

ASX/Media Release

31 August 2016

Botanix Pharmaceuticals annual report and full year financial results

Perth, Australia; 31st August 2016: Medical dermatology company Botanix Pharmaceuticals Ltd (“Botanix” or “the Company”) today released its annual report and financial results for the year ended 30 June 2016.

Operating and Financial Highlights:

- Raised \$3,500,000 and changed the nature of the company to seek new strategic growth opportunities in the prescription dermatology market;
- Completed initial formulation development of first lead product, BTX1503 for the treatment of acne, and engaged a third party Contract Manufacturing Organisation to commence the required Good Manufacturing Processes (GMP) scale-up of the formulation and preparation for manufacturing product for first clinical trials;
- Engaged with a commercial drug substance manufacturer to supply the synthetic cannabidiol that the Company will use in pre-clinical testing and clinical trials;
- Undertook studies with the formulation to optimize the drug delivery and stability of BTX150; and
- Secured highly experienced consultants with more than 30 years’ experience each in the area of pharmaceutical develop to assist with the product manufacturing, pre-clinical testing and the conduct of planned clinical trials

During the financial year, the Company (formerly Bone Medical Limited) acquired 100% of the share capital of Botanix Pharmaceuticals Inc. and changed the nature of its business to a medical dermatology company. The Company also raised \$3,500,000 under the Prospectus dated 13 May 2016 and Supplementary Prospectus dated 24 June 2016.

Botanix is developing new prescription products which are intended to treat serious skin diseases including acne, psoriasis and atopic dermatitis, by utilising a novel drug delivery technology (known as Permetrex™) to more effectively deliver an active drug directly into the affected skin.

Botanix’s first product for acne, which is currently under development, utilises a synthetic form of a natural plant extract (known as cannabidiol) which is being actively studied for a range of diseases in late stage clinical trials conducted by other pharmaceutical companies, to treat epilepsy, pain and arthritis (amongst other indications). Unlike cannabidiol sourced from natural extracts, synthetic cannabidiol is pharmaceutical grade and does not vary in strength or composition due to growing conditions, genetics of the source plant, or the extraction and purification processes that must be used to separate natural cannabidiol from the hundreds of other chemicals found in the plant.

Looking ahead for FY2017

In the financial year ahead, the company plans to advance the first of its products for the treatment of acne (BTX1053) into clinical trials in humans in Australia, and is actively exploring opportunities to leverage its skin delivery technology and growing team to rapidly advance other products into the clinic.

The Company's follow-on product candidates for BTX1053 will target the serious skin diseases of psoriasis and atopic dermatitis, and will leverage the same delivery technology (Permetrex™). This means some of the development work for these pipeline products need not be repeated.

Executive Director Botanix Matthew Callahan added, "there also exists opportunities for Botanix to collaborate with researchers to test these pipeline products in established skin and animal models, rather than require Botanix to develop these models itself."

About Botanix Pharmaceuticals

Botanix Pharmaceuticals is dedicated to developing next generation therapeutics for the treatment of serious skin diseases. Our mission is to improve the lives of patients battling acne, psoriasis and atopic dermatitis, by providing new treatment options for conditions that currently are inadequately addressed or are treated with therapeutics that are burdened with side effects profiles. Botanix is harnessing the untapped potential of a synthetic active pharmaceutical ingredient known as cannabidiol, which is currently being studied for the treatment of epilepsy, pain, arthritis and schizophrenia and has a well-established safety profile. Botanix is preparing for the first human trials with synthetic cannabidiol utilising a proprietary drug delivery system (Permetrex™) for direct skin delivery of the therapy.

For more information on Botanix, please visit www.botanixpharma.com or follow us on Twitter @Botanixpharma.

For more information, please contact:**General enquiries**

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Appendix 4E

Full Year Report

Name of entity

BOTANIX PHARMACEUTICALS LIMITED

ABN or equivalent company
reference

70 009 109 755

Financial year ended ('current period')

30 June 2016

Results for announcement to the market

(Company incorporated on 13 August 2015, therefore no comparative information provided)

	2016	2015	Change %
Revenues from ordinary activities	-	-	Nil
Loss from ordinary activities after tax attributable to members ⁽¹⁾	(1,708,377)	-	Nil
Loss for the year attributable to members ⁽¹⁾	(1,702,021)	-	Nil
Dividends (distributions)	Amount per security	Franked amount per security	
Final dividend	None	- ¢	
Interim dividend			
Previous corresponding period	None	- ¢	
Record date for determining entitlements to the dividend	N/A		

	30/06/16	30/06/15
Net tangible asset backing per ordinary security	0.77 cents	-

Explanations for the above results and commentary are contained in the director's report and the 30 June 2016 financial statements and accompanying notes.

This report is based on the consolidated financial statements which have been audited by BDO Audit (WA) Pty Ltd.

⁽¹⁾ As detailed in the 30 June 2016 financial statements and accompanying notes, the current year loss, is mainly due to share based payments in relation to the acquisition of Botanix Pharmaceuticals Inc. and for research & development expenditure during the period from incorporation to 30 June 2016. Refer to the Directors Report for further details.

Compliance statement

- 1 This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to ASX.
- 2 This report, and the accounts upon which the report is based (if separate), use the same accounting policies.
- 3 This report does give a true and fair view of the matters disclosed.
- 4 This report is based on *accounts to which one of the following applies.
(Tick one)

<input checked="checked" type="checkbox"/> The accounts have been audited.	<input type="checkbox"/> The accounts have been subject to review.
<input type="checkbox"/> The accounts are in the process of being audited or subject to review.	<input type="checkbox"/> The accounts have <i>not</i> yet been audited or reviewed.



Sign here:
(Company Secretary)

Date: 31 August 2016

Print name: Mr Brett Tucker



(Formerly Bone Medical Limited)

ACN 009 109 755

ANNUAL REPORT

for the year ended 30 June 2016

BOTANIX PHARMACEUTICALS LIMITED
ACN: 009 109 755

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This Annual Report covers Botanix Pharmaceuticals Limited (formerly Bone Medical Limited), consisting of Botanix Pharmaceuticals Limited ("Botanix" or the "Company") and its subsidiaries. The financial report is presented in Australian currency.

On 30 June 2016, Botanix Pharmaceuticals Limited (formerly Bone Medical Limited) acquired 100% of the share capital of Botanix Pharmaceuticals Inc. Under the Australian Accounting Standards Botanix Pharmaceuticals Inc. was deemed to be the accounting acquirer in this transaction. The acquisition has been accounted for as a share based payment by which Botanix Pharmaceuticals Inc. acquires the net assets and listing status of Botanix Pharmaceuticals Limited.

Accordingly, the consolidated financial statements of Botanix Pharmaceuticals Limited have been prepared as a continuation of the business and operations of Botanix Pharmaceuticals Inc. As the deemed acquirer Botanix Pharmaceuticals Inc. has accounted for the acquisition of Botanix Pharmaceuticals Limited from 30 June 2016. The comparative information for the 12 months ended 30 June 2016 presented in the consolidated financial statements is that of Botanix Pharmaceuticals Inc. which is \$nil as it was incorporated on 13 August 2015. Refer to note 11 for further details of the transaction.

The Company has the power to amend and reissue the financial report.

Botanix Pharmaceuticals Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Botanix Pharmaceuticals Limited
Ground Floor
16 Ord Street
West Perth WA 6005

BOTANIX PHARMACEUTICALS LIMITED
ACN: 009 109 755

CORPORATE INFORMATION

Directors

Mr Graham Griffiths
Non-Executive Chairman

Mr Matthew Callahan
Executive Director

Dr William Bosch
Executive Director

Mr Robert Towner
Non-Executive Director

Company Secretary

Mr Brett Tucker

Home Securities Exchange:

Australian Securities Exchange Limited
Level 40, Central Park
152 – 158 St George's Terrace
PERTH WA 6000

ASX Code: BOT

Share Registry

Automic Registry Services
Suite 1a, Level 1
7 Ventnor Avenue
WEST PERTH WA 6005

Telephone: (08) 9324 2099

Registered Office

Ground Floor, 16 Ord Street
WEST PERTH WA 6005

Telephone: (08) 9482 0580
Facsimile: (08) 9482 0505

Email: info@botanixpharma.com
Website: www.botanixpharma.com

Postal Address

P.O. Box 902
WEST PERTH WA 6872

Solicitors

Bellanhouse Legal
PO Box 1770
West Perth WA 6872

Auditor

BDO Audit (WA) Pty Ltd
38 Station Street
SUBIACO WA 6008

Bankers

ANZ
Level 1, 1275 Hay Street
West Perth, WA 6005

BONE MEDICAL LIMITED
ACN: 009 109 755

DIRECTOR'S REPORT

DIRECTORS' REPORT

Your Directors have pleasure in submitting their report together with the financial statements of the Group consisting of Botanix Pharmaceuticals Limited and the entities it controlled during the period for the financial year ended 30 June 2016. In order to comply with the provisions of the Corporations Act 2001, the Directors' report as follows:

DIRECTORS

The names and details of Directors in office at any time during the financial year are:

Mr Graham Griffiths

Non-Executive Director and Chairman – (appointed effective 1 July 2016)

EXPERIENCE AND EXPERTISE

Mr Griffiths had an executive career spanning 39 years in technology based companies, including various senior executive sales, marketing and product development positions with multi-nationals in the USA and Asia Pacific region respectively. He was Managing Director of ASX listed company ipernica Ltd, a diversified technology and intellectual property commercialisation group and was responsible for the acquisition and commercialisation of nearmap.com (ASX:NEA), a successful online mapping technology company.

His current non-executive directorships include iintegrate Systems (online service provider for managing the impact of natural phenomena on utility assets), Pointerra (online service provider for managing, distributing and visualising massive 3D point cloud data sets) and iperative (specialist in monetising intellectual property). Mr Griffiths has a Bachelor of Business (Accounting) degree and is a Fellow of the Australian Institute of Company Directors.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES

Pointerra Limited (Appointed 30 June 2016)

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS

Nil

Mr Matthew Callahan

Executive Director – (appointed effective 1 July 2016)

EXPERIENCE AND EXPERTISE

Mr Callahan is an experienced life sciences executive based in Philadelphia. He is the founding CEO of iCeutica Inc. and Churchill Pharmaceuticals Inc. and a co-inventor of some of the technologies that comprise the SoluMatrix Fine Particle Technology™ drug delivery platform that iCeutica uses to develop new Pharmaceuticals. iCeutica has developed three products to date that have received FDA approval. He has more than 20 years legal, IP and investment management experience and is also a director of Orthocell Limited (ASX:OCC) and Glycan Bioscience LLC.

Mr Callahan has worked as an investment director for two venture capital firms investing in life sciences, clean technology and other sectors and was General Manager and General Counsel with Australian listed technology and licensing company ipernica Ltd, where he was responsible for the licensing programs that generated more than \$120M in revenue.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES

Orthocell Limited [2006-present]

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS

Nil

BOTANIX PHARMACEUTICALS LIMITED
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DIRECTORS' REPORT (CONTINUED)

Dr William Bosch

Executive Director – (appointed effective 1 July 2016)

EXPERIENCE AND EXPERTISE

Dr Bosch is a seasoned Pharmaceuticals executive with more than 25 years of experience in the industry, focusing on applications of drug delivery technology to Pharmaceuticals product development. Dr Bosch also works with iCeutica Inc. and is a co-inventor of the SoluMatrix™ technology and has been instrumental in the development and scale up of the platform and the development of the three FDA approved products that use that drug delivery technology.

Before iCeutica, he was Director of Pharmaceuticals Research at Elan Corporation where he managed the development activities for four commercial products that incorporate nanotechnology. Dr Bosch was a co-founder of NanoSystems LLC in 1995 and a co-inventor of NanoCrystal® Technology.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES

Nil

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS

Nil

Mr Robert Towner

Non-Executive Director and Chairman – (appointed effective 24 January 2014)

EXPERIENCE AND EXPERTISE

Mr Towner has over 20 years corporate advisory and executive experience in the financial markets. Mr Towner is the founder and sole director of Cornerstone Corporate Pty Ltd, a corporate advisory company and has served as a board member of publicly listed and unlisted companies.

Mr Towner's skills include maintaining board awareness of financial markets, corporate governance, capital structuring and working capital requirements. In addition, Mr Towner has considerable experience in public and private capital raising initiatives.

Mr Towner has demonstrated the ability to build a successful life science company. From 2004, Mr Towner was a founding Executive Director of ASX listed bioMD Limited. In 2011, Mr Towner played a major role in the merger of bioMD Limited with then-private Allied Health Care Limited to create Admedus Limited (ASX: AHZ), a diverse healthcare company with a market capitalisation of \$200 million.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES

Managing Director – Triangle Energy (Global) Limited

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS

Nil

Mr John Hannaford - B.Com (UWA), CA, F.Fin.

Non-Executive Director - (appointed effective 24 January 2014, resigned 1 July 2016)

EXPERIENCE AND EXPERTISE

Mr Hannaford has broad financial experience from several corporate roles in Australia, Asia and Europe with resources companies. Mr Hannaford is principal and director of Corporate Advisory firms Ventnor Capital Pty Ltd and Ventnor Securities Pty Ltd which specialise in the provision of corporate and financial advice to junior resource companies. Mr Hannaford has also been involved with several ASX listings and has acted as Director, Company Secretary and Financial Controller to several of these companies.

Mr Hannaford graduated from the University of Western Australia with a Bachelor of Commerce degree in 1986 majoring in Finance and Economics. He qualified as a Chartered Accountant in 1990, gaining experience with the Arthur Andersen audit division in Perth and in Hong Kong. He completed a Diploma of Applied Finance and Investment with the Securities Institute of Australia and was admitted as an Associate of the Institute in 2003.

BOTANIX PHARMACEUTICALS LIMITED
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DIRECTORS' REPORT (CONTINUED)

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES

Non-Executive Director & Chairman – Orinoco Gold Limited

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS

Non-Executive Director & Chairman – Norwood Systems Limited (formerly Monteray Mining Group Limited) - (appointed 14 June 2006, resigned on 20 January 2015)

Non-Executive Chairman – Jaguar Minerals Limited (appointed 20 November 2011, resigned on 19 August 2013)

Mr Phillip Wingate – B.Com (Curtin), CA

Non-Executive Director (Appointed effective 27 November 2014, Resigned 1 July 2016)

Company Secretary (Appointed effective 18 February 2014, resigned 1 July 2016)

EXPERIENCE AND EXPERTISE

Mr Wingate holds a Bachelor of Commerce Degree from Curtin University Australia and is an Associate of the Institute of Chartered Accountants in Australia. After graduating from University, he started his career in commercial and management accounting with a large private construction group.

Mr Wingate has broad ASX experience through holding company secretarial positions and advising on various M&A and Capital ASX transactions. Mr Wingate has been closely involved with the mining sector in Western Australia and has a strong financial and management reporting background. Mr Wingate is also Company Secretary of ASX listed company Orinoco Gold Limited.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES

Nil

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS

Nil

Mr Brett Tucker – B.Com (UWA), CA

Company Secretary (Appointed effective 1 July 2016)

Brett Tucker has acted as Company Secretary to a number of ASX listed and private companies and has been involved in numerous public corporate acquisitions and transactions. Mr Tucker is a Chartered Accountant with a strong corporate and compliance background gained from experience in an international accounting practice, working in both audit and taxation across a wide range of industries.

PRINCIPAL ACTIVITIES

Botanix Pharmaceuticals is developing new prescription products which are intended to treat serious skin diseases including acne, psoriasis and atopic dermatitis, by utilising a novel drug delivery technology (known as Permetrex™) to more effectively deliver an active drug directly into the affected skin.

Botanix Pharmaceuticals' first product for acne, which is currently under development, utilises a synthetic form of a natural plant extract (known as cannabidiol) which is being actively studied for a range of diseases in late stage clinical trials conducted by other pharmaceutical companies, to treat epilepsy, pain and arthritis (amongst other indications). However, this extract has never been studied in FDA or TGA regulated clinical trials for skin disease. Botanix Pharmaceuticals' products under development utilise a pure and very high quality manufactured synthetic form of the chemical also found in natural extracts, known as 2-[(1R,6R)-6-isopropenyl-3-methylcyclohex-2-en-1-yl]-5-pentylbenzene-1,3-diol.

BOTANIX PHARMACEUTICALS LIMITED
ACN: 009 109 755

DIRECTORS' REPORT (CONTINUED)

RESULTS

The net loss attributable to members of the Company for the year ended 30 June 2016 is \$1,708,377. The net loss is attributable to the expenditure in relation to research and development technologies of the Company, due diligence costs associated with investment opportunities, and administration costs relating to an ASX Listed entity.

FINANCIAL POSITION

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

The Group has generated a comprehensive loss after tax for the year ended 30 June 2016 of \$1,708,377, had a net working capital surplus of \$3,180,913 at 30 June 2016 and experienced net cash outflows from operating activities for the year of \$114,051. Following the termination of the license and research agreements, the Company's working capital requirements have been significantly reduced. Accordingly, the Directors believe that there are sufficient funds to meet the Group's working capital requirements.

The Directors consider the going concern basis of preparation to be appropriate based on forecast cash flows and have confidence in the Company's ability to raise additional funds if required.

DIVIDENDS

There were no dividends paid or declared during the year.

OPERATING AND FINANCIAL REVIEW

Since completion of the recapitalisation of the Company in January 2014, the Company has been focused on seeking new strategic growth opportunities.

On June 30 2016, the Company changed the nature of its business to a pharmaceutical company, by acquiring 100% of the fully paid ordinary shares in Botanix Pharmaceuticals Inc., a private US Delaware corporation. On 30 June 2016 the Company also raised \$3,500,000 under the Prospectus dated 13 May 2016 and Supplementary Prospectus dated 24 June 2016.

Botanix was formed to develop and commercialize innovative dermatology products leveraging the Permetrex™ drug delivery technology and its novel synthetic cannabidiol drug active. Unlike many companies that have made and plan to make creams or gels for the cosmetics market, Botanix products will only be available by prescription, will command a much higher price and if successfully approved by FDA and other global regulators, will be reimbursable by insurance companies. Because we are also following a well established product approval process, once approved our products will not be subject to restrictions in sale and use which cannabidiol containing products are currently subject to in the United States, Australia and most other countries around the world.

Botanix's BTX1503 product is planned to be the first to utilize a new mechanism of action to treat serious acne which addresses the 4 major aspects of the disease, namely excessive lipid or oil production, hyper-proliferation of oil producing sebocyte cells, bacterial infection and inflammation. There is a growing scientific literature evidence base to suggest that cannabidiol has a role in treating and preventing skin disease, but challenges with the impurity and variability of the cannabidiol drug substance, as well as the difficulty of delivering it across the skin effectively, have significantly retarded cannabidiol development as a pharmaceutical product. Botanix' approach of utilizing a pure and GMP manufactured synthetic form of cannabidiol, as well as a novel skin delivery technology (Permetrex™) are focused on solving both of these challenges.

BOTANIX PHARMACEUTICALS LIMITED
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DIRECTORS' REPORT (CONTINUED)

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Important needs remain unmet in the field of acne treatment, including the need for a topical inhibitor of sebaceous gland lipid production, antibiotic-independent mechanisms for reducing *P. acnes* colonization and an agent with the efficacy of the leading oral product (isotretinoin or 'Accutane'), but which is potentially free of its serious side effects. Based on the published scientific literature concerning cannabidiol, BTX1503 has the potential to meet these significant unmet patient needs.

During the financial year, Botanix completed initial formulation development for our first product BTX1503 and engaged a third party Contract Manufacturing Organisation to commence the required Good Manufacturing Processes (GMP) scale-up of the formulation and preparation for manufacturing product for the first clinical trials. The Company also engaged with a commercial drug substance manufacturer to supply the synthetic cannabidiol that it will use in pre-clinical testing and clinical trials, and undertook studies with the formulation to optimize the drug delivery and likely stability of BTX1503.

We were also fortunate to secure the services of a number of very experienced consultants with more than 30 years' experience each in the area of pharmaceutical development, to assist us with product manufacturing, pre-clinical testing and the conduct of our planned clinical trials. Most of these consultants have worked together before, or with the founders of Botanix, and are responsible for numerous FDA product approvals between them.

Our follow-on product candidates to BTX1503 will target the serious skin diseases of psoriasis and atopic dermatitis and will leverage the same delivery technology (Permetrex™) as our first product for acne, so some of the development work for these pipeline products need not be repeated. Opportunities exist to collaborate with researchers to test these pipeline products in established skin and animal models, rather than require Botanix to develop these models itself.

OVERVIEW OF BOTANIX PHARMACEUTICALS LIMITED.

Botanix Pharmaceuticals is dedicated to developing next generation therapeutics for the treatment of serious skin diseases. Our mission is to improve the lives of patients battling acne, psoriasis and atopic dermatitis, by providing new treatment options for conditions that currently are inadequately addressed or are treated with therapeutics that are burdened with side effects profiles.

Botanix is harnessing the untapped potential of a synthetic active pharmaceutical ingredient known as cannabidiol, which is currently being studied for the treatment of epilepsy, pain, arthritis and schizophrenia and has a well-established safety profile. Botanix is preparing for the first human trials with synthetic cannabidiol utilising a proprietary drug delivery system (Permetrex™) for direct skin delivery of the therapy.

On 30 June 2016 Botanix Pharmaceuticals Inc listed on the Australian Stock Exchange (ASX) via a reverse takeover by Bone Medical Limited, which remains the legal parent. Bone Medical Limited subsequently renamed to Botanix Pharmaceuticals Limited pursuant to shareholder approval at General Meeting held 6 June 2016.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 30 June 2016, Botanix Pharmaceuticals Limited (formerly Bone Medical Limited) acquired 100% of the share capital of Botanix Pharmaceuticals Inc. Under the Australian Accounting Standards Botanix Pharmaceuticals Inc. was deemed to be the accounting acquirer in this transaction. The acquisition has been accounted for as a share based payment by which Botanix Pharmaceuticals Inc. acquires the net assets and listing status of Botanix Pharmaceuticals Limited.

BOTANIX PHARMACEUTICALS LIMITED
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DIRECTORS' REPORT (CONTINUED)

EVENTS SINCE THE END OF THE FINANCIAL YEAR

Subsequent to 30 June 2016 the Company received the remaining \$66,000 and issuing 3,300,000 shares under the Prospectus dated 13 May 2016, and Supplementary Prospectus dated 24 June 2016.

On 20 July 2016 the Company announced the engagement of two highly qualified global pharmaceutical industry executives to lead its development program for the Company's lead acne program, BTX1503. Mr Mark Davis is engaged to lead the clinical and regulatory functions for Botanix together with Mr Steve Newhard to lead the manufacturing and quality functions for the Company.

The Company announced on 22 July 2016 that it has commenced the process of the sale of ordinary shares for holders who hold less than a "marketable parcel" (defined in the ASX Listing Rules as a parcel of securities not less than \$500 in value). The Company is offering this facility to assist holders of Less than Marketable Parcels to sell shares without having to use a broker or pay brokerage. The Company will pay all costs of the sale for shareholders who use this facility, excluding tax consequences from the sale which remains the shareholders' responsibility. The record date for holders of less than marketable parcels was 20 July 2016. This facility closes at 5pm (WST) on 9 September 2016.

No other matters or circumstances have arisen since the end of the period which 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 subsequent financial years.

ENVIRONMENTAL REGULATION

The Directors have considered compliance with the National Greenhouse and Energy Reporting Act 2007 which requires entities to report annual greenhouse gas emissions and energy use. For the year ended 30 June 2016 the Directors have assessed that there are no current reporting requirements, but may be required to do so in the future.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the Company has paid a premium of \$11,500 excluding GST (2015: \$3,500) to insure the Directors and secretary of the Company.

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

DIRECTORS' INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

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

	Shares		Options	
	Held Directly	Held Indirectly	Held Directly	Held Indirectly
Director				
Matthew Callahan ⁽¹⁾	-	70,588,321	-	-
Graham Griffiths ⁽¹⁾	-	2,500,000	-	-
William Bosch ⁽¹⁾	15,300,000	-	-	-
Mr Robert Towner	-	1,499,972	-	2,054,961
Total	15,300,000	74,558,293	-	2,054,961

⁽¹⁾ Director Appointed 1 July 2016.

BOTANIX PHARMACEUTICALS LIMITED
ACN: 009 109 755

DIRECTORS' REPORT (CONTINUED)

MEETINGS OF DIRECTORS

The number of meetings of the Company's Directors held during the year and the numbers of meetings attended by each Director are:

Board of Directors	Meetings Attended	Meetings Eligible to Attend
Matthew Callahan ⁽¹⁾	-	-
Graham Griffiths ⁽¹⁾	-	-
William Bosch ⁽¹⁾	-	-
Mr Robert Towner	5	5
Mr John Hannaford	5	5
Mr Phillip Wingate	5	5

⁽¹⁾ Director Appointed 1 July 2016.

Due to the size of the entity and the board, all members of the board act as the Remuneration, Nomination and Audit Committees and meetings for each were held in conjunction with the Board meetings. The Audit Committee met twice during the year and Remuneration and Nomination met once during the year.

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for Directors and key management personnel of the Company for the year ended 30 June 2016. The information contained in this report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

The remuneration report is set out under the following main headings:

- Remuneration Policy
- Remuneration Governance
- Remuneration Structure
- Non-Executive Remuneration
- Executive Service agreements
- Performance-Based Remuneration
- Additional information
- Additional disclosures relating to key management personnel

The information provided includes remuneration disclosures that are required under Accounting Standard AASB 124 "Related Party Disclosures". These disclosures have been transferred from the Financial Report.

This 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, and includes the following specified executives in the Company:

Key Management Personnel

Directors:

Mr Graham Griffiths (Non-Executive Chairman) (appointed 1 July 2016)
Mr Matthew Callahan (Executive Director) (appointed 1 July 2016)
Dr William Bosch (Executive Director) (appointed 1 July 2016)
Mr Robert Towner (Non-Executive Director) (resigned as Chairman on 1 July 2016)
Mr John Hannaford (Non-Executive Director) (resigned 1 July 2016)
Mr Phillip Wingate (Non-Executive Director) (resigned 1 July 2016)

BOTANIX PHARMACEUTICALS LIMITED
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DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (CONTINUED)

Remuneration Policy

The Company recognises the importance of structuring the remuneration packages of its Directors' and Executives so as to attract and retain people with the qualifications, skills and experience to help the company achieve the required objectives. However, the Company understands that whilst it is still in its current phase, a prudent position must be observed in the total remuneration expense.

All remuneration paid to Directors and Executives is valued at the cost to the Company and expensed. Options are valued using the Black-Scholes methodology.

Remuneration Governance

The Board has established a Remuneration Committee which provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for Executive Directors, other senior Executives and Non-Executive Directors. The Corporate Governance Statement provides further information on the role of this committee.

Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive remuneration is separate and distinct.

Non-Executive Director Remuneration

Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-Executive Directors' fees and payments are reviewed annually by the Board. The Chairman's fees are determined independently to the fees of Non-Executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

The total amount paid to Non-Executive Directors is determined by the board from time to time for presentation to and resolution by shareholders in General Meeting. The current approved maximum aggregate remuneration payable to Non-Executive Directors is \$300,000 per year.

The Directors are paid a set amount per year and apart from reimbursement of expenses incurred on the company's behalf, are not eligible for any additional payments.

Executive Remuneration

Remuneration packages for the Chief Executive Officer and senior Executives are designed by the Remuneration Committee and approved by the Board. The remuneration policy, setting the terms and conditions for the Executive Directors and other senior Executives, was developed by the Remuneration Committee and approved by the board.

Senior Executives when employed receive a fixed salary, and from time to time, options and bonus payments based on the achievement of specified individual performance criteria.

Performance-Based Remuneration

There is no correlation between the company's performance and remuneration paid to its Executive Directors, Non-Executive Directors and Executive employees. When the board deems it appropriate to, share based payments are issued to Directors and Executives.

The use of derivatives or other hedging arrangements for unvested securities of the company or vested securities of the company which are subject to escrow arrangements is prohibited. Where a director or other senior executive uses derivatives or other hedging arrangements over vested securities of the company, this will be disclosed.

Assessing performance and claw-back of remuneration

The remuneration committee is responsible for assessing performance against KPIs and determining the STI and LTI to be paid. To assist in this assessment, the committee receives detailed reports on performance from management which are based on independently verifiable data such as financial measures, market share and data from independently run surveys.

BOTANIX PHARMACEUTICALS LIMITED
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DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (CONTINUED)

In the event of serious misconduct or a material misstatement in the company's financial statements, the remuneration committee can cancel or defer performance-based remuneration and may also claw back performance-based remuneration paid in previous financial years.

Executive Service Contracts

There were two service agreements in place throughout the year.

Executive Directors

Mr Matthew Callahan

The Company has a consultancy agreement with Bocca Consulting Pty Ltd for providing consulting of a Key Employee (Mr Callahan). The Term of the agreement is three (3) year term (effective 1 July 2016), unless terminated earlier in accordance with the agreement.

Under the terms of the present contract, as disclosed to the ASX on 13 May 2016.

- The total consultancy fee payable to Bocca Consulting in respect of 30 hours of consultancy services per month (Minimum Time Commitment), is a salary of US\$100,000 per annum (GST exclusive)
- Commencing in 2017, the consultancy fee will be reviewed 4 weeks before every annual general meeting of the Company
- The consideration payable to Bocca Consulting for any consultancy services performed in excess of the Minimum Time Commitment is an additional consultancy fee of US\$150 per hour (GST exclusive)
- Termination by the Company or Bocca Consulting has notice period of 6 months

Dr William Bosch

Dr Bosch is engaged as a consultant of the Company pursuant to a consultancy agreement between the Company and Dr Bosch. The Term of the agreement is three (3) year term (effective 1 July 2016), unless terminated earlier in accordance with the agreement.

Under the terms of the present contract, as disclosed to the ASX on 13 May 2016.

- The total consultancy fee payable to Dr Bosch in respect of 30 hours of consultancy services per month (Minimum Time Commitment), is a salary of US\$100,000 per annum (GST exclusive).
- Commencing in 2017, the consultancy fee will be reviewed 4 weeks before every annual general meeting of the Company.
- The consideration payable to Dr Bosch for any consultancy services performed in excess of the Minimum Time Commitment is an additional consultancy fee of US\$150 per hour (GST exclusive).
- Termination by the Company or Bocca Consulting has notice period of 6 months.

Non-Executive Directors

Upon appointment to the Board, all Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the policies and terms, including compensation, relevant to the office of Director.

The key terms of the Non-Executive Director service agreements are as follows:

- Term of agreement – ongoing subject to annual review.
- Directors' Fees of \$55,000 per annum plus statutory superannuation.
- Chairman Fees of \$50,000 per annum plus statutory superannuation.
- There is no notice period stipulated to terminate the contract by either party.

Use of remuneration consultants

No Remuneration consultants were engaged during the financial year ending 30 June 2016.

BOTANIX PHARMACEUTICALS LIMITED
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DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (CONTINUED)

Remuneration of Key Management Personnel

Details of the remuneration of the Directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures*) of Botanix Pharmaceuticals Limited are set out in the following table.

Key Management Personnel of Botanix Pharmaceuticals Limited

2016	Short Term Benefits		Post-Employment Benefits	Share Based Payments		
Key Management Personnel	Salary and Fees \$	Non-Monetary \$	Super-annuation \$	Options \$	Total \$	Performance Related %
Non-Executive Directors						
M. Callahan ⁽¹⁾	-	-	-	-	-	-
G. Griffiths ⁽¹⁾	-	-	-	-	-	-
W. Bosch ⁽¹⁾	-	-	-	-	-	-
R. Towner ⁽³⁾	55,000	-	5,225	-	60,225	-
J. Hannaford ⁽²⁾	40,000	-	3,800	-	43,800	-
P. Wingate ⁽²⁾	40,000	-	3,800	-	43,800	-
Total	135,000	-	12,825	-	147,825	-

⁽¹⁾ Directors all appointed 1 July 2016.

⁽²⁾ Mr Phillip Wingate and Mr John Hannaford resigned as Non-Executive Director effective 1 July 2016.

⁽³⁾ Mr Rob Towner was Non-Executive Chairman during the period to 30 June 2016, where he was appointed as Non-Executive Director subsequent to the Botanix acquisition transaction completing.

2015	Short Term Benefits		Post-Employment Benefits	Share Based Payments		
Key Management Personnel	Salary and Fees \$	Non-Monetary \$	Super-annuation \$	Options \$	Total \$	Performance Related %
Non-Executive Directors						
R. Towner	55,000	-	5,225	-	60,225	-
J. Hannaford	40,000	-	3,800	-	43,800	-
R. New	16,666	-	-	-	16,666	-
P. Wingate	23,778	-	2,259	-	26,037	-
Total	135,444	-	11,284	-	146,728	-

⁽¹⁾ Dr Roger New resigned as Non-Executive Director effective 27 November 2014, balance showing is final director's interest on resignation date.

⁽²⁾ Mr Phillip Wingate was appointed as a Non-Executive Director effective 27 November 2014.

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DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (CONTINUED)

Shareholdings of Key Management Personnel

The movement in the number of ordinary shares of Botanix Pharmaceuticals Limited held, directly, indirectly or beneficially, by each Director and Key Management Personnel, including their personally-related entities for the year ended 30 June 2016 is as follows:

Directors	Held at 1 July 2015	Consolidation	Movement during the year	Options Exercised	Held at 30 June 2016
M. Callahan ⁽¹⁾	-	-	70,588,321	-	70,588,321
G. Griffiths	-	-	2,500,000	-	2,500,000
W. Bosch ⁽²⁾	-	-	15,300,000	-	15,300,000
R. Towner	5,000,000	(3,500,028)	-	-	1,499,972
J. Hannaford ⁽³⁾	10,000,000	(7,000,058)	1,250,000	-	4,249,942
P. Wingate ⁽³⁾	500,000	(350,002)	250,000	-	399,998
Total	15,500,000	(10,850,088)	89,888,321	-	94,538,233

⁽¹⁾ Mr Callahan was a vendor of Botanix Pharmaceuticals Inc, and was issued shares under the Prospectus dated 15 May 2016 and Supplementary Prospectus dated 24 June 2016, pursuant to shareholder approval at the general meeting held 6 June 2016.

⁽²⁾ Dr Bosch was a vendor of Botanix Pharmaceuticals Inc, and was issued shares under the Prospectus dated 15 May 2016 and Supplementary Prospectus dated 24 June 2016, pursuant to shareholder approval at the general meeting held 6 June 2016.

⁽³⁾ Mr Hannaford and Mr Wingate resigned as Non-Executive Director effective 1 July 2016, balance showing is final director's interest on resignation date.

Option holdings of Key Management Personnel

The movement in the number of options of Botanix Pharmaceuticals Limited held, directly, indirectly or beneficially, by each Director and Key Management Personnel, including their personally-related entities for the year ended 30 June 2016 is as follows:

Directors	Held at 1 July 2015	Consolidation	Granted as Compensation	Options Exercised	Held at 30 June 2016	Vested and Exercisable at 30 June 2016
M. Callahan	-	-	-	-	-	-
G. Griffiths	-	-	-	-	-	-
W. Bosch	-	-	-	-	-	-
R. Towner	6,850,000	(4,795,039)	-	-	2,054,961	2,054,961
J. Hannaford ⁽¹⁾	2,000,000	(1,400,010)	-	-	599,990	599,990
P. Wingate ⁽¹⁾	-	-	-	-	-	-
Total	8,850,000	(6,195,049)	-	-	2,654,951	2,654,951

⁽¹⁾ Mr Hannaford and Mr Wingate resigned as Non-Executive Director effective 1 July 2016, balance showing is final director's interest on resignation date.

Other transactions with Key Management Personnel

Transactions with other key management personnel are made on normal commercial terms and conditions and at market rates.

i. Cornerstone Corporate Pty Ltd (Mr Robert Towner – Non-Executive Director)

The Company had an agreement with Cornerstone Corporate to provide corporate administration services to the Company commencing from 1st February 2014 and terminated 31 January 2016. A total amount of \$23,100 (GST Inclusive) was paid to Cornerstone Corporate for advisory services for the year ended 30 June 2016 (2015: \$60,893). There was no amount payable to Cornerstone Corporate at 30 June 2016 (2015: \$nil).

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DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (CONTINUED)

ii. Austin 4 Pty Ltd (Mr Robert Towner – Non-Executive Director)

The Company entered into an agreement with Austin 4 to provide corporate administration services to the Company commencing from 1st February 2016. A total amount of \$16,200 (GST Inclusive) was paid to Austin 4 for advisory services for the year ended 30 June 2016 (2015: \$nil). There was no amount payable to Austin 4 at 30 June 2016 (2015: \$nil).

iii. Ventnor Capital Pty Ltd (Mr John Hannaford – Non-Executive Director)

The Company has an agreement with Ventnor Capital Pty Ltd, a Company of which Mr John Hannaford is a Director, to provide the Company with company secretarial services, office accommodation and accounting services to the Company commencing from February 2014. A total amount of \$167,944 (GST Inclusive) was paid to Ventnor Capital for the above services for the year ended 30 June 2016 (2015: \$157,606). A total amount of \$42,365 (GST Inclusive) was payable to Ventnor Capital at 30 June 2016 (2015: \$26,459).

iv. Loans from related parties

Upon completion of the Botanix acquisition a payment in cash of \$181,667 and the issue 3,416,642 shares at a deemed \$0.024 (\$81,530) to be paid by Botanix Pharmaceuticals Limited as consideration of loans payable to related parties of Botanix Pharmaceuticals Inc. As at 30 June 2016 the shares had been issued (30 June 2016) and the cash portion remains payable (paid subsequent to year end).

Loans to Key Management Personnel

No loans have been made to key management personnel, including their personally related parties, of Botanix Pharmaceuticals Limited.

Voting and comments made at the Company's 2015 Annual General Meeting

The Company received more than 75% of "yes" votes on its remuneration report for the 2015 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

*******END OF AUDITED REMUNERATION REPORT*******

LIKELY DEVELOPMENTS & EXPECTED RESULTS OF OPERATIONS

Other than as disclosed elsewhere in this report, there are no likely developments in the operations of the Company that were not finalised at the date of this report.

AUDITOR

BDO Audit (WA) Pty Ltd continues in office in accordance with Section 327 of the *Corporation Act 2001*.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* for the year ended 30 June 2016 has been received and can be found on page 20.

PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

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DIRECTORS' REPORT (CONTINUED)

NON-AUDIT SERVICES

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

The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

During the year, the auditors provided Independent Accountant Report services to the Group of \$31,620 in relation to the Botanix Pharmaceuticals Limited Prospectus dated 13 May 2016 and Supplementary Prospectus dated 24 June 2016.

SHARE OPTIONS

Shares under Option

At the date of this report there are 22,540,856 unissued shares under option outstanding.

Date Granted	Expiry Date	Exercise Price	Number of shares under option
13 January 2014	31 December 2016	\$0.13	7,740,888
13 January 2014	31 December 2016	\$0.10	1,799,968
30 June 2016	30 June 2019	\$0.03	13,000,000
Total			22,540,856

These options do not entitle the holders to participate in any share issue of the Company or any other body corporate.

No ordinary shares were issued as a result of the exercise of share options during the current year (2015: nil).

Signed in accordance with a resolution of the Directors.



Graham Griffiths
Non-Executive Chairman

Perth
31 August 2016

BOTANIX PHARMACEUTICALS LIMITED
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CORPORATE GOVERNANCE STATEMENT

CORPORATE GOVERNANCE STATEMENT

Botanix Pharmaceuticals Limited and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review the framework and practices to ensure they meet the interests of shareholders. The Company has adopted systems of control and accountability as the basis for the administration of corporate governance.

The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs. The Corporate Governance Statement has been structured with reference to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2014 Amendments 3rd edition to the extent that they are applicable to the Company.

Information about the Company's corporate governance practices at 30 June 2016 is set out below.

THE BOARD OF DIRECTORS

The Board is ultimately accountable for the performance of the company and provides leadership and sets the strategic objectives of the company. It appoints all senior executives and assesses their performance on at least an annual basis. It is responsible for overseeing all corporate reporting systems, remuneration frameworks, governance issues, and stakeholder communications. Decisions reserved for the Board relate to those that have a fundamental impact on the company, such as material acquisitions and takeovers, dividends and buybacks, material profits upgrades and downgrades, and significant closures.

Management is responsible for implementing Board strategy, day-to-day operational aspects, and ensuring that all risks and performance issues are brought to the Board's attention. They must operate within the risk and authorisation parameters set by the Board.

The Company's Constitution provides that the number of Directors shall not be less than three. There is no requirement for any shareholding qualification.

If the Company's activities increase in size, nature and scope, the size of the Board will be reviewed periodically and the optimum number of Directors required to adequately supervise the Company's activities will be determined within the limitations imposed by the Constitution and as circumstances demand.

Mr Graham Griffiths is Chair of the Board and is considered to be an independent director of the company.

The Board reviews its performance annually, as well as the performance of individual Committees and individual directors (including the performance of the Chairman as Chairman of the Board). The criteria for determining the identification and application of a suitable candidate for the Board shall include quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the Company's scope of activities, intellectual ability to contribute to Board duties and physical ability to undertake Board duties and responsibilities. The use of an external facilitator may be utilised periodically to assist in the review process. The review for the current financial year occurred in June and was led by the Chairman. The process included collective Board discussions and individual interviews conducted by the Chairman. The review of the Chairman's role was conducted by the rest of the Board.

The Board's skills matrix indicates the mix of skills, experience and expertise that are considered necessary at Board level for optimal performance of the Board. The matrix reflects the Board's objective to have an appropriate mix of industry and professional experience including skills such as leadership, governance, strategy, finance, risk, IT, HR, policy development, international business and customer relationship. External consultants may be brought in with specialist knowledge to address areas where this is an attribute deficiency in the Board.

BOTANIX PHARMACEUTICALS LIMITED
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CORPORATE GOVERNANCE STATEMENT

THE BOARD OF DIRECTORS (CONTINUED)

Directors are initially appointed by the full Board, subject to election by shareholders at the next Annual General Meeting. Under the Company's Constitution the tenure of a Director (other than Managing Director, and only one Managing Director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following his or her last appointment. Subject to the requirements of the Corporations Act, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a Director. A Managing Director may be appointed for the year and on any terms the Directors think fit and, subject to the terms of any agreement entered into, the appointment may be revoked on notice.

COMMITTEES OF THE BOARD

The Company has Audit, Nomination and Remuneration Committees. For further information regarding the Remuneration Policy and Audit, Nomination and Remuneration Committee Charters visit the website www.botanixpharma.com.

The role of the Audit Committee is to:

- Monitor the integrity of the financial statements of the Company, reviewing significant financial reporting judgements;
- Review the Company's internal financial control systems and, unless expressly addressed by a separate risk committee or by the Board itself, risk management systems;
- Monitor and review the external audit function including matters concerning appointment and remuneration, independence and non-audit services; and
- Perform such other functions as assigned by law, the Company's constitution, or the Board.

The Audit Committee comprises of Mr Graham Griffiths (Chairman), Mr Matthew Callahan, and Mr Brett Tucker. The board encourages the external auditor to attend the Annual General Meeting to address any shareholder questions that may arise.

The Nomination and Remuneration Committee comprises of Mr Robert Towner (Chairman), Mr Matthew Callahan and Mr Brett Tucker. The Committee may obtain independent advice on the appropriateness of remuneration packages.

The Board has established a framework for the management of the Group including a system of internal controls, a business risk management process and the establishment of appropriate ethical standards.

INDEPENDENCE

Given the Company's present size and scope, it is currently not Company's policy to have a majority of independent Directors. Directors have been selected to bring specific skills and industry experience to the Company. The Board has an expansive range of relevant industry experience, financial, legal and other skills and expertise to meet its objectives. Currently there are two independent Directors, and two Directors deemed not to be independent due to executive service agreements with the Company. Furthermore, the Chair of the board is a Non-Executive Director.

When determining the independent status of each Director the board has considered whether the Director:

- Is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company
- Is employed, or has previously been employed in an executive capacity by the Company, and there has not been a period of at least three years between ceasing such an employment and serving on the board.
- Has within the last three years been a principal of a material professional adviser or a material consultant to the Company, or an employee materially associated with the services provided.
- Is a material supplier or customer of the Company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- Has a material contractual relationship with the Company other than as a Director.

BOTANIX PHARMACEUTICALS LIMITED
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CORPORATE GOVERNANCE STATEMENT

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INDEPENDENCE (CONTINUED)

During the financial year both Mr John Hannaford (resigned 30 June 2016) and Mr Robert Towner had service contracts with the Company, which are considered no to impair their respective independence.

Mr Matthew Callahan is party to a consultancy agreement (effective 30 June 2016) with the company, as well as a significant shareholding, which are considered to impair his independence.

Dr William Bosch is party to a consultancy agreement (effective 30 June 2016) with the company which is considered to impair his independence.

APPOINTMENTS TO OTHER BOARDS

Directors are required to take into consideration any potential conflicts of interest when accepting appointments to other boards.

INDEPENDENT PROFESSIONAL ADVICE

The Board has determined that individual Directors have the right in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. With the exception of expenses for legal advice in relation to Directors' rights and duties, the engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably.

GENDER DIVERSITY

The Company has not adopted an express policy specifically addressing the achievement of gender diversity. Due to the current limited size of the Board, the Board does not consider it necessary to have a gender diversity policy, but will consider adopting a policy in the future. Furthermore, the Company has not set any objectives for achieving gender diversity. Should a gender diversity policy be considered appropriate for the Company in the future due to increases in size of the organisation, the policy will specifically deal with the objectives for achieving diversity.

The Company's corporate code of conduct provides a framework for undertaking ethical conduct in employment. Under the corporate code of conduct, the Company will not tolerate any form of discrimination or harassment in the workplace.

The Group currently has no female board members or senior executives.

CONTINUOUS REVIEW OF CORPORATE GOVERNANCE

Directors consider, on an ongoing basis, how management information is presented to them and whether such information is sufficient to enable them to discharge their duties as Directors of the Company. Such information must be sufficient to enable the Directors to determine appropriate operating and financial strategies from time to time in light of changing circumstances and economic conditions. The Directors recognise that as a business that there are inherent risks and that operational strategies adopted should, notwithstanding, be directed towards improving or maintaining the net worth of the Company.

CODE OF CONDUCT

The Company has adopted a Code of Conduct for Company executives that promote the highest standards of ethics and integrity in carrying out their duties to the Company.

The Code of Conduct can be found on the Company's website at www.botanixpharma.com.

RISK MANAGEMENT SYSTEMS

The identification and management of risk, including calculated risk-taking activity is viewed by management as an essential component in creating shareholder value. Whilst there is currently no risk

BOTANIX PHARMACEUTICALS LIMITED
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CORPORATE GOVERNANCE STATEMENT

committee in accordance with recommendation 7.1 (a) the board as a whole is employed to oversee the Company's risk management framework as explained below.

RISK MANAGEMENT SYSTEMS (CONTINUED)

Management is responsible for developing, maintaining and improving the Company's risk management and internal control system. A register of material business risks has been established, risks have been analysed and evaluated, risk management processes and controls are in place and reporting schedules developed. Management provides the board with periodic reports identifying areas of potential risks and the safeguards in place to efficiently manage material business risks. These risk management and internal control systems are in place to protect the financial statements of the entity from potential misstatement, and the Board is responsible for satisfying itself annually, or more frequently as required, that management has developed a sound system of risk management and internal control. A review has taken place during this reporting period.

Strategic and operational risks are reviewed at least annually as part of the forecasting and budgeting process. The Company has identified and actively monitors risks inherent in the industry in which the Company operates.

The Board also receives a written assurance from the Chairman and Company Secretary that to the best of their knowledge and belief, the declaration provided to the Board in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control, and that the system is operating effectively in relation to financial reporting risks. The Board notes that due to its nature, internal control assurance from the Chairman and Company Secretary can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in internal control procedures.

SECURITY HOLDERS

Investors may inspect the company's governance and Shareholder Communications policies via the website www.botanixpharma.com which lay out the options to receive communications from, and send communications to, the entity and its security registry electronically.

ASX PRINCIPLES OF GOOD CORPORATE GOVERNANCE

The Board has reviewed its current practices in light of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2014 Amendments 3rd edition with a view to making amendments where applicable after considering the Company's size and the resources it has available.

As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of any additional formal corporate governance committees will be given further consideration.

The following table sets out the ASX Corporate Governance Guidelines with which the Company does not comply:

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CORPORATE GOVERNANCE STATEMENT

	ASX Principle	Reference/comment
Principle 1: Lay solid foundations for management and oversight		
1.5	The Board should establish a policy concerning diversity	<p>The Company does not have an express policy specifically addressing the achievement of gender diversity. Due to the current limited size of the Board, the Board does not consider it necessary to have a gender diversity policy, but will consider adopting a policy in the future.</p> <p>The Company's Corporate Governance Plan includes a corporate code of conduct, which provides a framework for undertaking ethical conduct in employment. Under the corporate code of conduct, the Company will not tolerate any form of discrimination or harassment in the workplace.</p>
Principle 1: Lay solid foundations for management and oversight		
1.7	<p>A listed entity should:</p> <p>a) have and disclose a process for periodically evaluating the performance of its senior executives; and</p> <p>b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process</p>	<p>During the financial year there were no senior executives. The Company will develop a process for periodically evaluating senior executives and disclose periodically these evaluations when required.</p>
Principle 2: Structure of the board to add value		
2.4	A majority of the board of a listed entity should be independent directors	<p>Given the Company's present size and scope, it is currently not company policy to have a majority of independent Directors. Directors have been selected to bring specific skills and industry experience to the Company. Mr Matthew Callahan and Dr William Bosch are considered not to be independent by virtue of having consultancy agreements with the Company. The Chairman Mr Graham Griffiths and Non-Executive Director Mr Robert Towner are deemed to be Independent.</p>

DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF BOTANIX
PHARMACEUTICALS LIMITED

As lead auditor of Botanix Pharmaceuticals Limited for the period ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Botanix Pharmaceuticals Limited and the entities it controlled during the period.



Dean Just

Director

BDO Audit (WA) Pty Ltd

Perth, 31 August 2016

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the period 13 August 2015 to 30 June 2016

	Note	2016 \$
Total revenue		<u>-</u>
Finance expenses		(484)
Consulting expenses		(58,917)
Listing expense	11	(1,399,492)
Other expenses		(41,265)
Professional consultant expense		(115,780)
Travel expense		(92,439)
Total expenses		<u>(1,708,377)</u>
Loss before income tax expense		<u>(1,708,377)</u>
Income tax benefit		-
Loss after income tax for the year		<u>(1,708,377)</u>
Other Comprehensive Income for the year:		
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange translation difference		6,356
Other Comprehensive income for the period, net of tax		6,356
Total Comprehensive Loss for the year attributed to members of Botanix Pharmaceuticals Limited		<u>(1,702,021)</u>
Loss per share for the year attributable to members of Botanix Pharmaceuticals Limited		
Basic and diluted loss per share (cents)	15	(1.08)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Note	2016 \$
ASSETS		
Current Assets		
Cash & cash equivalents	6	3,651,986
Trade and other receivables	7	44,754
Total Current Assets		3,696,740
Total Assets		3,696,740
LIABILITIES		
Current Liabilities		
Trade and other payables	8	515,826
Total Current Liabilities		515,826
Total Liabilities		515,826
Net Assets		3,180,914
EQUITY		
Contributed equity	9	4,716,525
Reserves	10	166,410
Foreign currency translation reserve		6,356
Accumulated losses	10	(1,708,377)
Total Equity		3,180,914

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period 13 August 2015 to 30 June 2016

	Note	Contributed Equity \$	Accumulated Losses \$	Reserves \$	Translation Reserve \$	Total \$
Balance at 13 August 2015		-	-	-	-	-
Total comprehensive loss for the year						
Loss for the year		-	(1,708,377)	-	-	(1,708,377)
Total other comprehensive income		-	-	-	6,356	6,356
Total comprehensive loss for the year		-	(1,708,377)	-	6,356	(1,702,021)
Transaction with equity holders:						
Ordinary shares issued net of costs	9	4,882,935	-	-	-	4,882,935
Options issued during the year	10	(166,410)	-	166,410	-	-
Balance at 30 June 2016		4,716,525	(1,708,377)	166,410	6,356	3,180,914

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

BOTANIX PHARMACEUTICALS LIMITED
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CONSOLIDATED STATEMENT OF CASH FLOWS

For the period 13 August 2015 to 30 June 2016

	Note	2016 \$
CASHFLOWS FROM OPERATING ACTIVITIES		
Interest received		-
Other working capital		(6,688)
Net cash (used in) operating activities	16	<u>(6,688)</u>
CASHFLOWS FROM INVESTING ACTIVITIES		
Cash acquired on acquisition		404,034
Net cash provided by investing activities		<u>404,034</u>
CASHFLOWS FROM FINANCING ACTIVITIES		
Capital raising costs		(179,360)
Proceeds from issue of shares & other equity securities	9	3,434,000
Net cash provided by financing activities		<u>3,254,640</u>
Net increase in cash held		3,651,986
Cash and cash equivalents at beginning of financial year		-
Cash and cash equivalents at end of financial year	6	<u><u>3,651,986</u></u>

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: REPORTING ENTITY

Botanix Pharmaceuticals Limited (the "Company") is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2016 comprises the Company and its subsidiaries (collectively referred to as the "Group").

A description of the nature of the Company's operations and its principal activities is included in the Directors' Report which does not form part of this financial report.

NOTE 2: BASIS OF PREPARATION

This General Purpose Financial Report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (including Australian Interpretations) and the *Corporations Act 2001*.

The Financial Statements and Notes of the Company comply with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the Financial Statements and Notes comply with International Financial Reporting Standards.

Botanix Pharmaceuticals Limited is a company limited by shares. The financial report is presented in Australian currency. Botanix Pharmaceuticals Limited is a for-profit entity.

This Financial Report was approved by the Board of Directors on 31 August 2016.

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

Reverse Acquisition

On 30 June 2016, Botanix Pharmaceuticals Limited (formerly Bone Medical Limited) acquired 100% of the share capital of Botanix Pharmaceuticals Inc. Under the Australian Accounting Standards Botanix Pharmaceuticals Inc. was deemed to be the accounting acquirer in this transaction. The acquisition has been accounted for as a share based payment by which Botanix Pharmaceuticals Inc. acquires the net assets and listing status of Botanix Pharmaceuticals Limited.

Accordingly, the consolidated financial statements of Botanix Pharmaceuticals Limited have been prepared as a continuation of the business and operations of Botanix Pharmaceuticals Inc. As the deemed acquirer Botanix Pharmaceuticals Inc. has accounted for the acquisition of Botanix Pharmaceuticals Limited from 30 June 2016. There is no comparative information for the 12 months ended 30 June 2016 presented in the consolidated financial statements as Botanix Pharmaceuticals Inc. was incorporated on 13 August 2015. Refer to note 11 for further details of the transaction.

The implications of the acquisition by Botanix Pharmaceuticals Inc. on the financial statements are as follows:

Statement of Profit or Loss and Other Comprehensive Income

- The 2016 Consolidated Statement of Profit or Loss and Other Comprehensive Income comprises the total comprehensive result for the financial year, including the total comprehensive loss for Botanix Pharmaceuticals Inc. for the period from incorporation (13 August 2015) to 29 June 2016 and the total comprehensive loss for Botanix Pharmaceuticals Limited for the day of the 30th June 2016.
- There is no Comparative information as Botanix Pharmaceuticals Inc. was incorporated on 13 August 2015.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: BASIS OF PREPARATION (CONTINUED)

Statement of Financial Position

- The 2016 Consolidated Statement of Financial Position as at 30 June 2016 comprises the consolidated position of Botanix Pharmaceuticals Limited and Botanix Pharmaceuticals Inc.
- There is no Comparative information as Botanix Pharmaceuticals Inc. was incorporated on 13 August 2015.

Statement of Changes in Equity

- The 2016 Consolidated Statement of Changes in Equity comprises:
 - o The equity balance of Botanix Pharmaceuticals Inc. as at incorporation date (13 August 2015)
 - o The total comprehensive result for the financial year and transaction with equity holders of Botanix Pharmaceuticals Inc. for the period from incorporation (13 August 2015) to 29 June 2016 and the total comprehensive loss for Botanix Pharmaceuticals Limited for the day of the 30th June 2016.
 - o The consolidated equity position of Botanix Pharmaceuticals Limited and Botanix Pharmaceuticals Inc. at the end of the financial year (30 June 2016).
- There is no Comparative information as Botanix Pharmaceuticals Inc. was incorporated on 13 August 2015.

Statement of Cash Flows

- The 2016 Consolidated Statement of Changes in Equity comprises:
 - o The Cash balance of Botanix Pharmaceuticals Inc. as at incorporation date (13 August 2015)
 - o The transactions for the financial year of Botanix Pharmaceuticals Inc. for the period from the period from incorporation (13 August 2015) to 29 June 2016 and for Botanix Pharmaceuticals Limited for the day of the 30th June 2016.
- There is no Comparative information as Botanix Pharmaceuticals Inc. was incorporated on 13 August 2015.

Equity Structure

The equity structure (the number and type of equity instruments issued) in the 30 June 2016 financial statements reflects the consolidated equity instruments of Botanix Pharmaceuticals Limited, with Botanix Pharmaceuticals Inc. equity instruments eliminated at acquisition date.

There is no Comparative information as Botanix Pharmaceuticals Inc. was incorporated on 13 August 2015.

Earnings Per Share

The weighted average number of shares outstanding for the year ended 30 June 2016 is based on the weighted average number of shares of Botanix Pharmaceuticals Inc. that are outstanding from the beginning of the period (incorporation 13 August 2015) to the date of the acquisition (30 June 2016) that the number of shares is multiplied by the ex ratio established in the acquisition and added to the actual number of shares of Botanix Pharmaceuticals Limited outstanding in the period following the acquisition.

There is no Comparative information as Botanix Pharmaceuticals Inc. was incorporated on 13 August 2015.

Historical cost convention

These financial statements have been prepared under the historical cost convention.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of this financial report are:

(a) Principles of Consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Botanix Pharmaceuticals Limited (parent entity) as at 30 June 2016 and the results of all subsidiaries for the year then ended. Botanix Pharmaceuticals Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

As explained in note 2 the consolidated financial statement of Botanix Pharmaceuticals Limited Group have been prepared as a continuation of the business and operations of Botanix Pharmaceuticals Inc. As the deemed acquirer Botanix Pharmaceuticals Inc. has accounted for the acquisition of Botanix Pharmaceuticals Limited from 30 June 2016. The comparative information would be presented as Botanix Pharmaceuticals Inc. though no comparative information as Botanix Pharmaceuticals Inc. was incorporated on 13 August 2015.

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

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

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements of Botanix Pharmaceuticals Limited.

(b) Segment Reporting

Operating segments are reported in a manner that is consistent with the internal reporting provided to the Board of directors. The Board, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the strategic steering committee.

(c) Foreign Currency Transactions and Balances

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which that entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars which is Botanix Pharmaceuticals Limited's functional and presentation currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Foreign Currency Transactions and Balances (Continued)

(ii) Transactions and balances

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

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each reporting date presented are translated at the closing rate at the date of that statements of financial position;
- Income and expenses for each Statement of Profit or Loss and Other Comprehensive Income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the Profit or Loss, as part of the gain or loss on sale where applicable.

(d) Revenue Recognition

Interest income is recognised on a time proportion basis using the effective interest method. All revenue is stated net of the amount of goods and services tax (GST).

(e) Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met.

Government grants relating to costs are deferred and recognised in the Statement of Profit or Loss and Other Comprehensive Income over the period necessary to match them with the costs that they are intended to compensate.

(f) Income Tax

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Income Tax (Continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using the tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

Botanix Pharmaceuticals Limited has not elected to consolidate the Group under the Tax Consolidation Regime, however, the Company may elect to do so in the future.

(g) Impairment of Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or group of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Cash and Cash Equivalents

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial Assets

(i) Classification

The only type of financial assets held by the Group is loans and receivables.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included within trade and other receivables (Note 7) in the consolidated statement of financial position.

(iii) Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

(iv) Subsequent measurement

Loans and receivables are carried at amortised cost using the effective interest method.

(v) Impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the Statement of Profit or Loss and Other Comprehensive Income.

(i) Trade and Other Receivables

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. They are recognised initially at fair value and subsequently at amortised cost. The amounts are unsecured.

(k) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest income.

(l) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to reporting 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 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.

(i) Share based payments

The group issues share-based compensation by way of options. The grant of shares and options is recognised as an expense in the Statement of Profit or Loss and Other Comprehensive Income. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

(m) Contributed Equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Earnings Per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(o) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the statements of financial position are stated inclusive of the amount of GST receivable or payable. Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statements of financial position.

(p) Comparative Figures

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(q) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

(r) Parent Entity Information

The financial statements for the parent entity, Botanix Pharmaceuticals Limited, disclosed in Note 17 have been prepared on the same basis as the consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Critical Accounting Estimates and Significant Judgments

The directors evaluate estimates and judgments incorporated in the financial statements 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 group.

(i) Deferred tax assets

The Group expects to have carried forward tax losses which have not been recognised as deferred tax assets as it is not considered sufficiently probable that these losses will be recouped by means of future profits taxable in the relevant jurisdictions.

(ii) Patent and development costs

Non capitalisation of patent costs and development costs – Due to the high element of risk & uncertainty associated with the development of pharmaceutical products the Group elects to expense all patent costs and all development costs. This is consistent with other companies in the Biotech industry in the same stage of development as Botanix Pharmaceuticals Limited.

(iii) Impairment

The investments held by the parent entity in its subsidiaries continue to be impaired as of 30 June 2016 as the board has acknowledged it yet to commercialise the company's projects and the decision was previously made to write down the assets carrying value.

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

(iv) Reverse acquisition accounting

On 30 June 2016, Botanix Pharmaceuticals Limited (formerly Bone Medical Limited) acquired 100% of the share capital of Botanix Pharmaceuticals Inc. Under the Australian Accounting Standards Botanix Pharmaceuticals Inc. was deemed to be the accounting acquirer in this transaction. The acquisition has been accounted for as a share based payment by which Botanix Pharmaceuticals Inc. acquires the net assets and listing status of Botanix Pharmaceuticals Limited.

Accordingly, the consolidated financial statements of Botanix Pharmaceuticals Limited have been prepared as a continuation of the business and operations of Botanix Pharmaceuticals Inc. As the deemed acquirer Botanix Pharmaceuticals Inc. has accounted for the acquisition of Botanix Pharmaceuticals Limited from 30 June 2016. The comparative information for the 12 months ended 30 June 2016 presented in the consolidated financial statements is that of Botanix Pharmaceuticals Inc. which is nil as it was incorporated on 13 August 2015. Refer to note 11 for further details of the transaction.

(v) Share based payments

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

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(t) New accounting standards and interpretations

In the year ended 30 June 2016, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting year.

It has been determined by the Directors that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Group's business and, therefore, no change is necessary to Group accounting policies.

(u) Standards and Interpretations not yet adopted

The Directors have also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2016. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Group's business and, therefore, no change necessary to Group accounting policies.

AASB 9 Financial Instruments

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.

The effective date is for annual reporting periods beginning on or after 1 January 2018.

The entity is yet to undertake a detailed assessment of the impact of AASB 9. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

AASB 15 Revenue from Contracts with Customers

AASB 15 replaces AASB 118: Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations. In summary, AASB 15:

- establishes a new revenue recognition model;
- changes the basis for deciding whether revenue is to be recognised over time at a point in time;
- provides a new and more detailed guidance on specific topics (eg multiple element arrangements, variable pricing, rights of return and warranties); and
- expands and improves disclosures about revenue.

The entity is yet to undertake a detailed assessment of the impact of AASB 15. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2018.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Standards and Interpretations not yet adopted (continued)

A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the consolidated entity.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: EXPENSES

Loss before Income Tax includes the following specific expenses:

	Note	2016 \$
Listing expense	11	1,399,492
Travel expenses		92,439
Professional fees		115,780

NOTE 5: INCOME TAX

(a) Income tax expense

	2016 \$
Current tax benefit	-
Income tax benefit	-

(b) Reconciliation of tax expense to net profit before tax

Loss before tax	(1,708,377)
Tax at the statutory rate of 30% (2015: 30%):	(512,513)
Non-deductible expenses	419,848
Expenditure deductible for tax purposes	(14,840)
Effect of tax losses and tax offsets not recognised as deferred tax assets	107,505
Income tax benefit	-

(c) Unrecognised deductible temporary differences

Tax losses	107,505
	107,505

No deferred tax asset is recognised in the statements of financial position as it is not probable that the Group will derive tax profits in the future to allow utilisation of the income tax benefits represented by the deferred tax asset. If tax profits are derived in future years, the tax losses and other tax benefits will be able to be offset against this income subject to the Company continuing to meet the relevant statutory tests.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6: CASH AND CASH EQUIVALENTS

	2016
	\$
Cash at bank	3,651,986
Total cash and cash equivalents ⁽¹⁾	<u>3,651,986</u>

⁽¹⁾ Cash at bank is subject to floating interest rates at an effective interest rate of 1%.

The Company's exposure to interest rate risks on cash and cash equivalents is detailed in Note 14.

(a) Reconciliation of Cash

Cash at the end of the financial year as shown in the Consolidated Statement of Cash Flows is reconciled to items in the Consolidated Statement of Financial Position as follows:

	2016
	\$
Total cash and cash equivalents	<u>3,651,986</u>

NOTE 7: TRADE AND OTHER RECEIVABLES

	2016
	\$
Current	
Other receivables:	
Other receivables ⁽¹⁾	38,015
Prepaid expenses	6,739
Total trade and other receivables (net of GST)	<u>44,754</u>

⁽¹⁾ Other receivables are non-trade receivables, are non-interest bearing and have an average term of 3 months and generally receivable from the ATO for GST.

⁽²⁾ Prepaid expenses relate to expenditure which have been pre-paid at year end and settle within 12 months.

The above amounts do not bear interest and their carrying amount is equivalent to their fair value.

No trade and other receivables were impaired during the current year.

The Group's exposure to credit and market risks related to trade and other receivables are disclosed in Note 14.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8: TRADE AND OTHER PAYABLES

	2016
	\$
Current:	
Trade payables ⁽¹⁾	456,206
Sundry payables & accrued expenses	59,620
	515,826

⁽¹⁾ Trade payables are non-interest bearing and are normally settled on 30-day terms.

NOTE 9: CONTRIBUTED EQUITY

	No.	\$
(a) Issued and Paid Up Capital		
Fully paid ordinary shares	405,514,770	4,716,525
(b) Movements in fully paid shares on issue		
Opening balance	4,444,445	1
Botanix Pharmaceuticals Inc. shares eliminated on completion of Botanix Pharmaceuticals Limited acquisition	(4,444,445)	-
Balance as at 1 July 2015	257,796,569	-
Consolidation (1 for every 3 and one third held)	(180,458,441)	-
Consideration shares – Vendor ¹	156,476,642	1,628,295
Capital raise at \$0.02 per share	171,700,000	3,434,000
Capital raising costs - cash	-	(179,360)
Capital raising costs – equity settled ³	-	(166,410)
Balance as at 30 June 2016²	405,514,770	4,716,525
(c) Issued Options		
Unlisted Options	22,540,856	166,410
(d) Movements in options on issue		
Balance as at 1 July 2015	31,881,912	1,780,391
Less: Expiry of Unlisted Options on 2 July 2015	(72,711)	(176,169)
Less: Expiry of Unlisted Options on 28 November 2015	(5,800)	(14,053)
Less: Consolidation (1 for every 3 and one third held)	(22,262,545)	-
Less: Elimination of Options reserve on acquisition	-	(1,590,169)
Add: Issue of advisor options ³	13,000,000	166,410
Balance as at 30 June 2016	22,540,856	166,410

¹ Includes the 153,060,000 shares issued as consideration for 100% of the issued capital of Botanix Pharmaceuticals Inc. and a further 3,416,642 shares issued as satisfaction of the loans as per the Supplementary Prospectus dated 24 June 2016.

² A further 3,300,000 Shares were issued in the first week of July to bring the total shares issued under the Prospectus dated 13 May 2016 and Supplementary Prospectus dated 24 June 2016 to 175,000,000, raising \$3,500,000 before costs (Refer to Note 21).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9: CONTRIBUTED EQUITY (CONTINUED)

³ The valuation of the issue of these securities is disclosed in Note 12: Share Based Payments.

Ordinary Shares

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Capital Risk Management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern and to progress development of its technologies toward commercialisation, so as to provide returns to shareholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

The Group monitors capital on the basis of available working capital. The Group relies upon investment funding and equity raising in order to meet its working capital requirements so it may develop its technologies to a stage whereby future commercial benefits can be derived.

NOTE 10: RESERVES & ACCUMULATED LOSSES

	2016
	\$
Share based payments reserve	166,410
	<u>166,410</u>
Share based payments reserve	
Balance at beginning of year	-
Issue of Advisor Options pursuant to Prospectus dated 13 May 2016	166,410
Balance at end of year	<u>166,410</u>
Foreign currency translation reserve	
Effect for foreign currency translation during the year	<u>6,356</u>
Balance at end of year	<u>6,356</u>

Share Based Payments Reserve

The share based payments includes the following:

- Items recognised as expenses on valuation of employee and director share options but not exercised.
- Options issued to non-related parties in exchange for cash or services but not yet exercised.

Foreign Currency Translation Reserve

The foreign currency translation reserve includes the following:

- Effect of foreign currency translation of foreign subsidiary at year end

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10: RESERVES & ACCUMULATED LOSSES (CONTINUED)

	2016 \$
Accumulated Losses	
Movements in accumulated losses were as follows:	
Balance at beginning of year	-
Net loss for the year – continuing operations	(1,708,377)
Balance at end of year	<u>(1,708,377)</u>

NOTE 11: REVERSE ACQUISITION ACCOUNTING

On 30 June 2016, Botanix Pharmaceuticals Limited (formerly Bone Medical Limited) acquired 100% of the share capital of Botanix Pharmaceuticals Inc. Under the Australian Accounting Standards Botanix Pharmaceuticals Inc. was deemed to be the accounting acquirer in this transaction. The acquisition has been accounted for as a share based payment by which Botanix Pharmaceuticals Inc. acquires the net assets and listing status of Botanix Pharmaceuticals Limited.

(a) Deemed Consideration

The purchase consideration was the issue of 153,060,000 shares in Botanix Pharmaceuticals Limited (legal parent) to the shareholders of Botanix Pharmaceuticals Inc. deemed to have a value of \$3,061,169 determined as follows:

Quoted share price on 30 June 2016	\$0.02
Shares on issue at acquisition date (post consolidation)	77,338,128
Deemed Consideration	<u>\$1,546,764</u>

(b) Deemed Botanix Pharmaceuticals Limited Share Capital

Historical issued capital balance at 30 June 2015	25,647,925
Botanix Pharmaceuticals Limited share capital on issue at acquisition date	25,647,925
Elimination of Botanix Pharmaceuticals Limited issued capital	(25,647,925)
Deemed consideration as per note (a)	1,546,764
Total Botanix Pharmaceuticals Limited share capital on completion of transaction	<u>1,546,764</u>

(c) Botanix Pharmaceuticals Limited Share Based Payment Reserve

Historical share based payment reserve at 30 June 2015	1,590,170
Botanix Pharmaceuticals Limited share based payment reserve at acquisition date	1,590,170
Elimination of Botanix Pharmaceuticals Limited share based payment reserve	(1,590,170)
Total Botanix Pharmaceuticals Limited share based payment reserve on completion of transaction	<u>-</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11: REVERSE ACQUISITION ACCOUNTING (CONTINUED)

(d) Botanix Pharmaceuticals Limited Historical Losses

Historical losses at 30 June 2015	26,209,335
Expired options expense write off	(190,222)
Loss incurred from 1 July 15 to 29 June 2016	1,071,694
Botanix Pharmaceuticals Limited accumulated losses at acquisition date	27,090,807
Elimination of Botanix Pharmaceuticals Limited losses at acquisition date	(27,090,807)
Total Botanix Pharmaceuticals Limited losses on completion of transaction	-

(e) Assets and Liabilities Acquired

	\$
Cash and cash equivalents	404,034
Trade and Other receivables	31,677
Total Assets	435,711
Trade and Other payables	288,439
Total Liabilities	288,439
Net Assets	147,272

(f) Listing Expense

Deemed consideration	1,546,764
Less: net assets of Botanix Pharmaceuticals Limited pre-acquisition	(147,272)
Total Botanix Pharmaceuticals Limited losses on completion of the transaction (listing expense)	1,399,492

NOTE 12: SHARE BASED PAYMENTS

Expenses arising from share-based payment transactions

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

	2016
	\$
Share-based payments:	
Recognised Directly in Equity	
13,000,000 (post-consolidation) Unlisted Options issued to Advisors	166,410
Total Share Based Payments	166,410

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12: SHARE BASED PAYMENTS (CONTINUED)

Model Inputs (using Black-Scholes option pricing method)	
1. Options granted for consideration of services	13,000,000
2. Exercise price (cents):	3
3. Valuation date:	30 June 2016
4. Expiry date:	30 June 2018
5. Underlying security spot price at grant date (cents):	2.0
6. Expected price volatility of the Company's shares:	119%
7. Expected dividend yield:	0%
8. Risk-free interest rate:	1.88%
9. Fair value at grant date:	\$0.0128

As the value of the services rendered was unable to be reliably valued, the underlying equity issued has been valued instead. Fair value of the options issued under the capital raising mandate were valued using Black-Scholes pricing method,

As at the year end the Company had a total of 22,540,856 unissued ordinary shares on which options are outstanding with a weighted average exercise price of 7 cents. Exercise prices are \$0.13 to \$0.03 in respect to options outstanding at 30 June 2016.

The weighted average remaining contractual life of all share options outstanding at the end of the year is 1.37 years.

NOTE 13: RELATED PARTY TRANSACTIONS

(a) Parent Entities

The parent entity of the Group is Botanix Pharmaceuticals Limited. The ultimate Australian parent entity in the group is Botanix Pharmaceuticals Limited which at 30 June 2016 owns 100% of the issued ordinary shares of Botanix Pharmaceuticals Inc. (incorporated in Delaware, United States of America) and 100% of the issued ordinary shares of Bone Limited (incorporated in Jersey, Channel Islands).

(b) Subsidiaries

Interests in subsidiaries are set out in Note 20 Subsidiaries.

(c) Loans Due to Subsidiaries

Loans between entities in the wholly owned Group are not interest bearing are payable upon demand.

(d) Key Management Personnel Compensation

Information on remuneration of all Directors and Key Management Personnel is contained in the Remuneration Report within the Directors' Report. Please refer to page 11 of the Directors' Report for Key Management Personnel remuneration information.

The aggregated compensation paid to Directors and Key Management Personnel of the Group is as follows:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13: RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Other transactions with Key Management Personnel

Transactions with other related parties are made on normal commercial terms and conditions and at market rates.

i. Cornerstone Corporate Pty Ltd (Mr Robert Towner – Non-Executive Director)

The Company entered into an agreement with Cornerstone Corporate to provide corporate administration services to the Company commencing from 1st February 2014 and terminated 31 January 2016. A total amount of \$23,100 (GST Inclusive) was paid to Cornerstone Corporate for advisory services for the year ended 30 June 2016. There was no amount payable to Cornerstone Corporate at 30 June.

ii. Austin 4 Pty Ltd (Mr Robert Towner – Non-Executive Director)

The Company entered into an agreement with Austin 4 to provide corporate administration services to the Company commencing from 1st February 2016. A total amount of \$16,200 (GST Inclusive) was paid to Austin 4 for advisory services for the year ended 30 June 2016. There was no amount payable to Austin 4 at 30 June 2016.

iii. Ventnor Capital Pty Ltd (Mr John Hannaford – Non-Executive Director)

The Company entered into an agreement with Ventnor Capital Pty Ltd, a Company of which Mr John Hannaford is a Director, to provide the Company with company secretarial services, office accommodation and accounting services to the Company commencing from February 2014. A total amount of \$167,944 (GST Inclusive) was paid to Ventnor Capital for the above services for the year ended 30 June 2016. A total amount of \$42,365 (GST Inclusive) was payable to Ventnor Capital at 30 June 2016.

iv. Loans from related parties

Upon completion of the Botanix acquisition a payment in cash of \$181,667 and the issue 3,416,642 shares at a deemed \$0.024 (\$81,530) to be paid by Botanix Pharmaceuticals Limited as consideration of loans payable to related parties of Botanix Pharmaceuticals Inc. As at 30 June 2016 the shares had been issued (30 June 2016) and the cash portion remains payable (paid subsequent to year end).

(f) Loans to Key Management Personnel

No loans have been made to key management personnel, including their personally related parties, of Botanix Pharmaceuticals Limited.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14: FINANCIAL RISK MANAGEMENT

The Group's activities are exposed to a variety of financial risks: market risk (including interest rate risk, currency risk, credit risk and liquidity risk). The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. Risk management is carried out by the Board of Directors.

Financial Risk

The main risks the Group is exposed to through financial instruments are market risk (including currency risk, interest rate risk, liquidity risk, and credit risk).

The Group holds the following financial instruments:

	2016
	\$
Financial assets	
Cash and cash equivalents	3,651,986
Other receivables	44,754
Total financial assets	3,696,740
Financial liabilities	
Trade and other payables	515,826
Total financial liabilities	515,826

(a) Market Risk

(i) Foreign Exchange Risk

The group operates internationally and is exposed to foreign exchange risk arising mainly from its exposure to the British pound and United States dollar. The Group may also be exposed to one-off transactional flows which occur on an ad hoc basis in other foreign exchange currencies.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency, and changes in value of convertible note liability and convertible note derivative. The risk is measured using sensitivity analysis and cashflow forecasting. The Group does not hedge any foreign exchange risks.

Foreign exchange risk is managed by the Board with an overall responsibility to minimising its effect on the expenditure of the Group.

Group Sensitivity

The carrying amounts of the Group's financial assets and liabilities are all denominated in Australian dollars.

(ii) Cash flow interest rate risk

The Group's main interest rate risk arises from interest bearing cash deposits.

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14: FINANCIAL RISK MANAGEMENT (CONTINUED)

2016	Weighted Average Effective Interest Rate	Balance
Financial Assets		AUD
Cash & cash equivalents	1%	3,651,986
Total Financial Assets		3,651,986

The Group invests surplus cash in at call or term deposit accounts with internationally recognised financial institutions. Interest rate risk is managed by the selection of term deposit interest rates and terms that reflect management's market expectations, to terms not exceeding 12 months. Funds are only held at call when it is reasonably expected that those amounts will be required prior to existing term deposits reaching maturity.

Group Sensitivity

If the weighted average interest rates had changed on the instruments in the above tables by plus/minus 75 basis points the effect to the Groups post-tax loss for the year would have been \$27,390 lower/higher.

The method used to arrive at the possible change of 75 basis points was conservatively based on the analysis of the absolute nominal change of the Reserve Bank of Australia (RBA) monthly issued cash rate. Historical rates indicate that for the past five financial years, there was a bias towards a decrease in interest rate ranging between 0 to 50 basis points. It is considered that 75 basis points is a 'reasonably possible' estimate as it more than accommodates for the maximum variations inherent in the interest rate movement over the past five years.

(b) Credit Risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions as well as receivables for subsidiaries. The Board manages credit risk by ensuring that the banks and financial institutions where cash and deposits are held are independently rated parties with a minimum rating of 'A'.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised on page 43. The credit quality of financial assets that are neither past due or impaired can be assessed by reference to historical information about counterparty default risk. All financial assets are with customers with no history of default and have been customers for greater than six months.

(c) Liquidity Risk and Liquidity Risk Management

Prudent liquidity risk management implies maintaining sufficient cash to support the activities of the Company. The Group manages liquidity risk by continuously monitoring forecasted and actual cash flows.

The Board monitors rolling forecasts of the Company's liquidity on the basis of expected cash flow.

Maturities of financial liabilities

The tables below analyse the Group's and the parent entity's financial liabilities based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14: FINANCIAL RISK MANAGEMENT (CONTINUED)

	Less than 6 months	6 - 12 months	Greater than 12 months	Total contractual Cashflows	Carrying Amount
	\$	\$	\$	\$	\$
Group - At 30 June 2016					
Financial liabilities	515,826			515,826	515,826

(d) Fair Value Estimation

The Group does not have any financial assets or financial liabilities measured at fair value.

NOTE 15: LOSS PER SHARE

	2016 \$
Continuing operations	
Basic and diluted profit & (loss) per share – cents	
Loss used in the calculation of basic and diluted loss per share	(1,708,377)
Weighted average number of ordinary shares outstanding during the year used in calculation of basic loss per share	157,746,253
Weighted average number of ordinary shares outstanding during the year used in calculation of diluted loss per share	157,746,253
Options outstanding during the year have not been taken into account in the calculation of the weighted average number of ordinary shares as they are considered anti-dilutive.	

NOTE 16: OPERATING CASH FLOW INFORMATION

	2016 \$
Loss for the year	(1,708,377)
Adjustments for:	
Non-cash finance costs	
Share based payments	1,399,492
Share issued to settle loans	81,531
Changes in assets and liabilities:	
(Increase) / decrease in trade and other receivables	(13,077)
Increase / (decrease) in trade and other payables	233,743
Net cash flows used in operations	<u>(6,688)</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16: OPERATING CASH FLOW INFORMATION

Non cash Financing and Investing Activities

The Company issued 153,060,000 ordinary shares to the shareholders of Botanix Pharmaceuticals Inc. as disclosed in Note 11.

A further 3,416,642 ordinary shares were issued as consideration to satisfy loans in Botanix Pharmaceuticals Inc. as disclosed in Note 13.

NOTE 17: PARENT ENTITY DISCLOSURES

As at 30 June 2016, and throughout the year then ended, the parent company of the Group was Botanix Pharmaceuticals Limited.

	Company 2016 \$
Current Assets	3,696,740
Total Assets	3,696,740
Current Liabilities	515,826
Total Liabilities	515,826
Share Capital	4,716,525
Options Reserve	166,410
Accumulated Losses	(1,702,021)
Total Equity	3,180,914
Loss of the Parent Entity	1,702,021

NOTE 18: SEGMENT INFORMATION

AASB 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes by the chief operating decision maker.

The Group's chief operation decision makers have been identified as the Board of Directors. Operating segments are reported in a manner that is consistent with the internal reporting provided to the Board of directors.

The Board of Directors reviews the financial and operating performance of the primarily from a Transactional, Research and Development and a corporate perspective.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18: SEGMENT INFORMATION (CONTINUED)

The segment report for the reporting period ending 30 June 2016 is as follows:

	Research & Development \$	Corporate \$	Consolidated \$
2016			
Segment Performance			
Other income	-	-	-
Net other costs	(174,697)	(1,533,680)	(1,708,377)
Segment net profit / (loss) before tax as per statement of profit or loss and other comprehensive income	(174,697)	(1,533,680)	(1,708,377)
Segment Assets			
Total assets as per statement of financial position	-	3,696,739	3,696,739
Segment Liabilities			
Total liabilities as per statement of financial position	217,961	297,865	515,826

NOTE 19: AUDITOR'S REMUNERATION

	2016 \$
<i>Amounts payable to auditor</i>	
Audit and review services - payable to BDO Audit (WA) Pty Ltd	33,705
BDO - Non-audit services	31,620
	<u>65,325</u>

There audit firm provided Independent Expert Report and Independent Accountant Report services during the year.

NOTE 20: SUBSIDIARIES

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding 2016 %
Botanix Pharmaceuticals Inc.	Delaware, United States of America	Ordinary	100
Bone Limited	Jersey, Channel Islands	Ordinary Preference	100 100

The proportion of ownership interest is equal to the proportion of voting power held.

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NOTE 21: EVENTS OCCURRING AFTER THE REPORTING PERIOD

Subsequent to 30 June 2016 the Company received the remaining \$66,000 and issuing 3,300,000 shares under the Prospectus dated 13 May 2016, and Supplementary Prospectus dated 24 June 2016.

On 20 July 2016 the Company announced the engagement of two highly qualified global pharmaceutical industry executives to lead its development program for the Company's lead acne program, BTX1503. Mr Mark Davis is engaged to lead the clinical and regulatory functions for Botanix together with Mr Steve Newhard to lead the manufacturing and quality functions for the Company.

The Company announced on 22 July 2016 that it has commenced the process of the sale of ordinary shares for holders who hold less than a "marketable parcel" (defined in the ASX Listing Rules as a parcel of securities not less than \$500 in value). The Company is offering this facility to assist holders of Less than Marketable Parcels to sell shares without having to use a broker or pay brokerage. The Company will pay all costs of the sale for shareholders who use this facility, excluding tax consequences from the sale which remains the shareholders' responsibility. The record date for holders of less than marketable parcels was 20 July 2016. This facility closes at 5pm (WST) on 9 September 2016.

No other matters or circumstances have arisen since the end of the period which 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 subsequent financial years.

NOTE 22: CONTINGENT LIABILITIES

The Directors are not aware of any contingent liabilities that may arise from the Group's operations as at 30 June 2016.

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DIRECTORS' DECLARATION

In the Directors' opinion:

a) the financial statements and notes set out on pages 21 to 49, and the Remuneration Report in the Directors' Report are in accordance with the *Corporations Act 2001*, including:

- i. giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the year ended on that date; and
- ii. complying with Australian Accounting Standards, Corporations Regulations 2001 and other mandatory professional reporting requirements;

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

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

This declaration is made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the year ended 30 June 2016.

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

On behalf of the Board



Graham Griffiths
Non-Executive Chairman

Perth
31 August 2016

INDEPENDENT AUDITOR'S REPORT

To the members of Botanix Pharmaceuticals Limited

Report on the Financial Report

We have audited the accompanying financial report of Botanix Pharmaceuticals Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the period's end or from time to time during the financial period.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards 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 Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Opinion

In our opinion:

- (a) the financial report of Botanix Pharmaceuticals Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the period ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 13 in the directors' report for the period ended 30 June 2016. 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.

Opinion

In our opinion, the Remuneration Report of Botanix Pharmaceuticals Limited for the period ended 30 June 2016 complies with section 300A of the Corporations Act 2001.

BDO Audit (WA) Pty Ltd



Dean Just

Director

Perth, 31 August 2016

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ASX ADDITIONAL INFORMATION

Additional information required by the ASX Limited Listing Rules not disclosed elsewhere in this Annual Report is set out below.

SHAREHOLDINGS

The issue capital of the Company at 16 August 2016 is 408,814,770 ordinary fully paid shares (including escrow shares – shown separately below). All ordinary shares carry one vote per share.

TOP 20 SHAREHOLDERS AS AT 16 AUGUST 2016 FULLY PAID ORDINARY SHARES – NO ESCROW

Position	Holder Name	Holding	% IC
1	NUTSVILLE PTY LTD	11,905,000	4.72%
2	MR OSAGIE IMASOGIE	5,100,000	2.02%
3	BANSKIN PTY LTD	5,000,000	1.98%
3	MR ANTHONY DE NICOLA & MRS TANYA LOUISE DE NICOLA	5,000,000	1.98%
3	YARRAANDOO PTY LTD	5,000,000	1.98%
4	MR BRENDAN PAUL COOPER	4,610,686	1.83%
5	MR TIMOTHY PANGBOURNE BIRD	4,100,000	1.62%
6	RIVERVIEW CORPORATION PTY LTD	3,649,953	1.45%
7	MR GREGORY PETER WILSON	3,599,929	1.43%
8	PROXIMA CONCEPTS LIMITED	3,570,817	1.42%
9	ENERVIEW PTY LTD	3,000,000	1.19%
9	MRS SARAH CAMERON	3,000,000	1.19%
10	ONE MANAGED INVT FUNDS LTD	2,999,941	1.19%
11	MR RAFFAELE DE MARIA	2,801,947	1.11%
12	MR JAMES DAVID MASSEY & MISS MARGO ZORBAS	2,700,000	1.07%
13	MR PAUL GREGORY BROWN & MRS JESSICA ORIWIA BROWN	2,600,000	1.03%
14	21 AVENUE PTY LTD	2,500,000	0.99%
14	MR MICHAEL FRANCIS MCMAHON & MRS SUSAN LESLEY MCMAHON	2,500,000	0.99%
14	MR RICHARD ARMSTRONG CALDOW	2,500,000	0.99%
14	MR GRAHAM JOHN GRIFFITHS & MRS JILLIAN GRIFFITHS	2,500,000	0.99%
15	MR STEPHEN RONALD HOBSON	2,350,000	0.93%
16	MR KEVIN MARK JOHNSON	2,200,000	0.87%
17	THORNBURY NOMINEES PTY LTD	2,069,920	0.82%
18	J & T W DEKKER PTY LTD	2,050,000	0.81%
18	THORNBURY NOMINEES PTY LTD	2,050,000	0.81%
19	TENBAGGA RESOURCES FUND PTY LTD	2,000,000	0.79%
19	MR RODNEY LINTON ROBERTS	2,000,000	0.79%
19	MISS ARABELLA VICTORIA BUTTSWORTH	2,000,000	0.79%
19	ZANYA NOMINEES PTY LTD	2,000,000	0.79%
19	TISIA NOMINEES PTY LTD	2,000,000	0.79%
20	MRS SARAH KATE BURCHELL	1,751,750	0.69%
	Totals	101,109,943	40.07%

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ASX ADDITIONAL INFORMATION (CONTINUED)

**TOP 20 SHAREHOLDERS AS AT 16 AUGUST 2016 FULLY PAID ORDINARY SHARES – ESCROW
(24 MONTHS FROM REQUOTATION)**

Position	Holder Name	Holding	% IC
1	SHENASABY INVESTMENTS PTY LTD	70,588,321	45.11%
1	CAPERI PTY LTD	70,588,321	45.11%
2	DR HENRY WILLIAM BOSCH	15,300,000	9.78%
	Totals	156,476,642	100.00%

COMBINED DISTRIBUTION

Shares Range	No. of Holders	No. of Shares
1 – 1,000	1,026	78,428
1,001 – 5,000	155	367,320
5,001 – 10,000	89	675,393
10,001 – 100,000	472	20,289,968
100,001 and over	350	387,403,661
	2,092	408,814,770
Number holding less than a marketable parcel at \$0.04 per share	1304	1,514,765
Shareholders by Location	No. of Holders	No. of Shares
Australian holders	1,987	382,285,831
Overseas holders	105	21,139,915
	2,092	408,814,770

SUBSTANTIAL SHAREHOLDERS AS AT 16 August 2016

Position	Holder Name	Holding	% IC
1	SHENASABY INVESTMENTS PTY LTD	70,588,321	45.11%
1	CAPERI PTY LTD	70,588,321	45.11%
2	DR HENRY WILLIAM BOSCH	15,300,000	9.78%
	Totals	156,476,642	100.00%

VOTING RIGHTS

Ordinary Shares

On a show of hands, every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options

Options carrying no voting rights. Options convert to one ordinary share upon exercise

BOTANIX PHARMACEUTICALS LIMITED
ACN: 009 109 755

ASX ADDITIONAL INFORMATION (CONTINUED)

OPTION HOLDINGS

The Company has the following classes of options on issue at 18 August 2015 as detailed below. Options do not carry any rights to vote.

Series	Terms	No. of Options
BOTU08	Unlisted Options exercisable at \$0.13 each expiring on or before 31 December 2016	7,740,888
BOTU09	Unlisted Options exercisable at \$0.10 each expiring on or before 31 December 2016	1,799,968
BOTU010	Unlisted Options exercisable at \$0.03 each expiring on or before 30 June 2019 – Escrowed for 24 months from requotation	13,000,000

UNLISTED OPTIONS

Options Range

	Options	
	No. of Holders	No. of
1 – 1,000	-	-
1,001 – 5,000	3	9,588
5,001 – 10,000	2	11,946
10,001 – 100,000	28	1,040,876
100,001 and over	14	21,478,446
	47	22,540,856

UNLISTED OPTIONS HOLDERS GREATER THAN 20%

Holder Name	BOTU08	BOTU09	BOTU010
ARGONAUT INVESTMENTS PTY LTD	-	-	12,100,000
MR PETER YOUNG	2,699,947	-	-
CORNERSTONE CORPORATE PTY LTD	-	749,986	-
RIVERVIEW CORPORATION PTY LTD	-	449,992	-
CELERY PTY LTD	-	449,992	-

ADMISSION REQUIREMENT - CASH

During the period the Company has used the cash and assets in a way which is consistent with its business objectives.