and tolerability of whole plant extract following single and repeated doses in nine patients with chronic non-cancer pain on long-term opioid analgesia. Secondary outcomes included pharmacokinetics and the effects on pain, mood, sleep and opioid use over the duration of the trial.

In February 2020, Emerald Clinics Ltd ("Emerald") were engaged as a second site. The trial reached full enrolment with all patients subsequently completing dosing by early April 2020. Subsequent to the end of the financial year, Zelira released the final report confirming the trial had met its primary and secondary inputs for safety and efficacy. No serious adverse events were reported following treatment with Zelira's proprietary formulation (ZTL-101). Patients also reported statistically significant improvement in subjective measures of pain interference, anxiety, stress and depression

Autism Observational Study (Philadelphia, USA)

In July 2018, Zelira announced that recruitment had commenced for an observational autism study in collaboration with one of the world's leading children's hospitals - Children's Hospital of Philadelphia (CHOP). This trial aimed to better understand the efficacy of medicinal cannabis treatment in patients diagnosed with autism.

The study closed recruitment in January 2020 having enrolled 119 participants, making it one of the largest observational studies of cannabis usage in children diagnosed with autism ever undertaken. A comprehensive statistical analysis of the data is ongoing and is being used to prepare a number of manuscripts, detailing key efficacy and safety outcomes, including the impact of medicinal cannabis on clinical pharmacological and behavioural data related to autism. Results from the observational trial are expected to be published in peer-reviewed journals over the coming months.

Partnership with Emerald Clinics

In July 2019, Zelira announced it had entered into a strategic partnership with Australia-based healthcare technology and services company Emerald which owns and operates an Australian network of dedicated medicinal cannabis clinics.

Under the terms of the agreement, Emerald will provide access to de-identified real-world longitudinal data collected from patients prescribed cannabis medicines for treatment of pain and/or insomnia. Data will include details regarding cannabis formulations and dosages prescribed to patients, their responses to treatment and the impact on usage of non-cannabis medicines such as opioids.

DIRECTORS' REPORT

This information will inform Zelira's ongoing clinical trial strategy, which is focussed on developing new cannabis-based treatments to reduce opioid usage in patients with chronic pain as well as patients with insomnia and autism.

Zelira Therapeutics cannabis formulations to be supplied to the Care NSW clinical trial for symptom control in cancer patients

In November 2019 Zelira was pleased to announce it has entered into an agreement with the National Health and Medical Research Council (NHMRC)-funded Australian Centre for Clinical Cannabinoid Research Excellence (ACRE), based at the University of Newcastle, to commercially supply a cannabis oil formulation, where prescribed, for participants in the Cannabinoids for Symptom Control in Advanced Cancer, An Open Label Prospective Clinical Trial in NSW (CARE NSW).

The CARE NSW Clinical Trial is seeking to enrol up to 600 advanced cancer patients who will be prescribed a product selected from a range of cannabis medicines for symptom management. Zelira is one of several suppliers selected to supply investigational product for the trial under a commercial contract.

Manufacturing agreement with Tasmanian Alkaloids

In May 2020, Zelira announced it had entered into an agreement with Tasmanian Alkaloids (TasAlk) to supply Zenivol™ and HOPE™ for markets in the Asia Pacific (APAC) region. TasAlk is a global leader in the extraction and purification of high-value plant-derived products for the pharmaceutical industry and has added medicinal cannabis products and services to its portfolio.

Under the agreement, TasAlk will have exclusive rights to manufacture and supply Zelira's Insomnia and HOPE™ formulations initially in the APAC region for three years. In Australia, all products will be supplied to patients under the Australian Government TGA Special Access Scheme (SAS).

New partnership for a chronic pain study in retired athletes

In June, Zelira announced it had entered into a non-binding Heads of Agreement with Melbourne-based medicinal cannabis company Levin Growing Pty Ltd ("Levin") to develop a novel cannabinoid-based treatment for sports-related chronic pain experienced by retired professional and amateur athletes.

Levin will fund the trial while Zelira will be responsible for designing and co-ordinating the study. Zelira will hold marketing rights for North and South America with Levin retaining rights to all other world markets. Profits will be shared equally between both companies. The trial is expected to commence in 2021 following negotiation of a definitive agreement.

Corporate

Merger with US-based Ilera Therapeutics

In October 2019, the Company announced its intention to merge with Ilera Therapeutics LLC ("Ilera"), a privately held medicinal cannabis company based in the United States through an all-scrip transaction. At the Company's Annual General Meeting, held in November 2019, shareholders voted overwhelmingly to support the transaction and to rename the company Zelira Therapeutics Ltd.

DIRECTORS' REPORT

The merger created a leading medicinal cannabis biotechnology company with a global footprint, an extensive development pipeline coupled with revenue generating products and access to global markets. Zelira's strategic focus on the 'last mile to the patient' maximises investor returns while minimising capital requirements as it pivots towards revenues and, longer term, profitability.

Zelira's disruptive '*Launch, Learn and Develop*' model will be deployed to rapidly commercialise products targeting large addressable markets such as autism, sleep and anxiety.

Board appointments

Osagie Imasogie was appointed as Chairman on 2 December 2019.

Oludare Odumosu was appointed as Managing Director (USA) on 2 December 2019.

Lisa Gray was appointed as a non-executive director on 2 December 2019.

Stewart Washer and Mara Gordon resigned as non-executive directors on 2 December 2019.

R&D Tax Refund

In November 2019, Zelira received a \$981,776 cash refund under the Federal Government's Research and Development Tax Incentive Scheme.

Other than set out above, there were no other significant changes to the nature of the consolidated group's principal activities during the period.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Significant changes in the state of affairs of the Company during the financial year are detailed under Review of Operations.

In the opinion of the directors, there were no other significant changes in the state of affairs of the Company that occurred during the financial year under review not otherwise disclosed in this report or in the financial report.

AFTER BALANCE DATE EVENTS

On 10 July 2020, the Company announced it had agreed to the issue of 12,500,000 Performance Rights to Chairman, Mr Osagie Imasogie and Non-Executive Director, Ms Lisa Gray. The issue is subject to shareholder approval at the next General Meeting.

On 21 July 2020, the Company held a General Meeting. All resolutions proposed at the meeting were passed including the adoption of a US Employee Share Option Plan, approval of the issue of options to Dr Oludare Odumosu, approval of the increase in Non-Executive Director remuneration, ratification of a previous share placement and approval of the issue of shares to Dr Richard Hopkins.

On 11 August 2020, the Company issued 174,987,560 shares at an issue price of \$0.05 per share to sophisticated and professional investors to raise \$8,749,378 before costs. On the same date, the Company issued 1,000,000 shares at an issue price of \$0.05 per share to Dr Richard Hopkins as approved in the General Meeting on 21 July 2020.

DIRECTORS' REPORT

Also, on the 11 August 2020, the Company issued the following options to Dr Oludare Odumosu as approved in the General Meeting on 21 July 2020:

1. 5 million @ 10 cents per share (vesting immediately)
2. 5 million @ 15 cents per share (vest and capable of exercise on 2 December 2020)
3. 5 million @ 20 cents per share (vest and capable of exercise on 2 December 2020)
4. 5 million @ 28 cents per share (vest and capable of exercise on 2 December 2021)
5. 5 million @ 30 cents per share (vest and capable of exercise on 2 December 2021)

There has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

FUTURE DEVELOPMENTS

Looking forward, Zelira expects to accelerate its transition towards becoming a revenue generating company. Zelira remains on-track to launch up to five products into global markets in 2020. These include Zenivol™ for chronic insomnia, HOPE™1&2 for autism, an aged care product and an over-the-counter product targeting oral health. These will be followed by products targeting dermatology and chronic pain in 2021.

Product launches will focus initially on the Australian and US markets with an expansion to other markets to follow. Zelira is also expecting to enter into new licensing deals for its products in additional US states. Consistent with the previous licensing agreements that the company has, these deals are expected to attract an upfront licensing fee and double-digit royalties.

Zelira will also continue to progress opportunities to expand its clinical development programmes where they align with its strategic objectives. This includes a chronic pain trial targeting retired athletes the company is expecting to undertake as part of its collaboration with Levin who will fund the trial.

As Zelira continues to grow and expand its activities, it remains focused on generating shareholder value through identifying and securing new intellectual property and pursuing a rapid path commercialisation for its medicinal cannabis products.

MEETINGS OF DIRECTORS

The number of directors' meetings (including committees) held during the financial year and the number of meetings attended by each director are:

Directors' Meetings		
Director	Number Eligible to Attend	Meetings Attended
Osagie Imasogie	3	3
Harry Karelis	8	8
Richard Hopkins	8	8
Oludare Odumosu	3	3
Jason Peterson	8	8
Lisa Gray	3	3
Stewart Washer	5	3
Mara Gordon	5	5

DIRECTORS' REPORT

INFORMATION ON DIRECTORS

Name	Osagie Imasogie
Appointed	2 December 2019
Qualifications	Post-graduate degrees from the University of Pennsylvania Law School and the London School of Economics. Trustee of the University of Pennsylvania, a member of the Executive Committee and Chairman of the Budget & Finance Committee of the University. Member of the Board of Overseers of the University of Pennsylvania Law School - Adjunct Professor of Law.
Experience	Mr Osagie Imasogie has over 30 years of experience in the fields of law, finance, business management, healthcare and the pharmaceutical industry. He is a co-founder and the Senior Managing Partner of PIPV Capital, a Private Equity Firm that is focused on the Life Sciences vertical. Prior to co-founding PIPV Capital, Osagie conceptualised and established GlaxoSmithKline Ventures and was its founding Vice President. Mr. Imasogie has held senior legal, commercial and R&D positions within pharmaceutical companies such as GSK, SmithKline, DuPont Merck and Endo, where he was the founding General Counsel and SVP for Corporate Development. Osagie has also been a Price Waterhouse Corporate Finance Partner as well as a practicing attorney with a leading US Law Firm.
Interest in Shares	16,413,065
Options	-
Performance Rights	104,782,456
Name	Harry Karelis
Appointed	17 November 2016
Qualifications	Bachelors and Honours in Science majoring in Biochemistry and Microbiology. Masters in Business Administration from the University of Western Australia. Fellow of the Financial Services Institute of Australia. Fellow of the Australian Institute of Company Directors. Chartered Financial Analyst (CFA) from the CFA Institute in the United States.
Experience	Mr Harry Karelis is the Chairman of Gemelli Group, a privately held investment group involved in a range of projects and has in excess of 28 years diversified experience in the financial services sector including fundamental analysis, funds management and private equity investing and has been involved in numerous cross border activities across a number countries.
Interest in Shares	49,587,680
Options	6,000,000 unlisted options exercisable at \$0.03125 on or before 17 November 2021
Performance Rights	6,250,000 Class A Performance Rights 6,250,000 Class B Performance Rights

DIRECTORS' REPORT

Name	Dr Richard Hopkins
Appointed	16 July 2018
Qualifications	PhD in Molecular Biology from Murdoch University.
Experience	Richard is an experienced bio-pharmaceutical executive with over 11 years in corporate leadership roles with public biotechnology companies. He has an established track record in drug development of novel cancer therapies and has strong experience with corporate strategy, business development and intellectual property matters. During his career, Dr. Hopkins has managed and overseen several strategic alliance and licensing deals with multiple global pharmaceutical partners. Dr. Hopkins has served as Chair of the Western Australian Ausbiotech Committee and is an author on over 30 peer-reviewed publications and is an inventor on 17 patents and patent applications.
Interest in Shares	1,700,000
Options	25,000,000 unlisted options exercisable at various prices on or before 19 February 2022 subject to vesting conditions.
Performance Rights	6,250,000 Class A Performance Rights 6,250,000 Class B Performance Rights
Name	Dr Oludare Odumosu
Appointed	2 December 2019
Qualifications	PhD in Biochemistry and a Master's in Public Health-Epidemiology and Biostatistics from the Loma Linda University School of Medicine and School of Public Health in Loma Linda, California. BS in Biology from Calvin College in Grand Rapids, Michigan. World Bank Institute Certified public health professional.
Experience	With over 10 years in corporate pharmaceutical business development, strategy & operational leadership including alliance management, Dr. Odumosu brings a unique combination of experiences from several academic, public health and life science organisations. In his recent role as Ilera Healthcare's first Chief Operating Officer, Dr Odumosu led the design, implementation and management of Ilera's business operation's post license award in 2017 through successful, market entry, product commercialization to profitability in 2018. He was also responsible for oversight and management of day to day operation of Ilera's vertically integrated grow/processor, wholesale and dispensary. In the same capacity, He led the formulation of Ilera proprietary cannabinoid-based product. His transition to Chief Scientific Officer/EVP Pharmaceutical Division resulted in a series of product development partnerships and the successful creation of Ilera Therapeutics.
Interest in Shares	5,500,655
Options	25,000,000 unlisted options exercisable at various prices on or before 3 August 2023 subject to vesting conditions.
Performance Rights	35,116,656

DIRECTORS' REPORT

Name	Jason Peterson
Appointed	17 November 2016
Qualifications	Bachelor of Commerce (Curtin University) Graduate Diploma of Finance from FINSIA (Financial Services Institute of Australia)/SDIA (Securities & Derivatives Institute of Australia).
Experience	Mr Jason Peterson is Managing Director, major shareholder and Head of Corporate of boutique stock broking and corporate finance firm, CPS Capital and has more than 25 years of experience in the finance sector, which he obtained by working in both local and international stockbroking companies. He specialises in corporate structuring, capital raisings, corporate and strategic advice to small and medium size companies in addition to reverse takeovers.
Interest in Shares	74,593,965
Options	8,000,000 unlisted options exercisable at \$0.03125 on or before 17 November 2021
Performance Rights	6,250,000 Class A Performance Rights 6,250,000 Class B Performance Rights
Name	Lisa Gray
Appointed	2 December 2019
Qualifications	Bachelor of Science in Accountancy from Villanova University MBA in Finance from Penn State University Post-Graduate Degree in Marketing Management
Experience	Lisa Gray CPA, CVA has experience in finance, marketing, business development, and operations primarily within the pharmaceutical industry. Lisa was Co-Founder and Vice Chair of Ilera Healthcare, a vertically integrated Grower, Processor and Dispenser of Medicinal Marijuana in Pennsylvania, and was a lead on the sale of this business. Lisa is also the Co-Founder and Managing Partner of PIPV Capital, a Private Equity firm focused on building companies in life sciences, where she manages the financial aspects of the firm and portfolio, generates and leads investments, manages investor communications, and acts as Board Member CEO, CFO, and/or plays various management roles, as necessary, for portfolio companies. Lisa has previously served as COO for GlaxoSmithKline ("GSK") Pharmaceuticals Ventures, a pharmaceutical venture fund, as well as other operations and transactions roles over 13 years with GSK. Prior to joining GSK, Lisa was a management consultant and auditor with Coopers & Lybrand.
Interest in Shares	16,413,065
Options	-
Performance Rights	104,782,456

DIRECTORS' REPORT

Name	Dr Stewart Washer
Appointed	17 November 2016
Qualifications	Bachelor of Science (Hon); PhD
Experience	<p>Stewart has 25 years of CEO and Board experience in medical and agrifood biotech companies. He is currently the Chairman of Emerald Clinics Ltd, cannabis clinics collecting quality patient data and Chair of Orthocell Ltd (ASX:OCC), a regenerative medicine company, Founding Director of Cynata Therapeutics Ltd (ASX:CYP) who are developing global stem cell therapies. He is also a founder of AusCann Ltd (ASX:AC8), who are developing novel cannabis pharmaceuticals.</p> <p>Stewart has previously worked in life science Fund Management with BioScience Managers in Australia and the Nestlé Fund Inventages.</p> <p>Stewart has held a number of Board positions in the past, including Chairman of Hatchtech Pty Ltd that was sold in 2017 for A\$279m and was a Director of iCeutica that was sold to a US Pharma. He was also a Senator with Murdoch University and was a Director of AusBiotech Ltd.</p>
Interest in Shares	35,198,688 (at resignation)
Options	6,000,000 unlisted options exercisable at \$0.03125 on or before 17 November 2021
Name	Mara Gordon
Appointed	17 November 2016
Qualifications	Bachelor of Arts (Political Science) from the University of North Texas
Experience	<p>Ms Mara Gordon specializes in the development of treatment protocols utilizing Bio Pharmaceutical-grade cannabis extracts for seriously ill patients in California. She co-founded Aunt Zelda's, Calla Spring Wellness, and Zelda Therapeutics in order to provide real outcomes for patients with serious diseases.</p> <p>Prior to Aunt Zelda's, Ms Gordon worked as a process engineer, helping Fortune 500 companies create intelligent software by utilizing the Rational Unified Process. This experience has enabled her to take a detailed and scientific approach to utilizing cannabis as a Bio Pharmaceutical grade treatment.</p> <p>Ms Gordon is a Director of North Bay Credit Union and sits on numerous advisory boards, including CannPal, and Patients Out of Time. Ms Gordon is a cannabis entrepreneur, and researcher who openly shares her knowledge about the therapeutic benefits of the cannabis plant. She has appeared on stage in front of audiences internationally and was featured in the films The Medicine in Marijuana, Mary Janes: Women of Weed, and the award-winning documentary Weed the People.</p>
Interest in Shares	44,142,326 (at resignation)

DIRECTORS' REPORT

Directorships of other listed companies

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of directorship
Osagie Imasogie	FS KKR Capital Corp	June 2019 - Present
Harry Karelis	Velpic Ltd AusCann Group Holdings Ltd	17 Oct 2017 to 03 Apr 2018 19 Jan 2017 to 14 Dec 2017
Richard Hopkins	PharmAust Ltd	Mar 2017 to May 2018
Oludare Odumosu	Dr Odumosu does not hold any Directorships in other listed companies	
Jason Peterson	Mr Peterson does not hold any Directorships in other listed companies.	N/A
Lisa Gray	Ms Gray does not hold any Directorships in other listed companies	
Stewart Washer	Cynata Therapeutics Ltd Orthocell Ltd	1 Aug 2013 to present 7 Apr 2014 to present
Mara Gordon	Ms Gordon does not hold any Directorships in other listed companies.	N/A

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for the key management personnel of the Company for the financial year ended 30 June 2020. The information provided in this remuneration report has been audited as required by Section 308(3C) of the Corporations Act 2001.

The remuneration report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any Director (whether executive or otherwise) of the Company.

Key Management Personnel

Directors

Osagie Imasogie
Harry Karelis
Dr Richard Hopkins
Dr Oludare Odumosu
Jason Peterson
Lisa Gray
Stewart Washer
Mara Gordon

DIRECTORS' REPORT

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 committee

While the Company does not currently have a formal Remuneration Committee, the Board has adopted a Remuneration Committee Charter, which determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required.

Remuneration structure

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

Service Agreements

Executive Directors Remuneration

Executive Name	Remuneration
Dr Richard Hopkins	<ul style="list-style-type: none"> • Executive salary of \$300,000 per annum (inclusive of superannuation); and • Reimbursement of reasonable business expenses incurred in the ordinary course of the business in accordance with the Group's reimbursement policies • Options package (shareholder approval obtained on 18 February 2019): <ul style="list-style-type: none"> • 5 million @ 10 cents per share (vesting on completion of probation period) • 5 million @ 15 cents per share (vesting 12 months after completion of probation) • 5 million @ 20 cents per share (vesting 12 months after completion of probation) • 5 million @ 28 cents per share (vesting 24 months after completion of probation) • 5 million @ 30 cents per share (vesting 24 months after completion of probation) <p>Options expiry: 19 February 2022</p> <ul style="list-style-type: none"> • Services may be terminated by giving 3 months written notice
Dr Oludare Odumosu	<ul style="list-style-type: none"> • Executive salary of US\$150,000 per annum; and • Bonus payable on achievement of revenue targets, to a maximum bonus of 30% of base salary • Options package (shareholder approval obtained on 21 July 2020): <ul style="list-style-type: none"> • 5 million @ 10 cents per share (vesting immediately) • 5 million @ 15 cents per share (vest and capable of exercise on 2 December 2020) • 5 million @ 20 cents per share (vest and capable of exercise on 2 December 2020)

DIRECTORS' REPORT

Executive Name	Remuneration
	<ul style="list-style-type: none"> • 5 million @ 28 cents per share (vest and capable of exercise on 2 December 2021) • 5 million @ 30 cents per share (vest and capable of exercise on 2 December 2021) <p>Options expiry: 11 August 2023</p> <ul style="list-style-type: none"> • Either the Company or Dr Odumosu may terminate the engagement at any time without cause or notice

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 ASX Listing Rules specify that the aggregate remuneration of non-executive Directors shall be as determined from time to time by a general meeting. The latest determination was at the meeting held on 21 July 2020 when shareholders approved an aggregate remuneration of \$750,000 per annum.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external shareholders as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Fixed remuneration

Fixed remuneration consists of base remuneration (salary or consulting fees) including any FBT charges as well as employer contributions to superannuation funds, where applicable. There was no use of remuneration consultants during the year.

Remuneration levels are reviewed annually by the Board of Directors.

Performance linked remuneration

Long-term incentives can be provided as ordinary shares, options over ordinary shares or performance rights convertible into ordinary shares of the Company. As determined, shareholders in a general meeting will be asked to approve specific grants of shares, options and performance rights to Non-Executive and Executive Directors as a form of remuneration.

Assessing performance

The remuneration committee is responsible for assessing performance against KPIs and determining the STI and LTI to be paid.

Consequences of performance on shareholders wealth

In considering the Group's performance and benefits for shareholder wealth, the Remuneration Committee considers revenue, profit before tax, changes in share price and return of capital. The overall level of key management personnel's remuneration takes into account the expected performance of the Group over a number of years.

DIRECTORS' REPORT

Details of the nature and amount of emoluments of key management personnel

2020 Financial Year

	PRIMARY		POST EMPLOYMENT	EQUITY BASED RENUMERATION	REMUNERATION	PROPORTION OF REMUNERATION PERFORMANCE RELATED
Key Management Person	Salary & Fees	Non Monetary	Superannuation Contribution	Total	Total	%
	\$	\$	\$	\$	\$	
Osagie Imasogie	84,000	-	-	-	84,000	-
Harry Karelis	120,000	-	-	85,911	205,911	41.72
Richard Hopkins	300,000	-	28,500	85,911	414,411	20.73
Oludare Odumosu	114,322	-	-	123,830	238,152	51.99
Jason Peterson	36,000	-	-	85,911	121,911	70.47
Lisa Gray	21,000	-	-	-	21,000	-
Stewart Washer	12,000	-	-	-	12,000	-
Mara Gordon	12,000	-	-	-	12,000	-
Totals	699,322	-	28,500	381,563	1,109,385	32.65

2019 Financial Year

	PRIMARY		POST EMPLOYMENT	EQUITY BASED RENUMERATION	REMUNERATION	PROPORTION OF REMUNERATION PERFORMANCE RELATED
Key Management Person	Salary & Fees	Non Monetary	Superannuation Contribution	Total	Total	%
	\$	\$	\$	\$	\$	
Richard Hopkins	255,507	-	24,273	117,681	397,461	29.61
Harry Karelis	210,000	-	-	-	210,000	-
Stewart Washer	36,000	-	-	-	36,000	-
Mara Gordon	36,000	-	-	-	36,000	-
Jason Peterson	36,000	-	-	-	36,000	-
Totals	573,507	-	24,273	117,681	715,461	16.44

DIRECTORS' REPORT

Performance Based Remuneration

Performance Rights

	Type	Granted	Grant date	Issue price	Value of rights 30 June 2020	Conversion milestones
		Number		\$	\$	
Richard Hopkins	Class A	6,250,000	2 Dec 2019	\$0.068	\$77,729	Converted into shares subject to the cumulative revenues from US based products exceeding US\$1,000,000 prior to 23 December 2024
Richard Hopkins	Class B	6,250,000	2 Dec 2019	\$0.068	\$8,182	Converted into shares subject to the cumulative revenues from US based products exceeding US\$2,500,000 prior to 23 December 2024
Harry Karelis	Class A	6,250,000	2 Dec 2019	\$0.068	\$77,729	Converted into shares subject to the cumulative revenues from US based products exceeding US\$1,000,000 prior to 23 December 2024
Harry Karelis	Class B	6,250,000	2 Dec 2019	\$0.068	\$8,182	Converted into shares subject to the cumulative revenues from US based products exceeding US\$2,500,000 prior to 23 December 2024
Jason Peterson	Class A	6,250,000	2 Dec 2019	\$0.068	\$77,729	Converted into shares subject to the cumulative revenues from US based products exceeding US\$1,000,000 prior to 23 December 2024
Jason Peterson	Class B	6,250,000	2 Dec 2019	\$0.068	\$8,182	Converted into shares subject to the cumulative revenues from US based products exceeding US\$2,500,000 prior to 23 December 2024

Options

	Granted	Grant Date	Value per options at grant date	Value of options at grant date	Date exercised	Ordinary shares issued on exercise	Vesting and first exercise date	Last exercise date
	Number		\$	\$		Number		
Oludare Odumosu	5,000,000	11 Aug 2020 ¹	\$0.0195	97,723	-	-	3 Jun 2020	11 Aug 2023
Oludare Odumosu	5,000,000	11 Aug 2020 ¹	\$0.0156	78,099	-	-	2 Dec 2020	11 Aug 2023
Oludare Odumosu	5,000,000	11 Aug 2020 ¹	\$0.0130	64,936	-	-	2 Dec 2020	11 Aug 2023
Oludare Odumosu	5,000,000	11 Aug 2020 ¹	\$0.0102	50,847	-	-	2 Dec 2021	11 Aug 2023
Oludare Odumosu	5,000,000	11 Aug 2020 ¹	\$0.0096	48,168	-	-	2 Dec 2021	11 Aug 2023

1. The Company announced the terms of Dr Odumosu's engagement on 3 June 2020, therefore the options are deemed to be issued prior to 30 June 2020. The options were formally issued on 11 August 2020.

The options were provided at no cost and expire on their expiry date or for unvested options the earlier of their expiry date or the termination of the Key Management Personnel's employment.

Shares Issued to Key Management Personnel on Exercise of Options

No key management personnel exercised options during the years ended 30 June 2020 or 30 June 2019.

DIRECTORS' REPORT**Shareholdings of Key Management Personnel**

Number of shares held by Directors and Executives during the year as follows:-

2020 Financial Year

	Balance 01/07/2019	Options Exercised	Issued as consideration for Ilera acquisition	At Appointment/ (Resignation)	Net Change Other	Balance 30/06/2020
Richard Hopkins	700,000	-	-	-	-	700,000
Harry Karelis	49,587,680	-	-	-	-	49,587,680
Stewart Washer	35,198,688	-	-	-	-	35,198,688
Mara Gordon	44,142,326	-	-	-	-	44,142,326
Jason Peterson	74,593,965	-	-	-	-	74,593,965
Osagie Imasogie	-	-	16,413,065	-	-	16,413,065
Lisa Gray	-	-	16,413,065	-	-	16,413,065
Oludare Odumosu	-	-	5,500,655	-	-	5,500,655

2019 Financial Year

	Balance 01/07/2018	Options Exercised	Acquired/ (disposed)	At Appointment/ (Resignation)	Net Change Other	Balance 30/06/2019
Richard Hopkins	-	-	-	700,000	-	700,000
Harry Karelis	49,587,680	-	-	-	-	49,587,680
Stewart Washer	35,198,688	-	-	-	-	35,198,688
Mara Gordon	79,642,326	-	(35,500,000)	-	-	44,142,326
Jason Peterson	74,797,248	-	(203,283)	-	-	74,593,965

Option Holdings of Key Management Personnel**2020 Financial Year**

	Balance 01/07/2019	Options Granted as Remuneration	Options Acquired	At Appointment/ (Resignation)	Balance 30/06/2020	Number vested and exercisable
Richard Hopkins	25,000,000	-	-	-	25,000,000	15,000,000
Harry Karelis	6,000,000	-	-	-	6,000,000	6,000,000
Stewart Washer	6,000,000	-	-	-	6,000,000	6,000,000
Mara Gordon	-	-	-	-	-	-
Jason Peterson	8,000,000	-	-	-	-	8,000,000
Oludare Odumosu	-	25,000,000 ¹	-	-	25,000,000	5,000,000

1. The Company announced the terms of Dr Odumosu's engagement on 3 June 2020, therefore the options are deemed to be issued prior to 30 June 2020. The options were formally issued on 11 August 2020.

2019 Financial Year

	Balance 01/07/2018	Options Granted as Remuneration	Options Acquired	At Appointment/ (Resignation)	Balance 30/06/2019	Number vested and exercisable
Richard Hopkins	-	25,000,000	-	-	25,000,000	5,000,000
Harry Karelis	6,000,000	-	-	-	6,000,000	6,000,000
Stewart Washer	6,000,000	-	-	-	6,000,000	6,000,000
Mara Gordon	-	-	-	-	-	-
Jason Peterson	8,000,000	-	-	-	8,000,000	8,000,000

DIRECTORS' REPORT

Performance Rights Holdings of Key Management Personnel

2020 Financial Year

	Balance 01/07/2019	Performance Rights Granted	Acquired	At Appointment/ (Resignation)	Balance 30/06/2020	Number vested and exercisable
Richard Hopkins	-	12,500,000 ¹	-	-	12,500,000	-
Harry Karelis	-	12,500,000 ¹	-	-	12,500,000	-
Jason Peterson	-	12,500,000 ¹	-	-	12,500,000	-
Osagie Imasogie	-	104,782,456 ²	-	-	104,782,456	-
Oludare Odumosu	-	35,116,656 ²	-	-	35,116,656	-
Lisa Gray	-	104,782,456 ²	-	-	104,782,456	-

(1) Approved for issue at the Annual General Meeting on 28 November 2019

(2) Issued as considered for the acquisition of Ilera Therapeutics LLC

2019 Financial Year

	Balance 01/07/2018	Performance Rights Granted	Acquired	At Appointment/ (Resignation)	Balance 30/06/2019	Number vested and exercisable
Richard Hopkins	-	-	-	-	-	-
Harry Karelis	-	-	-	-	-	-
Stewart Washer	-	-	-	-	-	-
Mara Gordon	-	-	-	-	-	-
Jason Peterson	-	-	-	-	-	-

Other transactions and balances with Key Management Personnel

Caziwell Inc, a company of which Ms Mara Gordon is a Director, entered into a licence agreement with the Company, including Aunt Zelda's Inc (Caziwell Licence Agreement) pursuant to which Caziwell agreed to licence patient data concerning the medicinal properties of cannabis and cannabis infused products, including formulations and protocols (Existing Data), to Zelira for use in pre-clinical research and human clinical trials and related activities. The material terms of the Caziwell Licence Agreement are set out in Note 27.

Gemelli Nominees Pty Ltd, a company of which Mr Harry Karelis is a Director, charged the Group director fees of \$120,000 (2019: \$210,000). \$nil (2019: \$nil) was outstanding at year end. The aggregate amount recognised during the year relating to consultancy services was \$nil (30 June 2019: \$ nil), \$nil of which was outstanding at 30 June 2020 (30 June 2019: \$nil).

Biologica Ventures Pty Ltd, a company of which Dr Stewart Washer is a Director, charged the Group director fees of \$12,000 (2019: \$36,000). \$nil (2019: \$nil) was outstanding at year end.

CPS Capital Pty Ltd, a company of which Mr Jason Peterson is a Director, charged the Group director fees of \$36,000 (2019: \$36,000) and provided corporate advisory services to the Group during the year on normal commercial terms and conditions. The aggregate amount recognised during the year relating to corporate advisory services was \$48,000 (30 June 2019: \$98,000) and capital raising fees of \$277,677 (30 June 2019: \$nil), \$7,000 of which was outstanding at 30 June 2020 (30 June 2019: \$nil).

Health House Holdings Ltd, a company of which Mr Harry Karelis is a shareholder and Mr Jason Peterson is a Director and shareholder provided storage services to the Group during the year on normal commercial terms and conditions. The aggregate amount recognised during the year relating to distribution services was \$30,315 (30 June 2019: \$ nil), \$nil of which was outstanding at 30 June 2020 (30 June 2019: \$nil).

DIRECTORS' REPORT

Voting of shareholders at last year's annual general meeting

Zelira Therapeutics Limited received 90% of "yes" votes on its remuneration report for the 2019 financial year. The Group did not receive any specific feedback at the AGM or throughout the year on its remuneration practices

This concludes the Remuneration Report.

ENVIRONMENTAL ISSUES

The Group is not subject to any significant environmental legislation.

INDEMNIFYING OFFICERS

The Company has in place an insurance policy insuring Directors and Officers of the Company against any liability arising from a claim brought by a third party against the Company or its Directors and officers, and against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity as a Director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

In accordance with a confidentiality clause under the insurance policy, the amount of the premium paid to the insurers has not been disclosed. This is permitted under Section 300(9) of the Corporations Act 2001.

DIRECTORS' REPORT**SHARE OPTIONS**

As at the date of this report, details of unissued ordinary shares under option are:

Number	Grant date	Expiry date	Exercise price \$	Fair value at grant date	Vesting date
38,000,000	18 November 2016	17 November 2021	\$0.03125	\$0.0152	18 November 2016
1,000,000	22 August 2018	22 August 2021	\$0.125	\$0.0192	22 August 2018
2,000,000	22 August 2018	22 August 2021	\$0.125	\$0.0192	22 August 2020
2,096,667 ¹	15 January 2019	16 January 2022	\$0.10	\$0.0158	3 September 2019 subject to vesting conditions
3,000,000	15 January 2019	16 January 2022	\$0.10	\$0.0158	3 September 2020 subject to vesting conditions
1,500,000	8 January 2019	16 January 2022	\$0.10	\$0.0181	21 April 2019
1,500,000	8 January 2019	16 January 2022	\$0.10	\$0.0181	21 April 2020 subject to vesting conditions
1,500,000	8 January 2019	16 January 2022	\$0.10	\$0.0181	21 April 2021 subject to vesting conditions
5,000,000	19 February 2019	19 February 2022	\$0.10	\$0.0130	19 February 2019
5,000,000	19 February 2019	19 February 2022	\$0.15	\$0.0091	16 October 2019 subject to vesting conditions
5,000,000	19 February 2019	19 February 2022	\$0.20	\$0.0067	16 October 2019 subject to vesting conditions
5,000,000	19 February 2019	19 February 2022	\$0.28	\$0.0044	16 October 2020 subject to vesting conditions
5,000,000	19 February 2019	19 February 2022	\$0.30	\$0.0041	16 October 2020 subject to vesting conditions
2,000,000	27 September 2019	27 September 2022	\$0.12	\$0.0143	27 September 2019
5,000,000	11 August 2020 ²	11 August 2023	\$0.10	\$0.0195	11 August 2020
5,000,000	11 August 2020 ²	11 August 2023	\$0.15	\$0.0156	2 December 2020
5,000,000	11 August 2020 ²	11 August 2023	\$0.20	\$0.0130	2 December 2020
5,000,000	11 August 2020 ²	11 August 2023	\$0.28	\$0.0102	2 December 2021
5,000,000	11 August 2020 ²	11 August 2023	\$0.30	\$0.0096	2 December 2021

1. On 3 September 2019, 2,103,333 unlisted options were cancelled under an Employee Share Option (ESOP) as vesting conditions were not met
2. The Company announced the terms of Dr Odumoso's engagement on 3 June 2020, therefore the options are deemed to be issued prior to 30 June 2020. The options were formally issued on 11 August 2020.

The following options over ordinary shares in the Company expired during the year:

Number expired	Date granted	Date expired
6,000,000	6 February 2017	6 February 2020

The following share options were exercised during the year:

Number exercised	Date exercised	Share-price at exercise date
2,000,000	19 July 2019	\$0.072
2,000,000	6 February 2020	\$0.040

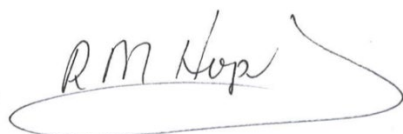
DIRECTORS' REPORT**AUDITOR'S INDEPENDENCE DECLARATION AND NON-AUDIT SERVICES**

Section 307C of the Corporations Act 2001 requires the Group's auditors to provide the Directors of Zelira Therapeutics Limited with an Independence Declaration in relation to the audit of the financial report. A copy of that declaration is included on page 24 of the Annual Report.

PROCEEDINGS ON BEHALF OF THE COMPANY

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

On behalf of the Board

A handwritten signature in dark ink, appearing to read 'R M Hopkins', is enclosed within a large, hand-drawn oval loop.

R Hopkins
Managing Director

Perth, 28 August 2020

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Zelira Therapeutics 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
28 August 2020

B G McVeigh
Partner

hlb.com.au

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HLB Mann Judd (WA Partnership) is a member of HLB International, the global advisory and accounting network.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020**

	NOTE	2020 \$	2019 \$
Interest income	3(a)	8,601	90,139
Other income	4	1,031,776	769,030
Compliance and regulatory expenses		(195,803)	(152,835)
Consultants and professional fees		(1,513,319)	(369,613)
Administration		(133,855)	(220,227)
Director and employee expenses		(1,300,896)	(570,194)
Travel and accommodation expense		(188,959)	(124,432)
Share based payments		(538,977)	(462,193)
Research Consultancy Fees		(3,691,658)	(2,327,520)
Depreciation and amortisation expense		(275,051)	-
Finance costs		(12,344)	-
Other expenses		(98,275)	(11,369)
Changes in fair value of financial assets at fair value through profit or loss	10	(106,285)	(188,588)
(Loss) from continuing operations before income tax expense		(7,015,045)	(3,567,802)
Income tax expense	5	-	-
(Loss) for the year		(7,015,045)	(3,567,802)
Other Comprehensive Income		(112,528)	-
Total Comprehensive (Loss) for the Year		(7,127,573)	(3,567,802)
(Loss) per share:			
Basic and diluted (loss) per share (cents per share)	19	(0.83)	(0.47)

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

	NOTE	2020 \$	2019 \$
CURRENT ASSETS			
Cash and cash equivalents	7	1,697,040	3,073,125
Trade and other receivables	8	135,709	51,455
TOTAL CURRENT ASSETS		<u>1,832,749</u>	<u>3,124,580</u>
NON-CURRENT ASSETS			
Financial assets held at fair value	10	242,131	348,416
Right-of-use assets	9	595,180	-
Other financial assets		108,215	9,180
Property, plant and equipment		984,756	33,022
Intangible assets	18	32,025,603	-
TOTAL NON-CURRENT ASSETS		<u>33,955,885</u>	<u>390,618</u>
TOTAL ASSETS		<u>35,788,634</u>	<u>3,515,198</u>
CURRENT LIABILITIES			
Trade and other payables	11	559,386	407,235
Lease liabilities	12	60,862	-
Other liabilities		50,000	-
TOTAL CURRENT LIABILITIES		<u>670,248</u>	<u>407,235</u>
NON-CURRENT LIABILITIES			
Lease liabilities	12	571,461	-
TOTAL NON-CURRENT LIABILITIES		<u>571,461</u>	<u>-</u>
TOTAL LIABILITIES		<u>1,241,709</u>	<u>407,235</u>
NET ASSETS		<u>34,546,925</u>	<u>3,107,963</u>
EQUITY			
Issued capital	13	26,075,600	13,823,411
Reserves		27,171,201	964,822
Accumulated losses		(18,699,876)	(11,680,270)
TOTAL EQUITY		<u>34,546,925</u>	<u>3,107,963</u>

The accompanying notes form part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020**

	Issued Capital	Accumulated Losses	Foreign Currency Reserve	Performance Rights Reserve	Share Based Payments Reserve	Total
	\$	\$	\$	\$	\$	\$
Balance as at 1 July 2018	13,823,411	(8,111,649)	-	-	502,629	6,214,391
Loss for the year	-	(3,567,802)	-	-	-	(3,567,802)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive loss for the year	-	(3,567,802)	-	-	-	(3,567,802)
Share based payments	-	-	-	-	462,193	462,193
Balance at 30 June 2019	13,823,411	(11,680,270)	-	-	964,822	3,107,963
 Balance as at 1 July 2019	 13,823,411	 (11,680,270)	 -	 -	 964,822	 3,107,963
Adjustment on initial application of new accounting standards	-	(4,561)	-	-	-	(4,561)
Loss for the year	-	(7,015,045)	-	-	-	(7,015,045)
Other comprehensive income	-	-	(112,528)	-	-	(112,528)
Total comprehensive loss for the year	-	(7,019,606)	(112,528)	-	-	(7,132,134)
Shares issued during the year	4,694,759	-	-	-	-	4,694,759
Transaction costs relating to issue of shares	(286,674)	-	-	-	-	(286,674)
Acquisition of Ilera Therapeutics	7,690,603	-	-	25,776,181	-	33,466,784
Issue of performance rights to Directors	-	-	-	257,734	-	257,734
Proceeds from issue of performance rights	-	-	-	3,749	-	3,749
Share-based payments	-	-	-	-	281,243	281,243
Shares options exercised	142,500	-	-	-	-	142,500
Foreign exchange conversion	11,001	-	-	-	-	11,001
Balance at 30 June 2020	26,075,600	(18,699,876)	(112,528)	26,037,664	1,246,065	34,546,925

The accompanying notes form part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020**

	NOTE	2020 \$	2019 \$
Cash Flows from Operating Activities			
Payments to suppliers and employees		(3,424,722)	(1,262,745)
Payments for research		(3,759,342)	(2,178,243)
Licensing fee received		234,000	-
Interest received		13,788	96,765
<i>Net cash used in operating activities</i>	20(b)	<u>(6,936,276)</u>	<u>(3,344,223)</u>
Cash Flows from Investing Activities			
Cash acquired as part of acquisition	17	189,781	-
Government grants and tax incentives		1,031,776	769,030
Payments for acquisition of property, plant and equipment		(15,967)	(28,226)
Payments for rental bond		(99,035)	(9,180)
<i>Net cash from investing activities</i>		<u>1,106,555</u>	<u>731,623</u>
Cash Flows from Financing Activities			
Proceeds from issue of shares		4,592,759	-
Issue costs associated with issue of shares		(286,702)	-
Proceeds from conversion of options		142,500	-
Proceeds from unissued shares and performance rights		53,750	-
<i>Net cash from financing activities</i>		<u>4,502,307</u>	<u>-</u>
Net decrease in cash and cash equivalents		(1,327,414)	(2,612,600)
Effect of exchange rate fluctuations on cash held		(48,671)	-
Cash and cash equivalents at beginning of financial year		3,073,125	5,685,725
Cash and cash equivalents at end of financial year	20(a)	<u>1,697,040</u>	<u>3,073,125</u>

The accompanying notes form part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES

(a) Statement of significant accounting policies

The following is a summary of the significant accounting policies adopted by the Group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

The financial report covers the consolidated entity of Zelira Therapeutics Limited (“the legal Parent”) and its subsidiaries (“the Group” or “Consolidated Entity”). Zelira Therapeutics Limited (ZLD) is a listed public company, incorporated and domiciled in Australia.

Reporting basis and conventions

The financial report is a general-purpose financial report that has been prepared in accordance with Australian Accounting Standards including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

This financial report was authorised for issue by the Board on 28 August 2020.

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied where relevant.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement in with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements listed above.

When the Company has less than a majority of the voting rights of an investee, it has the power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company’s voting rights are sufficient to give it power, including,

- the size of the Company’s holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties; rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholder meetings.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (CONT.)

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the controlling interest having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members are eliminated in full on consolidation.

Changes in the Group's ownership interest in existing subsidiaries

Changes in the Group's ownership interest in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in subsidiaries. Any difference between the amount paid by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between:

- The aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- The previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit and loss or transferred to another category of equity as specified/permitted by the applicable AASBs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(c) Adoption of new and revised standards

Changes in accounting policies on initial application of Accounting Standards

In the year ended 30 June 2020, the directors have reviewed all the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group's operations and effective for annual reporting periods beginning on or after 1 July 2019. Those which have a material impact on the Group are set out below.

AASB 16 Leases

The Group has applied AASB 16 from 1 July 2019 using the modified retrospective approach, with no restatement of comparative information. The impact on the accounting policies, financial performance and financial position of the Group from the adoption of AASB 16 is detailed in Note 28. Other than the above, there is no material impact of the new and revised Standards and Interpretations on the Group.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (CONT.)*Standards and Interpretations in issue not yet adopted*

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet adopted for the year ending 30 June 2020. As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations in issue not yet adopted on the Group and therefore no material change is necessary to Group accounting policies.

(d) Going concern

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

Notwithstanding the fact that the Group incurred an operating loss of \$7,015,045 for the year ended 30 June 2020 and a net cash outflow from operating activities amounting to \$6,720,742, the Directors are of the opinion that the Group is a going concern for the following reasons:

- subsequent to the end of the reporting period, on 11 August 2020, the Company issued 174,987,560 shares at an issue price of \$0.05 per share to raise \$8,749,378 before costs;
- the Company expects to accelerate its transition towards becoming a revenue generating company and remains on-track to launch up to five products into global markets in 2020.

The ability of the entity to continue as a going concern is dependent on Zelira successfully commercialising its medicinal cannabis formulas and securing additional funding through capital raising activities to continue its operational and marketing activities. Should this be unsuccessful, there may be an inherent uncertainty relating to the Group's ability to continue as a going concern.

The financial report does not contain any adjustments relating to the recoverability and classification of recorded assets or to the amounts or classification of recorded assets or liabilities that might be necessary should the Group not be able to continue as a going concern.

(e) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

(f) Foreign Exchange*Foreign currency transactions*

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date. The Directors have determined that the functional currency of the Group is Australian Dollars.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (CONT.)**(g) Income Tax**

The charge for current income tax expenses is based on the profit/loss for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions or deductibility imposed by the law.

(h) Other Taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

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

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

(i) Property, Plant and Equipment

Plant and equipment is stated at historical cost or fair value less accumulated depreciation and impairment.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (CONT.)

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:

Plant and equipment	5 years
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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.

(j) Intangible Assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

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.

Favourable leases

Favourable leases acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

(k) Impairment of Assets

At each reporting date, the Company reviews the carrying values of tangible assets and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (CONT.)

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(l) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled plus related on costs.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(m) Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Trade receivables are generally due for settlement within periods ranging from 15 days to 30 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Company will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Company in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Company.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Company will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Company in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Company.

The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term, discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

(n) Financial assets*Recognition and derecognition*

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (CONT.)

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- equity instruments at fair value through other comprehensive income (FVOCI)
- debt instruments at fair value through other comprehensive income (FVOCI).

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Subsequent measurement of financial assets

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

The category also contains an equity investment. The Group accounts for the investment at FVTPL and did not make the irrevocable election to account for the investment in unlisted and listed equity securities at fair value through other comprehensive income (FVOCI). The fair value was determined in line with the requirements of AASB 9, which does not allow for measurement at cost.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss.

The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

(o) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (CONT.)**(p) Segment Reporting**

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

(q) Revenue Recognition

The revenue and profits recognised in any period are based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

In determining the amount of revenue and profits to record, and related statement of financial position items (such as contract fulfilment assets, capitalisation of costs to obtain a contract, trade receivables, accrued income and deferred income) to recognise in the period, management is required to form a number of key judgements and assumptions. This includes an assessment of the costs the Group incurs to deliver the contractual commitments and whether such costs should be expensed as incurred or capitalised.

Revenue is recognised either when the performance obligation in the contract has been performed, so 'point in time' recognition or 'over time' as control of the performance obligation is transferred to the customer.

(r) Other incomeInterest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that assets' net carrying amount on initial recognition.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

(s) Fair Value Estimates

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance date. The quoted market price used for financial assets held by the Company is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (CONT.)

The fair value of financial instruments that are not traded in an active market (for example, over the unlisted options) is determined using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

(t) Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (CONT.)**(u) Earnings per share***Basic earnings (loss) per share*

Basic earnings per share ("EPS") is calculated as net profit or loss, attributable to members, adjusted to exclude any costs of servicing equity.

Diluted earnings (loss) per share

Diluted EPS earnings is calculated by adjusting the basic EPS earnings for the after tax effect of financing costs and the effect of conversion to ordinary shares associated with dilutive potential ordinary shares, rather than including the notional earnings on the funds that would have been received by the entity had the potential ordinary shares been converted.

The diluted EPS weighted average number of shares includes the number of ordinary shares assumed to be issued for no consideration in relation to dilutive potential ordinary shares, rather than the total number of dilutive potential ordinary shares. The number of ordinary shares assumed to be issued for no consideration represents the difference between the number that would have been issued at the exercise price and the number that would have been issued at the average price.

The identification of dilutive potential ordinary shares is based on net profit or loss from continuing ordinary operations, not net profit or loss and is applied on a cumulative basis, taking into account the incremental earnings and incremental number of shares for each series of potential ordinary share.

(v) Share-based payment transactions

The Company provides benefits to employees (including senior executives) of the Company in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

When provided, 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 by an external valuer using the Black-Scholes model or the binomial option pricing model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Zelira Therapeutics Limited (market conditions), if applicable.

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, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Company's best estimate of the number of equity instruments that will ultimately vest.

No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (CONT.)

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. In addition, an 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.

(w) Issued Capital

Ordinary shares are classified as equity. Issued and paid up capital is recognised at the fair value of the consideration received by the Company. 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.

(x) Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company.

Key estimates:*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, 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 payments

Share-based payments are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of options is determined using the Black-Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Deferred tax assets have not been recognised because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES (CONT.)

Estimation of useful lives of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

2. OPERATING SEGMENTS

Identification of reportable operating segments

The consolidated entity is organised into two operating segments based on geographic location of operations: Australia and United States of America. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Operating segment information

2020

Segment Revenue

	Australia	USA	Total
	\$	\$	\$
Other revenue	1,020,828	-	1,020,828
Interest revenue	8,601	-	8,601
Total revenue	1,029,429	-	1,029,429

Segment Result

	Australia	USA	Total
	\$	\$	\$
EBITDA	(5,530,151)	(1,210,217)	(6,740,368)
Depreciation and amortisation	(28,126)	(246,925)	(275,051)
Interest revenue	8,601	-	8,601
Finance costs	2,451	(10,678)	(8,227)
Profit before income tax expense	(5,547,225)	(1,467,820)	(7,015,045)
Income tax expense	-	-	-
Profit after income tax expense	(5,547,225)	(1,467,820)	(7,015,045)

NOTES TO THE FINANCIAL STATEMENTS

2. OPERATING SEGMENTS

Segment assets and liabilities

	Australia	USA	Total
	\$	\$	\$
Total assets	34,848,318	940,315	35,788,634
Total liabilities	1,267,926	(2,509,633)	(1,241,709)
Net assets (liabilities)	36,116,244	(1,569,318)	34,546,925

Other information

Additions to non-current assets excluding financial instruments and deferred tax

32,791,508	781,009	33,572,517
<u>32,791,508</u>	<u>781,009</u>	<u>33,572,517</u>

2019

During the year ended 30 June 2019, the Company only operated in one segment, being conducting research with medicinal cannabis.

	2020	2019
	\$	\$
3. REVENUE AND EXPENSES		
(a) Revenue		
Interest revenue	8,601	90,139
(b) Expenses		
Employee benefits expense:		
- Directors' fees	302,756	597,780
4. OTHER INCOME		
Research and development incentive ¹	981,776	769,030
ATO Cash Boost	50,000	-
	<u>1,031,776</u>	<u>769,030</u>

1. Research and development incentive relates to the Group's research and development (R&D) activities being registered by Innovation and Science Australia for the R&D Tax Incentive. The R&D refund was received by the Company in November 2019.

NOTES TO THE FINANCIAL STATEMENTS

5. INCOME TAX EXPENSE	2020	2019
	\$	\$
(a) The prima facie income tax expense on pre-tax accounting result from operations reconciles to the income tax expense in the financial statements as follows:		
Loss before tax from continuing operations	(7,015,045)	(3,567,802)
Income tax (benefit)/expense calculated at 27.5% (2019: 27.5%)	(1,929,137)	(981,146)
Unused tax losses and tax offset not recognised as deferred tax assets		
Share based payments	148,219	127,103
Other non-deductible expenses	(208,410)	284,224
Other deferred tax assets and tax liabilities not recognised	1,989,328	569,819
Income tax (benefit)/expense reported in the statement of comprehensive income	-	-

The tax rate used in the above reconciliation is the corporate tax rate of 27.5% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

(b) Unrecognised deferred tax balances

The following deferred tax assets and (liabilities) have not been brought to account:

	2020	2019
	\$	\$
Deferred tax assets comprise:		
Temporary differences	4,364,845	694,353
Deferred tax liabilities comprise:		
Temporary differences	(183,356)	(4,125)
Net deferred tax assets	4,181,489	(690,228)

A deferred tax asset has not been recognised in the financial statements because it is not demonstrably probable that sufficient future taxable income will be available against which the Company can utilise the benefits thereof.

The future benefits of these tax assets will only be obtained if:

- The Company derives future assessable income of a nature and at an amount sufficient to enable the benefit from the assets to be realised;
- The Company continues to comply with the conditions for deductibility imposed by relevant tax legislation; and
- No changes in tax legislation adversely affect the Company in realising the benefit from the assets.

(c) Income tax expense not recognised directly in equity during the year

Share issue costs	-	-
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NOTES TO THE FINANCIAL STATEMENTS

6. KEY MANAGEMENT PERSONNEL

The Key Management Personnel of Zelira Therapeutics Limited during the year were:

Osagie Imasogie (appointed 2 December 2019)
 Harry Karelis
 Dr Richard Hopkins
 Dr Oludare Odumosu (appointed 2 December 2019)
 Jason Peterson
 Lisa Gray (appointed 2 December 2019)
 Stewart Washer (resigned 2 December 2019)
 Mara Gordon (resigned 2 December 2019)

Key management personnel compensation

	2020	2019
	\$	\$
Short-term employment benefits	699,322	573,507
Post-employment benefits	28,500	24,273
Share based payments	381,563	117,681
	1,109,385	715,461

Caziwell Inc, a company of which Ms Mara Gordon is a Director, entered into a licence agreement with the Company, including Aunt Zelda's Inc (Caziwell Licence Agreement) pursuant to which Caziwell agreed to licence patient data concerning the medicinal properties of cannabis and cannabis infused products, including formulations and protocols (Existing Data), to Zelira for use in pre-clinical research and human clinical trials and related activities. The material terms of the Caziwell Licence Agreement are set out in Note 27.

Gemelli Nominees Pty Ltd, a company of which Mr Harry Karelis is a Director, charged the Group director fees of \$120,000 (2019: \$210,000). \$nil (2019: \$nil) was outstanding at year end. The aggregate amount recognised during the year relating to consultancy services was \$nil (30 June 2019: \$ nil), \$nil of which was outstanding at 30 June 2020 (30 June 2019: \$nil).

Biologica Ventures Pty Ltd, a company of which Dr Stewart Washer is a Director, charged the Group director fees of \$12,000 (2019: \$36,000). \$nil (2019: \$nil) was outstanding at year end.

CPS Capital Pty Ltd, a company of which Mr Jason Peterson is a Director, charged the Group director fees of \$36,000 (2019: \$36,000) and provided corporate advisory services to the Group during the year on normal commercial terms and conditions. The aggregate amount recognised during the year relating to corporate advisory services was \$48,000 (30 June 2019: \$98,000) and capital raising fees of \$277,677 (30 June 2019: \$nil), \$7,000 of which was outstanding at 30 June 2020 (30 June 2019: \$nil).

Health House Holdings Ltd, a company of which Mr Harry Karelis is a shareholder and Mr Jason Peterson is a Director and shareholder provided storage services to the Group during the year on normal commercial terms and conditions. The aggregate amount recognised during the year relating to distribution services was \$30,315 (30 June 2019: \$ nil), \$nil of which was outstanding at 30 June 2020 (30 June 2019: \$nil).

NOTES TO THE FINANCIAL STATEMENTS

	2020	2019
	\$	\$
7. CASH AND CASH EQUIVALENTS		
Cash at bank	<u>1,697,040</u>	<u>3,073,125</u>

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

8. TRADE AND OTHER RECEIVABLES

Current	2020	2019
	\$	\$
Trade and other receivables		
GST receivable	63,039	13,974
Accrued interest	-	19,092
Prepayments	71,570	-
Other current assets	1,100	18,389
	<u>135,709</u>	<u>51,455</u>

9. RIGHT-OF-USE ASSETS**Current***Carrying value*

Cost	639,221	-
Accumulated depreciation	(44,041)	-
Carrying value at 30 June	<u>595,180</u>	<u>-</u>

9. RIGHT-OF-USE ASSETS (CONT.)*Reconciliation*

Recognised on 1 July 2019 on adoption of AASB 16	31,226	-
Recognised during the year ended 30 June 2020	665,226	-
Depreciation expense	(43,986)	-
Foreign exchange conversion	(57,286)	-
Carrying value at 30 June	<u>595,180</u>	<u>-</u>

AASB 16 has been adopted during the period, refer to note 28 for details.

10. FINANCIAL ASSET HELD AT FAIR VALUE

Opening balance – unlisted options	348,416	537,004
Changes in fair value	(106,285)	(188,588)
Closing balance	<u>242,131</u>	<u>348,416</u>

On 27 March 2017, Zelira entered into a strategic partnership with CannPal Pty Ltd (CannPal) (Agreement), an Australian company focused on developing cannabis based prescription and non-prescription medicines, and animal feed nutrition for the emerging global pet pharmaceutical market. The Agreement is to promote and encourage collaborative activity to improve the offerings of both CannPal and Zelira and exploit opportunities of mutual interest in both the human and animal pharmaceutical markets.

NOTES TO THE FINANCIAL STATEMENTS

10. FINANCIAL ASSET HELD AT FAIR VALUE (CONT.)

Under the terms of the agreement CannPal issued Zelira 7,250,000 unlisted options in CannPal (or such other amount equivalent to 10% of the fully diluted issued capital at 27 March 2017) exercisable at the lower of \$0.20 or the next round capital raising price including but not limited to the per share price of any acquisition, reverse takeover transaction or similar event, exercisable within five years from the date of issue. On 23 October 2017, CannPal was admitted to the Official List of ASX Limited and these options have been remeasured to fair value at 30 June 2020. The options have been valued under the Black-Scholes methodology using a volatility rate of 1.1% and a spot price of \$0.115.

11. TRADE AND OTHER PAYABLES

Current (unsecured)	2020 \$	2019 \$
Trade payables and accruals	559,386	407,235
	<u>559,386</u>	<u>407,235</u>

Terms and conditions relating to the above financial instruments:

- Trade payables are non-interest bearing and are normally settled on 30-day terms.
- Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

12. LEASE LIABILITIES

Carrying value

Current liabilities	60,862	-
Non-current liabilities	571,461	-
	<u>632,323</u>	<u>-</u>

Reconciliation

Recognised on 1 July 2019 on adoption of AASB 16	35,786	-
Recognised during the year ended 30 June 2020	665,226	-
Interest	12,344	-
Principal repayments	(23,827)	-
Foreign exchange conversion	(57,206)	-
Closing balance at 30 June	<u>632,323</u>	<u>-</u>

AASB 16 has been adopted during the period, refer to note 28 for details.

Underlying assets serve as a security for the related lease liabilities. A maturity analysis of future minimum lease payments is presented below.

	Lease payments due			
	< 1 year	1 – 2 years	2 – 5 years	Total
	\$	\$	\$	\$
Lease payments	102,030	121,040	555,186	778,256
Interest	(41,168)	(36,990)	(67,775)	(145,933)
Net present value	<u>60,862</u>	<u>84,050</u>	<u>487,413</u>	<u>632,323</u>

NOTES TO THE FINANCIAL STATEMENTS

			2020	2019
			\$	\$
13. ISSUED CAPITAL			26,075,600	13,823,411
	Year to 30 June 2020 No.	Year to 30 June 2019 No.	Year to 30 June 2020 \$	Year to 30 June 2019 \$
<i>Movements in ordinary shares on issue</i>				
At start of period	755,341,934	755,341,934	13,823,411	13,823,411
Acquisition of Ilera Therapeutics	113,601,290	-	7,690,603	-
Shares issued from exercise of options	4,000,000	-	142,500	-
Shares issued to consultant	1,500,000	-	102,000	-
Shares issued to sophisticated investors	91,855,182	-	4,592,759	-
Share issue expenses	-	-	(286,674)	-
Foreign exchange conversion	-	-	11,001	-
At end of period	966,298,406	755,341,934	26,075,600	13,823,411

At shareholders' meetings, each ordinary share is entitled to one vote in proportion to the paid-up amount of the share when a poll is called, otherwise each shareholder has one vote on a show of hands.

As described in Note 17 below, on 8 October 2019, the Company executed a Membership Interest Purchase Agreement (MIPA) with Ilera Therapeutics LLC (Ilera Therapeutics), the conditions precedent of which were satisfied or waived on 2 December 2019. Following the satisfaction of the conditions precedent, the acquisition was completed on 2 December 2019 and the consideration of the acquisition has been recognised at this date. The consideration shares were issued on 2 January 2020 in accordance with the final terms of the acquisition.

14. RESERVES**Share-based payments reserve**

This reserve is used to record the value of equity benefits provided to employees and Directors as part of their remuneration. Refer to note 15 for further details of these plans.

Foreign currency reserve

Exchange differences arising on translation of foreign controlled entities are taken to the foreign currency reserve as described in Note 1. The reserve is recognised in profit or loss when the net investment is disposed of.

Performance rights reserve

This reserve is used to record the value of performance rights provided to Directors as part of their remuneration. Refer to note 15 for further details.

NOTES TO THE FINANCIAL STATEMENTS

15. SHARE BASED PAYMENTS

(a) Summary of share-based payments - Unlisted Options (as at Balance date)

Set out below are the summaries of options granted as share based payments during the year and previous periods:

	Number	Grant date	Expiry date	Exercise price \$	Fair value at grant date	Vesting date
1	38,000,000	18 November 2016	17 November 2021	\$0.03125	\$0.0152	18 November 2016
2	1,000,000	22 August 2018	22 August 2021	\$0.125	\$0.0192	22 August 2018
3	2,000,000	22 August 2018	22 August 2021	\$0.125	\$0.0192	22 August 2020
4	2,096,667 ¹	15 January 2019	16 January 2022	\$0.10	\$0.0158	3 September 2019 subject to vesting conditions
5	3,000,000	15 January 2019	16 January 2022	\$0.10	\$0.0158	3 September 2020 subject to vesting conditions
6	1,500,000	8 January 2019	16 January 2022	\$0.10	\$0.0181	21 April 2019
7	1,500,000	8 January 2019	16 January 2022	\$0.10	\$0.0181	21 April 2020 subject to vesting conditions
8	1,500,000	8 January 2019	16 January 2022	\$0.10	\$0.0181	21 April 2021 subject to vesting conditions
9	5,000,000	19 February 2019	19 February 2022	\$0.10	\$0.0130	19 February 2019
10	5,000,000	19 February 2019	19 February 2022	\$0.15	\$0.0091	16 October 2019 subject to vesting conditions
11	5,000,000	19 February 2019	19 February 2022	\$0.20	\$0.0067	16 October 2019 subject to vesting conditions
12	5,000,000	19 February 2019	19 February 2022	\$0.28	\$0.0044	16 October 2020 subject to vesting conditions
13	5,000,000	19 February 2019	19 February 2022	\$0.30	\$0.0041	16 October 2020 subject to vesting conditions
14	2,000,000	27 September 2019	27 September 2022	\$0.12	\$0.0143	27 September 2019
15	5,000,000	11 August 2020 ²	11 August 2023	\$0.10	\$0.0195	11 August 2020
16	5,000,000	11 August 2020 ²	11 August 2023	\$0.15	\$0.0156	2 December 2020
17	5,000,000	11 August 2020 ²	11 August 2023	\$0.20	\$0.0130	2 December 2020
18	5,000,000	11 August 2020 ²	11 August 2023	\$0.28	\$0.0102	2 December 2021
19	5,000,000	11 August 2020 ²	11 August 2023	\$0.30	\$0.0096	2 December 2021

- On 3 September 2019, 2,103,333 unlisted options were cancelled under an Employee Share Option (ESOP) as vesting conditions were not met
- The Company announced the terms of Dr Odumosu's engagement on 3 June 2020, therefore the options are deemed to be issued prior to 30 June 2020. The options were formally issued on 11 August 2020.

The following options over ordinary shares in the Company expired during the year:

Number expired	Date granted	Date expired
6,000,000	6 February 2017	6 February 2020

The following share options were exercised during the year:

Number exercised	Date exercised	Share-price at exercise date
2,000,000	19 July 2019	\$0.072
2,000,000	6 February 2020	\$0.040

NOTES TO THE FINANCIAL STATEMENTS

15. SHARE BASED PAYMENTS (CONT.)

The weighted average exercise price during the financial year was \$0.13 (2019: \$0.08).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 1.89 years (2019: 1.96 years).

Performance Rights

	Type	Granted	Grant date	Issue price	Value of rights 30 June 2020	Conversion milestones
		Number		\$	\$	
Richard Hopkins	Class A	6,250,000	2 Dec 2019	\$0.068	\$77,729	Converted into shares subject to the cumulative revenues from US based products exceeding US\$1,000,000 prior to 23 December 2024
Richard Hopkins	Class B	6,250,000	2 Dec 2019	\$0.068	\$8,182	Converted into shares subject to the cumulative revenues from US based products exceeding US\$2,500,000 prior to 23 December 2024
Harry Karelis	Class A	6,250,000	2 Dec 2019	\$0.068	\$77,729	Converted into shares subject to the cumulative revenues from US based products exceeding US\$1,000,000 prior to 23 December 2024
Harry Karelis	Class B	6,250,000	2 Dec 2019	\$0.068	\$8,182	Converted into shares subject to the cumulative revenues from US based products exceeding US\$2,500,000 prior to 23 December 2024
Jason Peterson	Class A	6,250,000	2 Dec 2019	\$0.068	\$77,729	Converted into shares subject to the cumulative revenues from US based products exceeding US\$1,000,000 prior to 23 December 2024
Jason Peterson	Class B	6,250,000	2 Dec 2019	\$0.068	\$8,182	Converted into shares subject to the cumulative revenues from US based products exceeding US\$2,500,000 prior to 23 December 2024

Details of performance rights issued to the vendors of Ilera Therapeutics are described in Note 17.

NOTES TO THE FINANCIAL STATEMENTS

15. SHARE BASED PAYMENTS (CONT.)

(b) Valuation assumptions

The fair value of the equity-settled options granted is estimated as at the date of grant using the Black and Scholes model taking into account the terms and conditions upon which they were granted.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Expected volatility (%)	137	81	81	76	76	76	76	76	69	69	69	69	69	71	86	86	86	86	86
Risk-free interest rate (%)	2.18	1.03	1.03	1.03	1.03	1.03	1.03	1.03	1.03	1.03	1.03	1.03	1.03	1.96	0.26	0.26	0.26	0.26	0.26
Expected life of option (years)	5	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Exercise price (cents)	3.125	12.5	12.5	10	10	10	10	10	10	15	20	28	30	12	10	15	20	28	30
Grant date share price (cents)	2.5	7.1	7.1	6.1	6.1	6.6	6.6	6.6	5.9	5.9	5.9	5.9	5.9	7.5	6.2	6.2	6.2	6.2	6.2

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. No other features of options granted were incorporated into the measurement of fair value.

16. FINANCIAL INSTRUMENTS

Fair value measurement

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy.

The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: unobservable inputs for the asset or liability.

The only financial assets or financial liabilities measured at fair value on a recurring basis are unlisted options (Level 2).

NOTES TO THE FINANCIAL STATEMENTS

16. FINANCIAL INSTRUMENTS (CONT.)

There were no transfers between levels in 2020 and 2019.

Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. Valuation processes and fair value changes are discussed among the Board in line with the Group's reporting dates.

The valuation technique used for instruments categorised in Level 2 is described below:

Unlisted options

The Group's unlisted options are fair valued using a Black and Scholes model partly using observable variables such as interest rates.

(a) Financial risk management objectives

The Company did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives was governed by the Company's policies approved by the Board of directors, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the directors on a continuous basis.

The carrying amounts of financial assets and financial liabilities approximate their fair value.

	Variable interest rate \$	Maturity dates		Non- interest bearing	Total
		Less than 1 year	1-2 years		
2020					
Financial assets:					
Cash and cash equivalents	1,697,040	108,215	-	-	1,805,255
Trade receivables	-	-	-	1,100	1,100
Financial assets held at fair value	-	-	-	242,131	242,131
Financial liabilities:					
Trade payables	-	-	-	459,891	459,891
Lease liabilities	-	60,862	571,463	-	632,325

	Variable interest rate \$	Maturity dates		Non- interest bearing	Total
		Less than 1 year	1-2 years		
2019					
Financial assets:					
Cash and cash equivalents	810,166	2,262,960	9,180	-	3,082,305
Trade receivables	-	-	-	51,455	51,455
Financial assets held at fair value	-	-	-	348,416	348,416
Financial liabilities:					
Trade payables	-	-	-	407,235	407,235

NOTES TO THE FINANCIAL STATEMENTS

16. FINANCIAL INSTRUMENTS (CONT.)

(b) Interest rate risk sensitivity analysis

The following table demonstrates the sensitivity of the Group's consolidated statement of profit or loss and other comprehensive income to a reasonably possible change in interest rates, with all other variables constant.

Change in Basis Points	Effect on Post Tax Loss (\$)	
	Increase/(Decrease)	
	2020	2019
Increase 100 basis points	16,970	30,823
Decrease 100 basis points	(16,970)	(30,823)

A sensitivity of 100 basis points has been used as this is considered reasonable given the current level of both short-term and long-term Australian Dollar interest rates. This would represent two to four movements by the Reserve Bank of Australia.

(c) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

(d) Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Management monitor the rolling forecasts of the Group's liquidity on the basis of expected cash flow.

The following table details the expected maturity of the Group's financial assets and liabilities based on the earliest date of maturity or payment respectively. The amounts are stated on an undiscounted basis and include interest.

NOTES TO THE FINANCIAL STATEMENTS

16. FINANCIAL INSTRUMENTS (CONT.)

	Less than 1 month \$	1 – 3 Months \$	3 months – 1 year \$	1 – 5 years \$
2020				
<i>Financial Assets:</i>				
Non-interest bearing	1,100	-	-	-
Variable interest rate	1,697,040	-	-	-
Fixed interest rate	-	-	108,215	-
	1,698,140	-	108,215	-
<i>Financial Liabilities:</i>				
Non-interest bearing	459,891	-	-	-
	459,891	-	-	-
2019				
<i>Financial Assets:</i>				
Non-interest bearing	51,455	-	-	-
Variable interest rate	810,166	-	-	-
Fixed interest rate	-	2,262,960	-	9,180
	861,621	2,262,960	-	9,180
<i>Financial Liabilities:</i>				
Non-interest bearing	407,235	-	-	-
	407,235	-	-	-

(e) Capital Risk Management

The Board does not deem necessary a formal Capital Risk Management Charter. The Company manages its capital to ensure that it will be able to continue as a going concern whilst maximising the return to shareholders.

17. ACQUISITION OF SUBSIDIARY

Acquisition

On 8 October 2019, the Company executed a Membership Interest Purchase Agreement (MIPA) with Ilara Therapeutics LLC (Ilara Therapeutics), a privately held medicinal cannabis and cannabinoid science company based in the United States. The Conditions precedent of the MIPA were satisfied or waived on 2 December 2019.

Consideration transferred

The consideration paid to Ilara Therapeutics shareholders for the acquisition of their respective shares is:

- (a) 113,601,290 fully paid ordinary shares in the Company;
- (b) 362,620,322 Class A Performance Rights; and
- (c) 362,620,322 Class B Performance Rights,
to be issued pro rata between the Ilara Therapeutics shareholders

The Class A Performance Rights and Class B Performance Rights will convert into share upon the achievement of the following milestone.

NOTES TO THE FINANCIAL STATEMENTS

17. ACQUISITION OF SUBSIDIARY (CONT.)

Conversion of the Class A Performance Rights

- (a) (Milestone) A Performance Right will be able to be converted into a Share by a Holder subject to satisfaction of the following milestone:
- (i) the cumulative revenues from the date of issue of the Performance Rights received by the Company or its subsidiaries from US-based product sales exceeds US\$1,000,000.
 - (ii) If the Milestone is not achieved by the third anniversary of the Settlement or the Conversion Notice not given to Purchaser by the required date, then the relevant Performance Right will automatically lapse.

Conversion of the Class B Performance Rights

- (b) (Milestone) A Performance Right will be able to be converted into a Share by a Holder subject to satisfaction of the following milestone:
- (i) the cumulative revenues from the date of issue of the Performance Rights received by the Company or its subsidiaries from US-based product sales exceeds US\$2,500,000
 - (ii) If the Milestone is not achieved by the third anniversary of the Settlement or the Conversion Notice not given to Purchaser by the required date, then the relevant Performance Right will automatically lapse.

The Board have assessed the likelihood that each performance hurdle will be achieved. The Board considers the likelihood that Class A Performance Rights hurdles are achieved to be approximately 95%, furthermore the Board considers the likelihood that Class B Performance Rights hurdles are achieved to be approximately 10%.

	Issued	Share price at 2 December 2019	Likelihood	Total
At start of period	113,601,290	\$0.068	N/A	7,690,603
Acquisition of Ilera Therapeutics	362,620,322	\$0.068	95%	23,321,306
Shares issued from exercise of options	362,620,322	\$0.068	10%	2,454,874
At end of period	838,841,934			33,466,783

Assets acquired and liabilities assumed at the date of acquisition

The Group has recognised the fair values of the identifiable assets and liabilities of Ilera Therapeutics based upon the best information available as of the reporting date.

Business combination accounting is as follows:

NOTES TO THE FINANCIAL STATEMENTS

17. ACQUISITION OF SUBSIDIARY (CONT.)

	Acquiree's carrying amount before business combination	Fair value adjustment	Fair value
	\$	\$	\$
Cash and cash equivalents	189,781	-	189,781
Trade and other receivables	258,352	-	258,352
Property, plant and equipment	183,963	919,813	1,103,776
Intangibles	-	1,368,681	1,368,681
Trade payables	(200,890)	-	(200,890)
Fair value of identifiable net assets			<u>2,719,700</u>
Goodwill arising on acquisition			<u>30,747,083</u>
Total consideration			<u><u>33,466,783</u></u>

Goodwill on acquisition

	\$
Consideration transferred	33,466,783
Less: fair value of identifiable net assets acquired	<u>(2,719,700)</u>
Goodwill arising on acquisition	<u><u>30,747,083</u></u>

Goodwill arose in the acquisition of Ilera Therapeutics because the acquisition includes the following:

- a pipeline of formulations and proprietary platform technologies being developed for specific therapeutic conditions and products;
- a licensing strategy to access the large and growing USA market for medicinal cannabis; and
- direct access to the USA, the world's largest medicinal cannabis market with over four million registered patients.

These assets could not be separately recognised from goodwill because they are not capable of being separated from the company, and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts.

Net cash outflow arising on acquisition

	\$
Cash paid	-
Less: net cash acquired with the subsidiary	<u>189,781</u>
Net cash inflow	<u><u>189,781</u></u>

18. INTANGIBLES

	Trademarks	Favourable leases	Goodwill	Total
	\$	\$	\$	\$
Opening balance	-	-	-	-
Acquisition of Ilera Therapeutics	1,177,360	191,321	30,747,083	32,115,764
Amortisation	(68,046)	(22,115)	-	(90,161)
Closing balance	<u>1,109,314</u>	<u>169,206</u>	<u>30,747,083</u>	<u><u>32,025,603</u></u>

NOTES TO THE FINANCIAL STATEMENTS

	2020	2019
	\$	\$
19. EARNINGS / (LOSS) PER SHARE		
(a) (Loss) used in the calculation of basic and dilutive loss per share	(7,015,045)	(3,567,802)
Basic loss per Share	Number of	Number of
	Shares	Shares
(b) Weighted average number of ordinary shares outstanding during the year used in the calculation of basic loss per share:	848,364,170	755,073,441
Basic (loss) per share (cents per share)	(0.83)	(0.47)
Diluted loss per Share	Number of	Number of
	Shares	Shares
(b) Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted loss per share:	848,458,107	755,073,441
Diluted (loss) per share (cents per share)	(0.83)	(0.47)

20. CASH FLOW INFORMATION**(a) Reconciliation of cash and cash equivalents**

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments. Cash and cash equivalents at the end of the financial year as shown in the Consolidated Statement of Cash Flows is reconciled to the related items in the Consolidated Statement of Financial Position as follows:

	2020	2019
	\$	\$
Cash at bank	1,697,040	3,073,125

(b) Non-cash investing and financing activities

Non-cash investing and financing activities include the acquisition for Ilera Therapeutics. As described in Note 17, the consideration for the acquisition was the issue of ordinary shares and performance rights.

NOTES TO THE FINANCIAL STATEMENTS

20. CASH FLOW INFORMATION (CONT.)

(c) Reconciliation of net cash flow used in operating activities with profit / (loss) after income tax	2020 \$	2019 \$
(Loss) for year	(7,015,045)	(3,567,802)
Cash flows in operating (loss)/profit classified as investing activities		
- Revaluation of financial assets held at fair value	106,285	188,588
Non-cash flows in operating (loss)/profit		
- Government grants and tax incentive	(1,031,776)	(769,030)
- Share based payments	538,977	462,193
- Foreign exchange gain	102,000	(820)
- Finance charges	12,344	-
- Depreciation and amortisation	275,051	-
Cash flows not in operating (loss)/profit		
- Licensing fee income	234,000	-
- Rent expense	(23,747)	-
Changes in assets and liabilities:		
- (Increase)/Decrease in trade and other receivables	(84,254)	39,631
- Increase/(Decrease) in trade payables and other accruals	(50,111)	303,017
Net cash used in operating activities	(6,936,276)	(3,344,223)

21. AUDITORS' REMUNERATION

The auditors of the Company are HLB Mann Judd

Remuneration of the auditor for:

- Auditing or reviewing the financial report	47,313	33,150
	47,313	33,150

22. COMMITMENTS

	2020 \$	2019 \$
Research and development		
not later than 1 year	493,750	990,439
later than 1 year but no later than 5 years	-	19,250
Remuneration and consulting		
not later than 1 year	3,518,807	663,000

NOTES TO THE FINANCIAL STATEMENTS

23. PARENT ENTITY INFORMATION

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

	2020 \$	2019 \$
Financial Position		
Current assets	804,162	2,485,841
Total assets	34,724,723	2,846,233
Current liabilities	(127,798)	(28,309)
Total liabilities	(177,798)	(28,309)
Shareholder's equity		
Issued capital	38,275,591	26,033,542
Reserves	27,283,730	964,822
Accumulated losses	(31,012,396)	(24,180,441)
	<u>34,546,925</u>	<u>2,817,923</u>
Financial Performance		
Loss for the year	(10,865,066)	(3,272,363)
Total comprehensive loss	<u>(10,865,066)</u>	<u>(3,272,363)</u>

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).

Contractual commitments of the Parent Entity

Included in the commitments in Note 22 are commitments incurred by the Parent Entity as follows:

	2020 \$	2019 \$
Research and development		
not later than 1 year	-	433,060
later than 1 year but no later than 5 years	-	19,250
Remuneration and consulting		
not later than 1 year	1,892,004	663,000

24. INTERESTS IN SUBSIDIARY

Transactions with subsidiary:

The consolidated financial statements include the financial statements of Zelira Therapeutics Ltd and the subsidiaries in the following table.

	Country of Incorporation	% Equity Interest	
		2020	2019
Zelda Therapeutics Operations Pty Ltd	Australia	100%	100%
Ilera Therapeutics LLC	USA	100%	-
Ilera Derm LLC	USA	80%	-

NOTES TO THE FINANCIAL STATEMENTS

25. RELATED PARTY INFORMATION

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

Transactions with director related entities:

Caziwell Inc, a company of which Ms Mara Gordon is a Director, entered into a licence agreement with the Company, including Aunt Zelda's Inc (Caziwell Licence Agreement) pursuant to which Caziwell agreed to licence patient data concerning the medicinal properties of cannabis and cannabis infused products, including formulations and protocols (Existing Data), to Zelira for use in pre-clinical research and human clinical trials and related activities. The material terms of the Caziwell Licence Agreement are set out in Note 27.

CPS Capital Pty Ltd, a company of which Mr Jason Peterson is a Director, charged the Group director fees of \$36,000 (2019: \$36,000) and provided corporate advisory services to the Group during the year on normal commercial terms and conditions. The aggregate amount recognised during the year relating to corporate advisory services was \$48,000 (30 June 2019: \$98,000) and capital raising fees of \$277,677 (30 June 2019: \$nil), \$7,000 of which was outstanding at 30 June 2020 (30 June 2019: \$nil).

Health House Holdings Ltd, a company of which Mr Harry Karelis is a shareholder and Mr Jason Peterson is a Director and shareholder provided storage services to the Group during the year on normal commercial terms and conditions. The aggregate amount recognised during the year relating to distribution services was \$30,315 (30 June 2019: \$ nil), \$nil of which was outstanding at 30 June 2020 (30 June 2019: \$nil).

Remuneration related transactions with director related entities:

Gemelli Nominees Pty Ltd, a company of which Mr Harry Karelis is a Director, charged the Group director fees of \$120,000 (2019: \$210,000). \$nil (2019: \$nil) was outstanding at year end. The aggregate amount recognised during the year relating to consultancy services was \$nil (30 June 2019: \$ nil), \$nil of which was outstanding at 30 June 2020 (30 June 2019: \$nil).

Biologica Ventures Pty Ltd, a company of which Dr Stewart Washer is a Director, charged the Group director fees of \$12,000 (2019: \$36,000). \$nil (2019: \$nil) was outstanding at year end.

There were no other related party transactions during the year.

26. EVENTS SUBSEQUENT TO REPORTING DATE

On 10 July 2020, the Company announced it had agreed to the issue of 12,500,000 Performance Rights to Chairman, Mr Osagie Imasogie and Non-Executive Director, Ms Lisa Gray. The issue is subject to shareholder approval at the next General Meeting.

On 21 July 2020, the Company held a General Meeting. All resolutions proposed at the meeting were passed including the adoption of a US Employee Share Option Plan, approval of the issue of options to Dr Oludare Odumosu, approval of the increase in Non-Executive Director remuneration, ratification of a previous share placement and approval of the issue of shares to Dr Richard Hopkins.

On 11 August 2020, the Company issued 174,987,560 shares at an issue price of \$0.05 per share to sophisticated and professional investors to raise \$8,749,378 before costs. On the same date, the Company issued 1,000,000 shares at an issue price of \$0.05 per share to Dr Richard Hopkins as approved in the General Meeting on 21 July 2020.

NOTES TO THE FINANCIAL STATEMENTS

26. EVENTS SUBSEQUENT TO REPORTING DATE (CONT.)

Also, on the 11 August 2020, the Company issued the following options to Dr Oludare Odumosu as approved in the General Meeting on 21 July 2020:

5 million @ 10 cents per share (vesting immediately)

1. 5 million @ 15 cents per share (vest and capable of exercise on 2 December 2020)
2. 5 million @ 20 cents per share (vest and capable of exercise on 2 December 2020)
3. 5 million @ 28 cents per share (vest and capable of exercise on 2 December 2021)
4. 5 million @ 30 cents per share (vest and capable of exercise on 2 December 2021)

27. CONTINGENT LIABILITIES

Caziwell Licence Agreement

On 21 March 2017, Zelira entered into a licence agreement with Caziwell Inc (Caziwell), including Aunt Zelda's Inc (Caziwell Licence Agreement) pursuant to which Caziwell agreed to licence patient data concerning the medicinal properties of cannabis and cannabis infused products, including formulations and protocols (Existing Data), to Zelira for use in pre-clinical research and human clinical trials and related activities.

The material terms of the Caziwell Licence Agreement are as follows:

- a. Payment of a royalty to Caziwell of 5% of net sales by Zelira (commencing on the first day that a product is sold, transferred, rented, leased or distributed by or Zelira) for products in the autism, eczema, breast and brain cancer fields.
- b. A one-off milestone fee of \$250,000 payable within 7 days of the first dosage by a participant in a Clinical Trial for breast or brain cancer.
- c. Zelira may grant sub-licences to the Existing Data and any data generated as a result of the research and clinical trials undertaken by Zelira to third parties for the duration of the Licence. In consideration, Zelira is required to pay Caziwell a sub-licence royalty of 10% of the licence fees and payments, including milestone fees, made by sub-licensees to Zelira in the above fields.

Other than disclosed above, as at the 30 June 2020 the Company did not have any contingent liabilities.

28. NEW ACCOUNTING STANDARDS ADOPTED

AASB 16 Leases

Change in accounting policy

AASB 16 Leases supersedes AASB 117 Leases. The Group has adopted AASB 16 from 1 July 2019 which has resulted in changes in the classification, measurement and recognition of leases. The changes result in almost all leases where the Group is the lessee being recognised on the Statement of Financial Position and removes the former distinction between 'operating and 'finance' leases. The new standard requires recognition of a right-of-use asset (the leased item) and a financial liability (to pay rentals). The exceptions are short-term leases and leases of low value assets.

The Group has adopted AASB 16 using the modified retrospective approach under which the reclassifications and the adjustments arising from the new leasing rules are recognised in the opening Condensed Statement of Financial Position on 1 July 2019. Under this approach, there is an initial impact on retained earnings and comparatives have not been restated.

NOTES TO THE FINANCIAL STATEMENTS**28. NEW ACCOUNTING STANDARDS ADOPTED (CONT.)**

The Group leases various premises. Prior to 1 July 2019, leases were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease. From 1 July 2019, where the Company is a lessee, the Group recognises a right-of-use asset and a corresponding liability at the date which the lease asset is available for use by the Group (i.e. commencement date). Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a consistent period rate of interest on the remaining balance of the liability for each period.

The lease liability is initially measured at the present value of the lease payments that are not paid at commencement date, discounted using the rate implied in the lease. If this rate is not readily determinable, the Group uses its incremental borrowing rate.

Lease payments included in the initial measurement if the lease liability consist of:

- Fixed lease payments less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at commencement date;
- Any amounts expected to be payable by the Group under residual value guarantees;
- The exercise price of purchase options, if the Group is reasonably certain to exercise the options; and
- Termination penalties of the lease term reflects the exercise of an option to terminate the lease.

Extension options are included in a number of property leases across the Group. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if, at commencement date, it is reasonably certain that the options will be exercised.

Subsequent to initial recognition, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The lease liability is remeasured (with a corresponding adjustment to the right-of-use asset) whenever there is a change in the lease term (including assessments relating to extension and termination options), lease payments due to changes in an index or rate, or expected payments under guaranteed residual values.

Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before commencement date, less any lease incentives received and any initial direct costs.

These right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Where the terms of a lease require the Group to restore the underlying asset, or the Group has an obligation to dismantle and remove a leased asset, a provision is recognised and measured in accordance with AASB 137. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Right-of-use assets are depreciated on a straight-line basis over the term of the lease (or the useful life of the leased asset if this is shorter). Depreciation starts on commencement date of the lease.

Where leases have a term of less than 12 months or relate to low value assets, the Group has applied the optional exemptions to not capitalise these leases and instead account for the lease expense on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS**28. NEW ACCOUNTING STANDARDS ADOPTED (CONT.)***Impact on adoption of AASB 16*

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of AASB 117. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to lease liabilities on 1 July 2019 was 7%.

On initial application right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Statement of Financial Position as at 30 June 2019. In the Condensed Statement of Cash Flows, the Group has recognised cash payments for the principal portion of the lease liability within financing activities, cash payments for the interest portion of the lease liability as interest paid within operating activities and short-term lease payments and payments for lease of low-value assets within operating activities.

The adoption of AASB 16 resulted in the recognition of right-of-use assets of \$31,226 and lease liabilities of \$35,786 in respect of all operating leases, other than short-term leases and leases of low-value assets. The net impact on retained earnings on 1 July 2019 was \$4,561.

INDEPENDENT AUDITOR'S REPORT

To the members of Zelira Therapeutics Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Zelira Therapeutics Limited ("the Company") and its controlled entities ("the Group"), 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 Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Group's financial position as at 30 June 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 Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Material uncertainty related to going concern

We draw attention to Note 1(d) in the financial report, which indicates that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, 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
<p>Acquisition of Ilera Therapeutics LLC Note 17 of the financial report</p> <p>During the year, the Group acquired 100% of the issued capital of US-based Ilera Therapeutics LLC. This was considered a significant acquisition by the Group.</p> <p>All acquisitions have been accounted for in line with the provisions of AASB 3 <i>Business Combinations</i>.</p> <p>We focused on this area as a key audit matter as accounting for this transaction is a complex and judgemental exercise. Management is required to determine the fair value of the assets acquired and liabilities assumed, in particular in determining the allocation of purchase consideration to goodwill and separately identifiable intangible assets.</p>	<p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> - We read the acquisition agreement to understand the key terms and conditions; - We agreed the fair value of the consideration paid to supporting evidence; - We obtained audit evidence that the acquisition-date assets and liabilities of the business were fairly stated; - We considered the accounting for the excess of consideration paid over the identifiable net assets acquired, having regard to the Group's application of the accounting concepts in accordance with AASB 3; - We assessed the adequacy of the Group's disclosures in the financial report; and - We tested the goodwill on acquisition for impairment as required under AASB 136 <i>Impairment of Assets</i> by critically evaluating the assumptions used in management's discounted cash flow forecasts to support the carrying value of the goodwill.

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 Group's annual 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 Group to continue as a going concern, disclosing, as applicable, matters related to going concern and

using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 Group'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 Group'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 Group 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 Zelira Therapeutics 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
Chartered Accountants

Perth, Western Australia
28 August 2020



Brad McVeigh
Partner

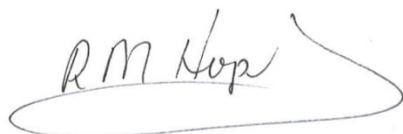
DIRECTORS' DECLARATION

The directors of the company declare that:

1. in the directors' opinion, the financial statements and accompanying notes set out on pages 25 to 61 are in accordance with the *Corporations Act 2001* and:
 - a. comply with Accounting Standards and the *Corporations Regulations 2001*; and
 - b. give a true and fair view of the group's financial position as at 30 June 2020 and of its performance for the year ended on that date;
2. note 1 confirms that the financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
3. in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
4. the directors have been given the declarations by the Chief Executive Officer (or equivalent) and Chief Financial Officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

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

A handwritten signature in blue ink, appearing to read 'R M Hopkins', is written over a faint, horizontal oval line.

Dr Richard Hopkins
Managing Director

Dated at Perth this 28 day of August 2020

CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Statement is current as at 28 August 2020 and has been approved by the Board of the Company.

This Corporate Governance Statement discloses the extent to which the Company will follow the recommendations set by the ASX Corporate Governance Council in its publication *Corporate Governance Principles and Recommendations 3rd Edition* (Recommendations). The Company adopted the *Corporate Governance Principles and Recommendations 4th Edition* (Recommendations) in July 2020. The Recommendations are not mandatory, however the Recommendations that will not be followed have been identified and reasons for not following them, along with what (if any) alternative governance practices have been adopted in lieu of the Recommendation.

The Company has adopted Corporate Governance Policies which provide written terms of reference for the Company's corporate governance practices. The Board of the Company has not yet formed an audit committee, nomination committee, risk management committee or remuneration committee.

The Company's Corporate Governance Policies are available on the Company's website at www.zeliratx.com

Principle 1: Lay solid foundations for management and oversight

Roles of the Board & Management

The Board is responsible for evaluating and setting the strategic direction for the Company, establishing goals for management and monitoring the achievement of these goals. The Managing Director (or equivalent) is responsible to the Board for the day-to-day management of the Company.

The principal functions and responsibilities of the Board include, but are not limited to, the following:

- Appointment, evaluation and, if necessary, removal of the Managing Director, any other executive directors, the Company Secretary and the Chief Financial Officer and approval of their remuneration;
- Determining, in conjunction with management, corporate strategy, objectives, operations, plans and approving and appropriately monitoring plans, new investments, major capital and operating expenditures, capital management, acquisitions, divestitures and major funding activities;
- Establishing appropriate levels of delegation to the Managing Director to allow the business to be managed efficiently;
- Approval of remuneration methodologies and systems;
- Monitoring actual performance against planned performance expectations and reviewing operating information at a requisite level to understand at all times the financial and operating conditions of the Company;
- Monitoring the performance of senior management, including the implementation of strategy and ensuring appropriate resources are available;
- Identifying areas of significant business risk and ensuring that the Company is appropriately positioned to manage those risks;
- Overseeing the management of safety, occupational health and environmental issues;
- Satisfying itself that the financial statements of the Company fairly and accurately set out the financial position and financial performance of the Company for the period under review;
- Satisfying itself that there are appropriate reporting systems and controls in place to assure the Board that proper operational, financial, compliance, risk management and internal control processes are in place and functioning appropriately;
- Ensuring that appropriate internal and external audit arrangements are in place and operating effectively;
- Authorising the issue of any shares, options, equity instruments or other securities within the constraints of the Corporations Act and the ASX Listing Rules; and

- Ensuring that the Company acts legally and responsibly on all matters and assuring itself that the Company has adopted, and that its practice is consistent with, a number of guidelines including:
 - Code of Conduct;
 - Continuous Disclosure Policy;
 - Diversity Policy;
 - Performance Evaluation Policy;
 - Procedures for Selection and Appointment of Directors;
 - Remuneration Policy;
 - Risk Management and Internal Compliance and Control Policy.
 - Securities Trading Policy; and
 - Shareholder Communications Policy.

Subject to the specific authorities reserved to the Board under the Board Charter, the Board delegates to the Managing Director responsibility for the management and operation of Zelira Therapeutics. The Managing Director is responsible for the day-to-day operations, financial performance and administration of Zelira Therapeutics within the powers authorised to him from time-to-time by the Board. The Managing Director may make further delegation within the delegations specified by the Board and will be accountable to the Board for the exercise of those delegated powers.

Further details of Board responsibilities, objectives and structure are set out in the Board Charter on the Zelira Therapeutics website.

Board Committees

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of separate committees at this time including audit, risk, remuneration or nomination committees, preferring at this stage of the Company's development, to manage the Company through the full Board of Directors. The Board assumes the responsibilities normally delegated to the audit, risk, remuneration and nomination Committees.

If the Company's activities increase, in size, scope and nature, the appointment of separate committees will be reviewed by the Board and implemented if appropriate.

Board Appointments

The Company undertakes comprehensive reference checks prior to appointing a director, or putting that person forward as a candidate to ensure that person is competent, experienced, and would not be impaired in any way from undertaking the duties of director. The Company provides relevant information to shareholders for their consideration about the attributes of candidates together with whether the Board supports the appointment or re-election.

The terms of the appointment of a non-executive director, executive directors and senior executives are agreed upon and set out in writing at the time of appointment.

The Company Secretary

The Company Secretary is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board, including agendas, Board papers and minutes, advising the Board and its Committees (as applicable) on governance matters, monitoring that the Board and Committee policies and procedures are followed, communication with regulatory bodies and the ASX and statutory and other filings.

Diversity

The Board has adopted a Diversity Policy which provides a framework for the Company to establish and achieve measurable diversity objectives, including in respect to gender, age, ethnicity and cultural diversity.

The Diversity Policy allows the Board to set measurable gender diversity objectives (if considered appropriate) and to assess annually both the objectives (if any have been set) and the Company's progress towards achieving them.

The Board considers that, due to the size, nature and stage of development of the Company, setting measurable objectives for the Diversity Policy at this time is not appropriate. The Board will consider setting measurable objectives as the Company increases in size and complexity.

The participation of women in the Company at the date of this report is as follows:

- | | |
|--|-----|
| • Women employees in the Company | 43% |
| • Women in senior management positions | 29% |
| • Women on the Board | 17% |

The Company's Diversity Policy is available on its website.

Board & Management Performance Review

On an annual basis, the Board conducts a review of its structure, composition and performance.

The annual review includes consideration of the following measures:

- comparing the performance of the Board against the requirements of its Charter;
- assessing the performance of the Board over the previous 12 months having regard to the corporate strategies, operating plans and the annual budget;
- reviewing the Board's interaction with management;
- reviewing the type and timing of information provided to the Board by management;
- reviewing management's performance in assisting the Board to meet its objectives; and
- identifying any necessary or desirable improvements to the Board Charter.

The method and scope of the performance evaluation will be set by the Board and may include a Board self-assessment checklist to be completed by each Director. The Board may also use an independent adviser to assist in the review.

The Chairman has primary responsibility for conducting performance appraisals of Non-Executive Directors, in conjunction with them, having particular regard to:

- contribution to Board discussion and function;
- degree of independence including relevance of any conflicts of interest;
- availability for and attendance at Board meetings and other relevant events;
- contribution to Company strategy;
- membership of and contribution to any Board committees; and
- suitability to Board structure and composition.

Given, the size of the Board, the substantial changes to the composition of the Board in December 2019 and the current level of operations of the Company, no formal appraisal of the Board was conducted during the financial year.

The Board conducts an annual performance assessment of the Managing Director against agreed key performance indicators.

Independent Advice

Directors have a right of access to all Company information and executives. Directors are entitled, in fulfilling their duties and responsibilities, to obtain independent professional advice on any matter connected with the discharge of their responsibilities, with prior notice to the Chairman, at Zelira Therapeutics' expense.

Principle 2: Structure the board to add value

Board Composition

During the financial year and to the date of this report the Board was comprised of the following members:

Osagie Imasogie	Chairman (appointed 2 December 2019)
Harry Karelis	Deputy Chairman
Richard Hopkins	Managing Director (excluding USA)
Oludare Odumosu	Managing Director (USA) (appointed 2 December 2019)
Jason Peterson	Non-Executive Director
Lisa Gray	Non-Executive Director (appointed 2 December 2019)
Stewart Washer	Non-Executive Director (resigned 2 December 2019)
Mara Gordon	Non-Executive Director (resigned 2 December 2019)

The Board currently consists of two Executive and four Non-Executive Directors.

Zelira Therapeutics has adopted a definition of 'independence' for Directors that is consistent with the Recommendations.

All of the Board members are not considered to be independent as they are either executives of the Company or do not meet the definition of independent.

Board Selection Process

The Board considers that a diverse range of skills, backgrounds, knowledge and experience is required in order to effectively govern Zelira Therapeutics. The Board believes that orderly succession and renewal contributes to strong corporate governance and is achieved by careful planning and continual review.

The Board is responsible for the nomination and selection of directors. The Board reviews the size and composition of the Board regularly and at least once a year as part of the Board evaluation process.

The Group does not have an established board skills matrix on the mix of skills and diversity for Board membership. The Board continues to monitor the mix of skills and diversity on the Board however, due to the size of the Group, the Board does not consider it appropriate at this time to formally set matrix on the mix of skills and diversity for Board membership

Induction of New Directors and Ongoing Development

New Directors are issued with a formal Letter of Appointment that sets out the key terms and conditions of their appointment, including Director's duties, rights and responsibilities, the time commitment envisaged, and the Board's expectations regarding involvement with any Committee work.

An induction program is in place and new Directors are encouraged to engage in professional development activities to develop and maintain the skills and knowledge needed to perform their role as Directors effectively.

Principle 3: Act ethically and responsibly

The Company has implemented a Code of Conduct, which provides guidelines aimed at maintaining high ethical standards, corporate behaviour and accountability within the Company.

All employees and Directors are expected to:

- respect the law and act in accordance with it;

- maintain high levels of professional conduct;
- respect confidentiality and not misuse Company information, assets or facilities;
- avoid real or perceived conflicts of interest;
- act in the best interests of shareholders;
- by their actions contribute to the Company'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.

An employee that breaches the Code of Conduct may face disciplinary action including, in the cases of serious breaches, dismissal. If an employee suspects that a breach of the Code of Conduct has occurred or will occur, he or she must report that breach to the Company Secretary. No employee 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

The Board as a whole fulfills the functions normally delegated to the Audit Committee as detailed in the Audit Committee Charter.

The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises. Candidates for the position of external auditor must demonstrate complete independence from the Company through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Board.

The Board receives regular reports from management and from external auditors. It also meets with the external auditors as and when required.

The external auditors attend Zelira Therapeutics' AGM and are available to answer questions from security holders relevant to the audit.

Prior approval of the Board must be gained for non-audit work to be performed by the external auditor. There are qualitative limits on this non-audit work to ensure that the independence of the auditor is maintained.

There is also a requirement that the audit partner responsible for the audit not perform in that role for more than five years.

CEO and CFO Certifications

The Board, before it approves the entity's financial statements for a financial period, receives from its CEO and CFO (or, if none, the persons fulfilling those functions) a declaration provided in accordance with Section 295A of the Corporations Act that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Principle 5: Make timely and balanced disclosure

The Company has a Continuous Disclosure Policy which outlines the disclosure obligations of the Company as required under the ASX Listing Rules and Corporations Act. The policy is designed to ensure that procedures are in place so that the market is properly informed of matters which may have a material impact on the price at which Company securities are traded.

The Board considers whether there are any matters requiring disclosure in respect of each and every item of business that it considers in its meetings. Individual Directors are required to make such a consideration when they become aware of any information in the course of their duties as a Director of the Company.

The Company is committed to ensuring all investors have equal and timely access to material information concerning the Company.

The Board has designated the Company Secretary as the person responsible for communicating with the ASX. The Chairman, Managing Director and the Company Secretary are responsible for ensuring that:

- a) Company announcements are made in a timely manner, that announcements are factual and do not omit any material information required to be disclosed under the ASX Listing Rules and Corporations Act; and
- b) Company announcements are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

Principle 6: Respect the rights of security holders

The Company recognises the value of providing current and relevant information to its shareholders.

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

- communicating effectively with shareholders through releases to the market via ASX, the company website, information mailed to shareholders and the general meetings of the Company;
- giving shareholders ready access to clear and understandable information about the Company; and
- making it easy for shareholders to participate in general meetings of the Company.

The Company also makes available a telephone number and email address for shareholders to make enquiries of the Company. These contact details are available on the “contact us” page of the Company’s website.

Shareholders may elect to, and are encouraged to, receive communications from Zelira Therapeutics and Zelira Therapeutics’ securities registry electronically.

The Company maintains information in relation to its Constitution, governance documents, Directors and senior executives, Board and committee charters, annual reports and ASX announcements on the Company’s website.

Principle 7: Recognise and manage risk

The Board is committed to the identification, assessment and management of risk throughout Zelira Therapeutics’ business activities.

The Board is responsible for the oversight of the Company’s risk management and internal compliance and control framework. The Company does not have an internal audit function. Responsibility for control and risk management is delegated to the appropriate level of management within the Company with the Managing Director having ultimate responsibility to the Board for the risk management and internal compliance and control framework. Zelira Therapeutics has established policies for the oversight and management of material business risks.

Zelira Therapeutics' Risk Management and Internal Compliance and Control Policy recognises that risk management is an essential element of good corporate governance and fundamental in achieving its strategic and operational objectives. Risk management improves decision making, defines opportunities and mitigates material events that may impact security holder value.

Zelira Therapeutics believes that explicit and effective risk management is a source of insight and competitive advantage. To this end, Zelira Therapeutics is committed to the ongoing development of a strategic and consistent enterprise wide risk management program, underpinned by a risk conscious culture.

Zelira Therapeutics accepts that risk is a part of doing business. Therefore, the Company's Risk Management and Internal Compliance and Control Policy is not designed to promote risk avoidance. Rather Zelira Therapeutics' approach is to create a risk conscious culture that encourages the systematic identification, management and control of risks whilst ensuring we do not enter into unnecessary risks or enter into risks unknowingly.

Zelira Therapeutics assesses its risks on a residual basis; that is it evaluates the level of risk remaining and considering all the mitigation practices and controls. Depending on the materiality of the risks, Zelira Therapeutics applies varying levels of management plans.

The Board has required management to design and implement a risk management and internal compliance and control system to manage Zelira Therapeutics' material business risks. It receives regular reports on specific business areas where there may exist significant business risk or exposure. The Company faces risks inherent to its business, including economic risks, which may materially impact the Company's ability to create or preserve value for security holders over the short, medium or long term. The Company has in place policies and procedures, including a risk management framework (as described in the Company's Risk Management and Internal Compliance and Control Policy), which is developed and updated to help manage these risks. The Board does not consider that the Company currently has any material exposure to environmental or social sustainability risks.

The Company's process of risk management and internal compliance and control includes:

- identifying and measuring risks that might impact upon the achievement of the Company's goals and objectives, and monitoring the environment for emerging factors and trends that affect those risks.
- formulating risk management strategies to manage identified risks, and designing and implementing appropriate risk management policies and internal controls.
- monitoring the performance of, and improving the effectiveness of, risk management systems and internal compliance and controls, including regular assessment of the effectiveness of risk management and internal compliance and control.

The Board reviews the Company's risk management framework at least annually to ensure that it continues to effectively manage risk.

Management reports to the Board as to the effectiveness of Zelira Therapeutics' management of its material business risks on at each Board meeting.

Principle 8: Remunerate fairly and responsibly

The Board as a whole fulfils the functions normally delegated to the Remuneration Committee as detailed in the Remuneration Committee Charter.

Zelira Therapeutics has implemented a Remuneration Policy which was designed to recognise the competitive environment within which Zelira Therapeutics operates and also emphasise the requirement to attract and retain high calibre talent in order to achieve sustained improvement in Zelira Therapeutics' performance. The overriding objective of the Remuneration Policy is to ensure that an individual's remuneration package accurately reflects their experience, level of responsibility, individual performance and the performance of Zelira Therapeutics.

The key principles are to:

- link executive reward with strategic goals and sustainable performance of Zelira Therapeutics;
- apply challenging corporate and individual key performance indicators that focus on both short-term and long-term outcomes;
- motivate and recognise superior performers with fair, consistent and competitive rewards;
- remunerate fairly and competitively in order to attract and retain top talent;
- recognise capabilities and promote opportunities for career and professional development; and
- through employee ownership of Zelira Therapeutics shares, foster a partnership between employees and other security holders.

The Board determines the Company's remuneration policies and practices and assesses the necessary and desirable competencies of Board members. The Board is responsible for evaluating Board performance, reviewing Board and management succession plans and determines remuneration packages for the Managing Director, Non-Executive Directors and senior management based on an annual review.

Zelira Therapeutics' executive remuneration policies and structures and details of remuneration paid to directors and senior managers (where appointed) are set out in the Remuneration Report.

Non-Executive Directors receive fees (including statutory superannuation where applicable) for their services, the reimbursement of reasonable expenses and, in certain circumstances options. They do not receive any termination or retirement benefits, other than statutory superannuation.

The maximum aggregate remuneration approved by shareholders for Non-Executive Directors is \$750,000 per annum. The Directors set the individual Non-Executive Directors fees within the limit approved by shareholders. On 21 July 2020, Zelira approved the increase of the maximum aggregate remuneration approved by shareholders for Non-Executive Directors from \$300,000 per annum to \$750,000 per annum. The total fees paid to Non-Executive Directors during the reporting period were \$246,000.

Executive directors and other senior executives (where appointed) are remunerated using combinations of fixed and performance-based remuneration. Fees and salaries are set at levels reflecting market rates and performance-based remuneration is linked directly to specific performance targets that are aligned to both short and long term objectives.

In accordance with the Company's Securities Trading Policy, participants in an equity based incentive scheme are prohibited from entering into any transaction that would have the effect of hedging or otherwise transferring the risk of any fluctuation in the value of any unvested entitlement in the Company's securities to any other person.

Further details in relation to the Company's remuneration policies are contained in the Remuneration Report, within the Directors' Report.

ASX ADDITIONAL INFORMATION

Additional information as required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. This information is current as at 20 August 2020

Distribution of equity security holders (number of holders)

	1 – 1,000	1,001 – 5,000	5,001 – 10,000	10,001 – 100,000	100,001 and over	Total
Fully Paid Ordinary Shares (ZLD)	169	1,022	2,192	4,549	1,166	9,098
Options – 3.125c 17/11/21 Escrowed 24 Months	-	-	-	-	7	7
Options – 4c 06/02/20	-	-	-	-	2	2
Options – 12.5c 22/08/21	-	-	-	-	2	2
Options – 10c 16/01/22	-	-	-	-	2	2
Options – 10c 19/02/22	-	-	-	-	1	1
Options – 15c 19/02/22	-	-	-	-	1	1
Options – 20c 19/02/22	-	-	-	-	1	1
Options – 28c 19/02/22	-	-	-	-	1	1
Options – 30c 19/02/22	-	-	-	-	1	1
Options – 10c 11/08/23	-	-	-	-	1	1
Options – 12c 11/08/23	-	-	-	-	1	1
Options – 15c 11/08/23	-	-	-	-	1	1
Options – 20c 11/08/23	-	-	-	-	1	1
Options – 28c 11/08/23	-	-	-	-	1	1
Options – 30c 11/08/23	-	-	-	-	1	1
Performance Rights Class A	-	-	-	-	15	15
Performance Rights Class B	-	-	-	-	15	15

There are 2,640 holders of shares holding less than a marketable parcel.

Quoted equity securities as at 20 August 2020

Equity Security	Quoted
Ordinary Shares	1,142,285,966

Voting rights

Ordinary shares carry one vote per share. There are no voting rights attached to the options in the Company.

(d) Unquoted Securities as at 20 August 2020

The number of unquoted securities on issue as at 20 August 2020:

Unquoted Securities	Number on Issue	Exercise Price	Expiry Date
Unquoted Options ¹	38,000,000	3.125c	17/11/2021
Unquoted Options ²	1,000,000	12.5	22/08/2021
Unquoted Options ³	9,596,667	10	16/01/2022
Unquoted Options ⁴	5,000,000	10	19/02/2022
Unquoted Options ⁴	5,000,000	15	19/02/2022
Unquoted Options ⁴	5,000,000	20	19/02/2022
Unquoted Options ⁴	5,000,000	28	19/02/2022
Unquoted Options ⁴	5,000,000	30	19/02/2022
Unquoted Options ⁵	2,000,000	12	27/09/2022
Unquoted Options ⁶	5,000,000	10	11/08/2023
Unquoted Options ⁶	5,000,000	15	11/08/2023
Unquoted Options ⁶	5,000,000	20	11/08/2023
Unquoted Options ⁶	5,000,000	28	11/08/2023
Unquoted Options ⁶	5,000,000	30	11/08/2023
Performance Rights Class A	381,370,322	Converted into shares subject to the cumulative revenues from US based products exceeding US\$1,000,000 prior to 19 December 2024	
Performance Rights Class B	381,370,322	Converted into shares subject to the cumulative revenues from US based products exceeding US\$2,500,000 prior to 19 December 2024	

Persons holding more than 20% of a given class of unquoted securities as at 20 August 2020:

- 1) 21% held by Sunset Capital Management Pty Ltd <Sunset Superfund>
- 2) 50% held by Mr David Casarett, 50% held by Mr Dustin Sulak
- 3) 62% held by Dr Deborah Cooper, 38% held by Dr Meghan Thomas
- 4) 100% held by Dr Richard Hopkins and Ms Maya Vanden Driesen <Jesam A/C>
- 5) 100% held by Gaks Investment Holdings Pty Ltd <Gaks Holding A/C>
- 6) 100% held by Dr Oludare Odumosu

Restricted equity securities as at 20 August 2020

There are no restricted securities under ASX restricted escrow.

Substantial shareholders as at 20 August 2020

The Company has been notified of the following substantial shareholdings:

Mr Jason Peterson	74,593,952
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Twenty largest holders of quoted shares as at 20 August 2020

	<u>Name</u>	<u>No. of Shares</u>	<u>%</u>
1	SUNSET CAPITAL MANAGEMENT PTY LTD <SUNSET SUPERFUND A/C>	55,413,617	4.85
2	GEMELLI NOMINEES PTY LTD <GEMELLI FAMILY A/C>	49,587,680	4.34
3	MARA GORDON	44,142,326	3.86
4	MAL WASHER NOMINEES PTY LTD <MAL WASHER FAMILY A/C>	35,198,688	3.08
5	CAPRICORN INVESTMENT PARTNERS (NOMINEES) PTY LTD <MERCHANT LEADERS FUND>	17,577,883	1.54
6	CITICORP NOMINEES PTY LIMITED	16,756,434	1.47
7	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	16,699,968	1.46
8	MR TORSTEN M GEERS <THE TORSTEN M GEERS LIVING A/C>	16,413,065	1.44
8	MS LISA GRAY	16,413,065	1.44
8	OSAGIE IMASOGIE	16,413,065	1.44
8	MR ZOLTAN KEREKES	16,413,065	1.44
8	SHARRI J ROCHLIN <ROCHLIN FAMILY RESOURCE A/C>	16,413,065	1.44
13	UBS NOMINEES PTY LTD	15,800,000	1.38
14	JP MORGAN NOMINEES AUSTRALIA PTY LIMITED	13,930,688	1.22
15	MERA I LLC\C	13,879,566	1.22
16	MR AMIT GUPTA	11,529,999	1.01
17	CELTIC CAPITAL PTY LTD <THE CELTIC CAPITAL A/C>	11,200,000	0.98
18	COPPER LAKE HOLDINGS LIMITED	10,075,203	0.88
18	MR ALAN TROUNSON	10,075,203	0.88
20	XENA ADVISORS LLC	8,888,889	0.78
	TOTAL	412,821,469	36.14

Stock Exchange

The Company is listed on the Australian Securities Exchange and has been allocated the code “ZLD”. The “Home Exchange” is Perth. Securities are also listed on the US OTCQB market under the code “ZLDAF”.

Other information

Zelira Therapeutics Limited, is incorporated and domiciled in Australia, and is a publicly listed company limited by shares.

On-market buy-back

There is no current on-market buy-back.