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**CannPal Animal Therapeutics Ltd**  
**Annual Report**  
For the Year Ended 30 June 2020

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**We believe that all products given to animals should be supported by science, and quality controlled at all stages in the processing and supply chain**

Layton Mills,  
Managing Director





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# Mission Statement

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## **Mission**

CannPals mission is to provide pet owners and veterinarians with access to evidence-based and high quality, plant derived therapeutic products to promote better health and well-being for animals, with a present focus on cannabinoids.

## **Vision**

Our vision is to be recognised as a global leader in the research and development of plant derived therapeutic products for animals. The CannPal brand will be acknowledged for the development of safe, evidence-based and compliant products that address clear unmet needs in animal health.

## **Values**

We believe in supporting animals endogenous defence systems through the use of naturally derived plant compounds to promote optimal pet health;

We believe that all products given to animals should be supported by science, and quality controlled at all stages in the processing and supply chain;

We are honest, trustworthy and committed to the highest standards of personal, professional and business behaviour at all times;

We have a responsibility to always work diligently and ethically to benefit all stakeholders in support of our mission;

We will be ready to adapt to future trends and needs, challenge the status quo, seek out opportunities, innovate and be open-minded.

# Our Business Model

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## **ESTABLISHMENT**

Establish unmet needs in animal health, where current treatments are inferior (due to cost or side effects)



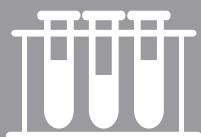
## **IDENTIFICATION**

Identify drug candidate(s) – with a focus on cannabinoids that have shown efficacy and safety tolerances in human models



## **DEVELOPMENT**

Develop candidate(s) into novel therapeutics with innovative and bio-available delivery systems with proprietary IP



## **VALIDATION**

Validate candidate(s) through well-controlled clinical studies to support the safety, quality and efficacy of the products



## **COMMERCIALISATION**

Align with strategic partners for out-licencing, distribution or co-development opportunities for commercialisation

# Year Highlights

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Entered into a global licencing agreement with CSIRO for MicroMAX drug delivery technology

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Entered into manufacturing agreement with Next Generation Pet Foods

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Commenced pilot launch of dietary supplement into the U.S

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Established Investigational New Animal Drug file with the Food and Drug Administration, Centre for Veterinary Medicine, for CPAT-01

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Completed Phase 2A Target Animal Safety Study for CPAT-01

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Completed Phase 2B Dose Determination study for CPAT-01

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Advanced the Company's cannabinoid toxicology program

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Successfully completed DermaCann clinical study in dogs with Atopic Dermatitis

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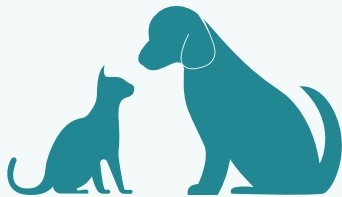




# Key Company Highlights

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## CLEAR FOCUS



- ✓ **Targeting unmet needs** in the global animal health market
- ✓ Global Animal Health Company focused on addressing the **significant and rapidly growing** companion animal market

## UPSIDE POTENTIAL



- ✓ A lead pharmaceutical product in Phase 2 clinical trials with **significant global potential**
- ✓ **Fully funded** for upcoming studies

## PATH TO REVENUE



- ✓ Supported by a lead nutraceutical product in development
- ✓ To provide near term **revenue generating opportunities**

## EXPERIENCED TEAM



- ✓ Highly credentialed R&D team with a **proven track record**, and extensive commercialisation experience in animal health

# Message from The Chairman and The CEO

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Dear shareholders,

On behalf of the Directors of CannPal Animal Therapeutics Limited (ASX:CP1), we are pleased to present our annual report for the 2020 financial year.

2020 was a year for CannPal to shift focus from research to commercialisation, and despite the challenges shared by many Company's around the world due to unprecedented and challenging times, we are proud to have adapted to those challenges and maintained our momentum as we look to establish CannPal as a global revenue generating business.

We have made progress across each of our core programs, positioning the Company to capitalise on commercialisation opportunities as a result of our focused and continued momentum in our third year as a listed Company.

## Year In Review

Since the Company's IPO, Management has remained focused on two core milestones, the development and commercialisation of the Company's lead nutraceutical product, DermaCann, for skin and immune function in dogs, and CPAT-01, the Company's lead pain and inflammation drug for the large and growing veterinary pain market.

CannPal has leveraged its extensive knowledge of the evolving regulatory pathways to advance the commercialisation of these products through cost effective and compliant pathways. The Company remains of the belief that this strategy will ultimately unlock more value for shareholders and provide a long term path to sustainable revenues.

During the year CannPal was delighted to announce the excellent results from the Company's clinical study for DermaCann in a cohort of dogs with Atopic Dermatitis. The results of this study will be used to support the registration of DermaCann as a veterinary medicine in a number of key markets.

The Company has also leveraged this data to advance commercialisation discussions with a number of leading animal health partners to help bring this product to market in key markets around the world. The Company is progressing towards having DermaCann approved for legal veterinary sale in the coming financial year.

Additionally, the Company was delighted to bring to end CannPals pilot Phase 2 safety and efficacy studies for CPAT-01. This was complemented by the establishment of CannPals first Investigational New Animal Drug file (INAD) with the Food and Drug Administration, Centre for Veterinary Medicine (FDA-CVM) for this key drug candidate.

To our knowledge, CannPal is the first animal health Company to establish an INAD with the FDA for a cannabinoid based veterinary medicine, which is a significant milestone for the Company. This milestone positions CannPal as a world leading player in the research and development of cannabinoid-based veterinary medicines for Companion animals. The data from these trials will be used to progress partner conversations to continue with the development for this exciting product.

Finally, CannPal was delighted to be able to capitalise on the Company's 2-year research project with the CSIRO by securing the global exclusive rights to patented MicroMAX drug delivery technology for use in the field of animal therapeutics.

Since finalizing the licencing agreement CannPal has commenced a pilot launch for the Company's first non-veterinary nutraceutical product for dogs in the U.S to validate the technology, which we believe could be a long-term opportunity for CannPal to generate additional revenues to complement the Company's prescription veterinary medicines.





### Industry Outlook

Prior to COVID-19, the total U.S Pet Industry (a benchmark for the global industry) had shown consistent YoY growth for over 20 years. Despite the challenges associated with the coronavirus, the market is expected to grow another 4% in 2020, which would mean consistent growth despite a Global Financial crisis in 2008 or the challenging recession in 2020 brought on by coronavirus.

The pet care market is resilient and underpinned by key trends around the world, including the rising middle class in Countries like India and China. Collectively these key drivers will ensure the strength and longevity of this market in-light of economic downturn.

There also remains a strong interest for cannabinoid derived therapeutic products for pets, particularly clinically validated medicines through veterinary channels. This remains a core strategy for CannPal and we remain focused on the development of products for this market opportunity.

CannPal continues to remain capitalised as it enters the new financial year as a leader in the development of regulatory approved, clinically validated veterinary medicines using compounds from the cannabis plant. We remain optimistic despite unprecedented times, as the Company begins its journey as a global, revenue generating business.



### Departing Director

Post the end of the financial year we received the news that Max Johnston would be stepping down as a director from CannPal.

Max has been a non-executive director of CannPal since 2017, and due to increased workload in his capacity as a Non-Executive Director and/or Chairman for a number of other ASX listed Companies, compounded by the extended period of lockdown due to COVID-19, he made the decision to resign from the CannPal Board.

Max has been an instrumental part of CannPals growth in the previous 4 years, and on behalf of the Board we sincerely thank him for his support, guidance and invaluable expertise.

We wish him and his family all the very best for the future.

A stylized, handwritten signature in black ink.

**Geoff Starr**  
Chairman

A stylized, handwritten signature in black ink.

**Layton Mills**  
CEO



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**CannPal remains well capitalised for the coming 12 months with a number of significant commercialisation catalysts on the horizon.**



# Operations Review

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Broadly speaking, the achievements made in the 2020 financial year can be divided amongst 3 core research programs. The Company made significant progress across all three programs as a result of refined focus in the previous year, remaining well capitalised for the coming 12 months with a number of significant commercialisation catalysts on the horizon.

## CPAT-01

Shareholders will be pleased to note that the Company made significant progress during the year for CannPal's lead drug candidate in development for the veterinary pain and inflammation market. This was despite the challenges faced by all Companies as a result of the coronavirus in 2020.

The veterinary pain and inflammation market is worth over US\$1b globally, with pet owners increasingly searching out naturally derived therapies which can be used as part of a treatment regime to reduce the reliance on commonly used pharmaceutical treatments with undesirable side effects.

CPAT-01 is a liquid, oral veterinary medicine containing standardized THC and CBD whole plant extracts in a proprietary ratio to target pain and inflammation in dogs.

Presently the Company is researching the benefits of CPAT-01 in dogs with osteoarthritis, with the aim of developing an FDA-CVM (Food and Drug Administration, Centre for Veterinary Medicine) regulatory approved veterinary medicine for commercialisation in the United States.

During the financial year CannPal commenced a randomised, double-blind, placebo-controlled clinical trial (RCT) in dogs with osteoarthritis, with the first canine patient receiving treatment in August 2019.

This was a Phase 2 dose determination study, and the first ever RCT for pain and inflammation in client owned dogs using THC, which was a significant milestone for CannPal.

The Company had intended on recruiting 60 dogs for this study, however enrolment was impacted by COVID-19 due to the social distancing measures implemented by the State and Federal governments in Australia, leading the Company to make the decision to end the study early.

Despite this, the Company finished the trial with 46 dogs completing the full 56-day treatment regime post the quarter, marking it as the largest randomised, double-blind, placebo-controlled trial in osteoarthritic dogs, using both THC and CBD. Final results of this study are expected in the second half of 2020.

This study followed an extensive Phase 1 research program completed in FY2019, which included research in almost 60 dogs spanning across pharmacokinetics, safety, inflammatory biomarkers, gene expression and early dose response data.

This was complemented by the Company's recently completed pilot Phase 2B Target Animal Safety study, a 3-month clinical trial designed to determine the safety and dose tolerance of CPAT-01 versus control when dosed twice daily at 1, 3 and 5 times the intended dose to healthy, adult beagles.

The TAS study was one of many toxicology and cannabinoid safety studies completed by CannPal in the previous 18 months, providing CannPal with one of the most robust safety dossiers for a cannabinoid-derived veterinary medicine.

In the last 2 years, CannPal has generated world leading data in over 130 dogs complemented by a robust safety and toxicology dossier that has significantly de-risked the CPAT-01 program. The company's achievements for the CPAT-01 program during the 2020 financial year are a testament to CannPal's focus and resourcefulness to keep its programs on track, despite the interruptions faced in light of COVID-19.

## Looking Forward

Looking forward, the Company intends to leverage the data generated over the last 2 years to advance discussions with potential partners to continue with the development of CPAT-01 as an FDA-CVM approved medicine for the large and growing veterinary pain and inflammation market for dogs.

## DermaCann®

One of the focal points in the 2019 Annual Report was CannPal's intended transition to the commercialisation phase for the Company.

Shareholders will be pleased to hear that CannPal has commenced commercialisation activities for its lead nutraceutical product, made possible by the work completed during the 2020 financial year.

CannPal is developing non-prescription medicines and nutraceuticals using plant-compounds from the less regulated hemp plant as part of the Company's early revenue generation strategy to complement its ongoing pharmaceutical drug research. Nutraceuticals are products intended for supporting healthy function in dogs and are often used in preventative care, as opposed to pharmaceuticals which are intended to treat disease.

In particular, the Company has been researching hemp-derived cannabidiol (CBD).

Cannabidiol is garnering significant attention around the world, and the pet care market is considered to be one of the fastest-growing segments of the booming CBD health and wellness category.

DermaCann® is CannPals lead CBD-derived nutraceutical in development for healthy skin and immune function in dogs. The product is a liquid oral oil formulation containing CBD in a patented formulation with a proprietary blend of other phytonutrients designed to target inflammation and immune modulation pathways.

In Q4 2019, the company commenced an 8 week randomised, double-blind, placebo-controlled clinical trial to research the effects of the oral liquid formulation in a cohort of dogs with Atopic Dermatitis.

The Company was delighted to announce that DermaCann® treatment resulted in a significant reduction in symptoms associated with Atopic Dermatitis in dogs when compared to placebo.

Further analyses of blood samples taken from dogs on treatment confirmed a reduction in chemokines and cytokines associated with immune and inflammatory responses in dogs. This further supports DermaCann's anti-inflammatory and immune enhancing mechanism of action.

These exciting results confirm that DermaCann® is well tolerated and effective in reducing symptoms in dogs with canine atopic dermatitis (CAD), supporting its use as a beneficial therapy in a CAD management regimen.

This complements the robust manufacturing and safety research that's been completed for DermaCann® in the previous 18 months and provides CannPal with a novel, clinically validated and patented skin and immune therapy for the US\$1B+ skin health market for dogs.

## Looking Forward

Since the completion of the clinical program, CannPal has entered into discussions with animal health partners to commence the registration and commercialisation of the product in a number of key markets.

Looking forward, CannPal intends on submitting its registration dossier for DermaCann® for its first market in Q4 2020 in parallel with its Target Animal Safety Study for the product in Q4 2020.

It's expected that CannPal will have submitted registration for DermaCann® in at least 3 separate geographies by Q2 2021, and the Company looks forward to potentially bringing this exciting product to market in the coming financial year.

## Drug Delivery Technology

In June 2018 CannPal entered into an agreement with the Commonwealth Scientific and Industrial Research Organisation (CSIRO) under the CSIRO's Kick-Start initiative, to research the use of patented microencapsulation technologies for enhancing the delivery of cannabis-based animal health products.

Through this research CannPal identified an opportunity to apply the technology to other plant-based compounds which could allow the Company more flexibility in the development and commercialisation of nutraceutical products as part of CannPals early revenue generation strategy.

During the FY20 financial year, CannPal was granted the global exclusive rights to commercialise patented MicroMAX® encapsulation technology by CSIRO for use in the field of Animal Therapeutics.

During year CannPal entered into a manufacturing agreement with Australian pet food manufacturer, Next Generation Pet Foods, to commence a small scale commercial trial for a new Joint Health Supplement produced using the MicroMAX® technology.

Post the June 2020 quarter, Management was pleased to inform shareholders that the Company had commenced a pilot launch for the supplement through the Amazon platform in the U.S.

With the strong growth of online distribution channels, CannPal saw an opportunity to validate its MicroMAX technology with a cost-effective pilot launch through online channels into the world's largest pet market.

Amazon provided the Company with a cost-effective platform to access consumers in the United States to market test the product via the FBA (Fulfillment by Amazon) distribution channel.

The Amazon platform is one of the leading distribution channels for pet supplements in the United States, with an estimated market size for Joint Health Supplements of over \$250m on the Amazon platform alone.

Early feedback from consumers in the U.S has been extremely promising, indicating a potential long term opportunity for CannPal to build a complementary online offering to the Company's offline vet products.



## Corporate

We're pleased to report that corporate and administration costs were down for the year from \$478,151 in 2019 to \$422,705, while increasing R&D spend to \$1,774,996, up from \$1,558,298 in 2019.

The Company has now lodged its R&D registration with AusIndustry for the 2020 financial year and is anticipating an R&D refundable cash rebate under the Australian R&D Tax Incentive offer of \$685,000, for eligible R&D expenses during the year.

Further to this, we have commenced preparation for the submission of the Company's first EMDG (Export Market Development Grant) for a rebate of eligible expenses associated with the export market development for the Company's nutraceutical programs.

The EMDG scheme is a key Australian Government financial assistance program for aspiring and current exporters and reimburses up to 50 per cent of eligible export promotion expenses.

## FY2020

As a result of the complex and evolving regulatory landscape for cannabis-derived compounds, CannPal's strategy has been to develop a product mix suited towards various regulatory frameworks including both pharmaceuticals for veterinary medicine approvals, and nutraceuticals for various complementary and OTC pathways.

This strategy has provided the Company with a diverse mix of revenue-generating opportunities the various regulatory environments.

Looking forward, the Company intends on leveraging its significant regulatory expertise, and product mix, to progress the commercialisation of the Company's key R&D programs quickly and efficiently.

Our goal is to seek registration for DermaCann® in a number of key markets, with 3 immediate geographies earmarked for registration submissions in 2H 2020. The Company has also identified a number of other key markets for commercialisation in early 2021.

We believe there is significant value to be unlocked for shareholders as a result of the successful development program for DermaCann®. We look forward to updating shareholders on this progress in the coming months.

In addition, the Company will commence its search for a partner to continue with the development of the CPAT-01 program, which is now at a stage that can attract world leading animal health partners for the continued co-development of our lead drug candidate.

CannPal remains well capitalised for the coming 12 months with a number of significant commercialisation catalysts on the horizon. We look forward to completing our transition into a revenue generating business and providing value for all stakeholders in the new financial year.



# Corporate Directory

CannPal Animal Therapeutics Limited  
ABN 88 612 791 518

## Directors

Geoff Starr  
(Non-Executive Chairman)

Layton Mills  
(CEO and Managing Director)

Robert Clifford  
(Non-Executive Director)

Dr Kathryn Adams  
(Non-Executive Director)

## Company Secretary

Baden Bowen

## Solicitors

Steinepreis Paganin  
Level 4, The Read Buildings  
16 Milligan Street  
PERTH WA 6000

## Registered Office and Principal Place of Business

Level 3  
45a Bay Street  
DOUBLE BAY NSW 2028  
Telephone: +61 2 6108 3622  
Email: [info@cannpal.com](mailto:info@cannpal.com)  
Website: [www.cannpal.com](http://www.cannpal.com)  
Listed on the Australian Stock Exchange (ASX:CP1)

## Share Registry

Computershare Investor Services Pty Limited  
Level 11  
172 St Georges Terrace  
PERTH WA 6000

## Auditor

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



# Directors' Report

for the year ended 30 June 2020

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## Directors' Report

Your directors present their report with respect to results of CannPal Animal Therapeutics Limited (the “Company” or “CannPal”) for the year ended 30 June 2020 and the state of affairs for the Company at that date.

### Directors

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



**Geoff Starr**  
**(Non-Executive Chairman)**

Geoff brings over 35 years of executive experience to the company, 15 years of which were at Managing Director or CEO level, gained all around the world, but especially in Asia, Europe and Australia/NZ. These positions included high level corporate companies such as Unilever and Mars Group, where Geoff had a very distinguished career running their pet food business in both Asia and Europe with over 20 brands in their portfolio, including Royal Canin, Whiskas, Advance and Pedigree. Geoff is not currently a director of any other ASX listed companies.



**Layton Patrick Mills**  
**(CEO and Managing Director)**

Layton is the Co-founder and Managing Director of CannPal and holds a degree in business management and marketing. Layton has spent nine years in the fast moving consumer goods industry and has successfully launched a number of consumer goods into the Australian market, achieving national distribution. Layton is not currently a director of any other ASX listed companies.



**Kathryn Claire Adams**  
**(Non-Executive Director)**

Dr Kate Adams is an entrepreneur and Veterinarian with an interest in innovation, science and fast growing emerging biotechnology companies. Kate is the owner of Bondi Veterinary Hospital and is a TV host for Channel 9's Bondi Vet. Kate has held senior leadership roles for the Federal Attorney-General's Portfolio including as Analyst, Principal Adviser and Chief of Staff for a number of Royal Commissions, and holds a bachelor of science, bachelor of veterinary medicine and surgery, and a bachelor of communications. Kate is not currently a director of any other ASX listed companies.





**Robert Maxwell Johnston**  
**(Non-Executive Director**  
**Resigned 3 September 2020)**

Robert Maxwell has over 45 years of experience holding board positions across ASX listed companies such as Medical Developments Ltd, Probiotec Ltd, Enero Group Ltd and Polynovo Ltd. Max has also held several prominent industry roles, including as a past President of Accord Australasia Limited, director of Johnson & Johnson Pacific and former Vice Chairman of the Australian Food and Grocery Council. Max is currently a director of ASX listed companies Medical Developments Ltd, BARD1 Life Sciences Ltd, Polynovo Ltd and he is Chairman of AusCann Group Holdings Limited.



**Robert Clifford**  
**(Non-Executive Director)**

Robert has over 20 years of experience in brand implementation and business strategy and planning. His senior leadership roles have been in large multinational private and public corporations in Australia, China and Ireland. For over 25 years Rob has been at the forefront of Australia and New Zealand's hospitality industry, leading Australia's largest boutique catering brand Epicure. Rob is not currently a director of any other ASX listed companies.



## **Company Secretary**

**Baden Maxwell Bowen**

Baden has over 35 years accounting and company secretary experience in commercial and financial roles, including financial accounting, external and internal audit. Mr Bowen has served as Director and company secretary for a number of public and private companies. He is a fellow of the Institute of Chartered Accountants in Australia.

## Directors' Report continued

### Directors' Interests in Shares and Options of the Company

The following relevant interests in shares, options and performance rights of the Company are held by the Directors who hold office as at the date of this report, with the holdings being as at the date of this report:

Director	Shares	Options	Performance rights
Geoff Starr	200,000	—	—
Robert Clifford	480,293	—	—
Layton Mills	7,765,179	—	1,875,000
Kathryn Adams	—	—	—

### Directors' Meetings

The numbers of meetings of the Company's Board of Directors held during the year ended 30 June 2020, and the numbers of meetings attended by each director were:

Director	Directors' meetings		Audit & Compliance Committee meetings	
	A	B	A	B
Geoff Starr	6	6	2	2
Robert Clifford	6	6	2	2
Robert Johnston (resigned 3 September 2020)	6	6	2	2
Layton Mills	6	6	2	2
Kathryn Adams	6	6	2	2

A = Number of meetings attended

B = Number of meetings held during the time the director held office during the year

### Dividends

No dividends have been paid by the Company or declared by the directors since the commencement of the financial year ended 30 June 2020.

### Corporate Information

CannPal Animal Therapeutics Limited is incorporated and domiciled in Australia. The registered office is located at Level 3, 45a Bay Street, Double Bay NSW.

### Principal Activity and Review of Operations

The principal activity of the Company is in the research and development of animal health products. For the year ended 30 June 2020, the Company's largest expense was research and development totalling \$1,774,996 (2019: \$1,558,298). The result for the year was a loss of (\$1,703,571) (2019: \$2,007,298) which included an expense of \$101,708 (2019: \$211,571) for share based payments. The impact of the Coronavirus (COVID-19) pandemic has not had a significant impact on operations for the year ended 30 June 2020.



In the opinion of the directors, there were no other significant changes in the state of affairs of the Company that occurred during the year.

## Likely Developments of the Company

The Company will continue with the research and development of animal health products.

## Environmental Regulation and Performance

The principal activities of the Company are not subject to any significant environmental regulations.

## Events since the end of the Financial Year

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it has not had a significant impact up to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

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

## Share Options

### Unissued shares

There were 11,000,000 options outstanding as at the date of this report.

### Shares issued on the exercise of Options

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

## Remuneration Report (Audited)

This remuneration report outlines the director and executive remuneration arrangements of the Company in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report, key management personnel (KMP) of the Company 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).

### Details of Key Management Personnel (KMP)

The following persons were KMP of CannPal Animal Therapeutics Limited during the financial year:

(i) *Chairman – non-executive*  
Geoff Starr

(ii) *Managing Director / CEO*  
Layton Mills

(iii) *Non-executive directors*  
Robert Johnston  
Robert Clifford  
Kathryn Adams

(iv) *Head of Research & Development (R&D)*  
Margaret Curtis

### **Principles used to determine the nature and amount of remuneration**

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The Board is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the Company depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high-quality personnel.

The Board has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Company.

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

## Directors' Report continued

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

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

### **Non-Executive Directors' Remuneration**

Fees and payments to Non-Executive Directors reflect the demands and responsibilities of their role. Non-Executive Directors' fees and payments are reviewed annually by the Board. The Board may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of other Non-Executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to the determination of his own remuneration.

ASX listing rules require the aggregate Non-Executive Directors' remuneration be determined periodically by a general meeting.

### **Executive Remuneration**

The Company aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Board based on individual and business unit performance, the overall performance of the entity and comparable market remunerations.

The short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives.

### **Employment Contracts**

Remuneration and other terms of employment for the Managing Director, Layton Mills, as at 30 June 2020, were formalised in an employment agreement, the terms of which are set out below:

Layton Mills, Managing Director:

- Term of agreement: commenced 1 June 2016.
- Termination notice period: One month with reason, three months without reason.
- Annual Executive Director salary of \$205,000 (excluding superannuation)

In addition, Layton Mills has been issued with performance rights, refer to page 23 for further details.

### **All other Key Management Personnel were appointed as Directors under the Corporations Act, on the following terms:**

Geoff Starr, Non-Executive Chairman:

- Term of agreement: commenced 21 April 2017 and subject to re-election as required by the Company's Constitution.
- Termination as per constitution or breach the code of conduct.
- Annual Chairman's fee of \$60,000 (Excluding GST).

Robert Clifford, Non-Executive Director:

- Term of agreement: commenced 1 February 2017 and subject to re-election as required by the Company's Constitution.
- Termination as per constitution or breach the code of conduct.
- Annual non-executive director's fee of \$36,000 (Excluding GST).

Robert Johnston, Non-Executive Director:

- Term of agreement: commenced 21 April 2017 and subject to re-election as required by the Company's Constitution.
- Termination as per constitution or breach the code of conduct.
- Annual non-executive director's fee of \$36,000 (Excluding GST).



Kathryn Adams, Non-Executive Director:

- Term of agreement: commenced 21 April 2017 and subject to re-election as required by the Company's Constitution.
- Termination as per constitution or breach the code of conduct.
- Annual non-executive director's fee of \$36,000 (Excluding GST)

**Other Key Management Personnel (non-Directors) were appointed as on the following terms;**

Margaret Curtis, Head of Research and Development:

- Term of agreement: commenced 20 November 2017.
- Notice period 3 months.
- Annual salary of \$180,000 (excluding superannuation).

No Director or Executive is entitled to any termination payments apart from payment in lieu of the notice periods outlined above, remuneration payable up to and including the date of termination and payments due by way of accrued leave entitlements.

**Company performance and link to remuneration**

Remuneration for certain individuals is directly linked to the performance of the Company. A portion of cash bonus and incentive payments are dependent on defined growth targets being met. The remaining portion of the cash bonus and incentive payments are at the discretion of the Board.

The Board is of the opinion that the continued improved results can be attributed in part to the adoption of performance based compensation and is satisfied that this improvement will continue to increase shareholder wealth if maintained over the coming years.

Specifically in relation to options, this effectively links directors' performance to the share price performance and therefore to the interests of the shareholders. For this reason, there are no performance conditions prior to grant, but instead an incentive to increase the value to all shareholders.

**Company performance**

The loss after tax for the Company from 2017 is as follows:

	2020	2019	2018	2017
Loss after tax expense	<b>(\$1,703,571)</b>	(\$2,007,288)	(\$1,694,369)	(\$1,688,197)
Loss per share – cents	<b>(1.83)</b>	(2.16)	(2.02)	(7.11)
Share Price 30 June	<b>\$0.115</b>	\$0.15	\$0.19	N/A

## Directors' Report continued

### Remuneration of directors and key management personnel of the Company

2020	Short-term employee benefits			Post-employment benefits	Long-term benefits	Share-based payments		
Name	Salary and fees	Annual Leave	Cash STI	Super-annuation	Termination benefits		Total	Percentage of remuneration which is performance based
	\$	\$	\$	\$	\$	\$	\$	%
<i>Managing Director</i>								
Layton Mills	198,800	7,217	–	18,886	–	18,807	243,710	8
<i>Head of R&amp;D</i>								
Margaret Curtis	169,867	1,142	–	16,137	–	24,573	211,719	12
<i>Non-executive directors</i>								
Geoff Starr	60,000	–	–	–	–	–	60,000	0
Robert Johnston	36,000	–	–	–	–	–	36,000	0
Robert Clifford	36,000	–	–	–	–	–	36,000	0
Kathryn Adams	36,000	–	–	–	–	–	36,000	0
<b>Total non-executive directors &amp; KMP</b>	<b>536,667</b>	<b>8,359</b>	<b>-</b>	<b>35,023</b>	<b>-</b>	<b>43,380</b>	<b>623,429</b>	

2019	Short-term employee benefits			Post-employment benefits	Long-term benefits	Share-based payments		
Name	Salary and fees	Annual Leave	Cash STI	Super-annuation	Termination benefits		Total	Percentage of remuneration which is performance based
	\$	\$	\$	\$	\$	\$	\$	%
<i>Managing Director</i>								
Layton Mills	194,275	4,119	–	18,456	–	18,755	235,605	8
<i>Head of R&amp;D</i>								
Margaret Curtis (Commenced 20/11/2017)	162,400	1,495	–	15,428	–	28,165	207,488	14
<i>Non-executive directors</i>								
Geoff Starr	60,000	–	–	–	–	26,621	86,621	0
Robert Johnston	36,000	–	–	–	–	26,621	62,621	0
Robert Clifford	36,000	–	–	–	–	26,621	62,621	0
Kathryn Adams	36,000	–	–	–	–	26,621	62,621	0
<b>Total non-executive directors &amp; KMP</b>	<b>524,675</b>	<b>5,614</b>	<b>–</b>	<b>33,884</b>	<b>–</b>	<b>153,404</b>	<b>717,577</b>	

Options issued as a share based compensation to Directors and Key Management Personnel during prior financial year.

KMP	Number Granted	Date Granted	Option FV at Grant Date	Number Vested	Number forfeited during current year	% of compensation of year consisting of Options	Expiry Date
Margaret Curtis	1,000,000	09/11/2017	\$123,920	750,000	250,000	12	08/11/2022



These Employee options are issued to Margaret Curtis (Head of Clinical Development and R&D) in consideration for the following three conditions stated in the employee contract:

- 250,000 Options to be issued on the execution date of the employee contract with an exercise price of \$0.20 each and an expiry date of 8 November 2022. These Options will vest on the date that is 12 months after their date of issue, therefore it has been expensed over the relevant vesting period.
- 250,000 Options to be issued upon the Company submitting an application to have a nutraceutical product registered with the APVMA (Australian Pesticides and Veterinary Medicines Authority) or equivalent as an animal food product in Australia or other target region. These Options will vest on the date that is 24 months after their date of issue. This condition was not met and expired during the period, therefore the expense recognised in prior period is fully reversed in current period.
- 250,000 Options to be issued upon the Company commencing a target animal safety study for CPAT-01 within 24 months of the commencement date. These Options will vest on the date the condition is achieved and it was achieved in current period, therefore it has been fully expensed in current period. The options were issued on 31 December 2019.
- 250,000 Options If the Company commences the CPAT-01 field trials with a final formulation within 30 months of the commencement date. These Options will vest on the date the condition is achieved and it was achieved in current period, therefore it has been fully expensed in current period. The options were issued on 31 December 2019.

Options issued carry no dividends or voting rights and each option is convertible to one share of the company. Options have been valued using a Black & Scholes model which includes the inputs disclosed in Note 10 in the financial statements.

In addition, Layton Mills has been issued with the following performance rights:

**Performance rights issued as a share based compensation to Layton Mills in prior year**

These Performance Rights are issued to Layton Mills in consideration for the following four performance milestones that will expire on the date that is five years from the date of issue if the relevant milestone attached to that Performance Right has not been

achieved. The vesting conditions (non-market) and performance milestones are listed below:

- 625,000 Class A Performance Rights shall convert into an equal number of ordinary shares upon the Company receiving conditional approval to commence trading on the Australian Securities Exchange (ASX) and the completion of a capital raise of at least \$4,000,000. This milestone was granted in prior year upon successful completion of the initial public offering of the Company.
- 625,000 Class B Performance Rights shall convert into an equal number of ordinary shares upon the Company entering into a commercial licencing agreement for the commercialization of any of its products. This milestone was granted during the period as it was assessed by management as more than likely to be met.
- 625,000 Class C Performance Rights shall convert into an equal number of ordinary shares upon the Company achieving revenue from sales or licensing of its products of \$1,000,000 or more within 36 months of successfully listing on the ASX. This milestone hasn't been granted as the condition is less than likely to be met as assessed by management.
- 625,000 Class D Performance Rights shall convert into an equal number of ordinary shares upon the Company acquiring regulatory approval from the US Food & Drug Administration, including approval under the Minor Use/Minor Species Animal Health Act of 2004 (US) (or equivalent) for any of the Company's products. This milestone hasn't been granted as the condition is less than likely to be met as assessed by management.

Each performance share will convert into 1 ordinary share of CannPal Animal Therapeutics Limited upon achievement of the performance milestone. These vesting conditions were non-market, therefore the Company has assessed each class as being either being more likely (100%) to or not likely to meeting the performance milestone. Vesting conditions considered likely to be met will be recognised an expense over the expected vesting period, refer to note 10 for inputs used for these performance rights. The details of each performance milestone are listed above and tabled on the next page:

## Directors' Report continued

Performance Milestone	Number	Grant Date	Exercise Price	Underlying Share Price	Total Fair Value	Probability of achieving milestone	Percentage Vested
A	625,000	01/07/2017	Nil	\$0.20	\$93,776	100%	100%
B	625,000	01/07/2017	Nil	\$0.20	\$93,776	75%	60%
C	625,000	01/07/2017	Nil	\$0.20	\$93,776	0%	0%
D	625,000	01/07/2017	Nil	\$0.20	\$93,776	49%	0%

The fair value is determined by an internal valuation using a Black-Scholes option pricing model. It was assumed that no dividends are expected to be declared or paid by the Company during the terms of the various classes of rights. The following inputs were used:

- (i) A risk-free rate of a five-year Australian Government bond has been used on the Performance Rights, therefore a rate of 2.12% is used as the risk-free rate for all performance rights milestones.
- (ii) It is difficult to assess what the volatility should be. After taking into account the volatility of comparable ASX listed companies over one, two and three year periods, the opinion was formed that the fair volatility factor for the purpose of valuation as at grant date should be 100%.

### Equity instrument disclosures relating to key management personnel

#### (i) Option and Performance Rights holdings

The following options and performance rights were held by the directors or key management personnel at the end of the financial years:

- Mr Layton Mills 1,875,000 performance rights (2019: 1,875,000)
- Mr Geoff Starr nil options (2019: 500,000)
- Mr Robert Johnston nil options (2019: 500,000)
- Mr Robert Clifford nil options (2019: 500,000)
- Ms Kathryn Adams nil options (2019: 500,000)
- Ms Margaret Curtis 750,000 options vested and exercisable at 30 June 2020 (2019: 800,000)

The Director options are issued to directors of the Company in consideration for providing their experience, knowledge, assistance and access. These options are exercisable at \$0.25 over the assessed two year vesting period and will automatically lapse if the option holder ceases to be a Director of the Company, which implies that there is a service based condition attached to the Director options, therefore it has been expensed over the vesting period. Refer to note 10 for further information in relation to the inputs used for these options.

#### (ii) Shareholdings

The numbers of shares in the Company held during the financial year by each director, including their personally related parties, are set out below.

All equity transactions with key management personnel, other than those arising from the exercise of remuneration options, have been entered into under terms and conditions no more favourable than those the Company would have adopted if dealing at arm's length.

2020		Received during the year in the exercise of options	Other changes during the year additions / (disposals)	Balance at the end of the year
Name	Balance at the start of the year			
<b>Directors of CannPal Animal Therapeutics Limited</b>				
<b>Ordinary shares</b>				
Layton Mills	7,679,179	–	86,000	7,765,179
Robert Clifford	480,293	–	–	480,293
Geoff Starr	80,000	–	120,000	200,000
Robert Johnston	300,000	–	–	300,000
Kathryn Adams	–	–	–	–

#### Voting and comments made at the company's 2019 annual general meeting

The company received 98.93% of “yes” votes on its remuneration report for the 2019 financial year. The company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

#### Use of Independent remuneration consultants

The company did not use the services of remuneration consultants during the year in determining the compensation for directors and executives.

#### End of Remuneration Report (Audited)

#### Insurance and Indemnity of Officers / Auditors

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

#### Auditor's Independence

The Directors have obtained an independence declaration from the Company's auditors, BDO Audit (WA) Pty Ltd, as presented on page 26 of this financial report.

#### Non-Audit Services

The Company may deploy auditors for non-audit services. No fees were paid during the year for the provision of non audit services.

#### Corporate Governance

The Company's full Corporate Governance Plan can be found on its website [cannpal.com](http://cannpal.com).

#### 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.

On behalf of the Board

CannPal Animal Therapeutics Limited



**Geoff Starr**  
**Chairman**

Sydney, NSW  
24 September 2020





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

As lead auditor of CannPal Animal Therapeutics Limited for the year ended 30 June 2020, 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.

A handwritten signature in black ink, appearing to read 'Neil Smith', with a stylized flourish at the end.

**Neil Smith**  
Director

**BDO Audit (WA) Pty Ltd**  
Perth, 24 September 2020

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

# Financial Statements

for the year ended 30 June 2020

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# Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2020

	Notes	30 June 2020 \$	30 June 2019 \$
<b>Income</b>			
Research & Development tax refund		654,421	297,300
ATO cash flow boost		50,000	–
Interest income		60,834	103,579
<b>Total income</b>		<b>765,255</b>	<b>400,879</b>
<b>Expenses</b>			
Employee expenses		110,933	107,769
Legal and ASX fees		58,484	52,378
Research & Development		1,774,996	1,558,298
Corporate and Administration costs		422,705	478,151
Share based payments	10	101,708	211,571
<b>Total expenses</b>		<b>(2,468,826)</b>	<b>(2,408,167)</b>
<b>Loss before income tax</b>		<b>(1,703,571)</b>	<b>(2,007,288)</b>
Income tax benefit/(expense)	4	–	–
<b>Loss after income tax</b>		<b>(1,703,571)</b>	<b>(2,007,288)</b>
<b>Net loss for the year attributable to members of CannPal Animal Therapeutics Limited</b>		<b>(1,703,571)</b>	<b>(2,007,288)</b>
Other comprehensive income, net of tax		–	–
<b>Total comprehensive loss for the year attributable to the members of CannPal Animal Therapeutics Limited</b>		<b>(1,703,571)</b>	<b>(2,007,288)</b>
		<b>Cents</b>	<b>Cents</b>
<b>Loss per share attributable to the ordinary equity holders of the company:</b>			
<b>Basic loss per share</b>	15 (a)	<b>(1.83)</b>	<b>(2.16)</b>

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



# Statement of Financial Position

As at 30 June 2020

	Notes	30 June 2020 \$	30 June 2019 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	1,915,662	3,304,878
Trade and other receivables	6	30,471	53,513
<b>Total current assets</b>		<b>1,946,133</b>	<b>3,358,391</b>
<b>Total assets</b>		<b>1,946,133</b>	<b>3,358,391</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	7	291,550	110,304
Employee benefits provisions		42,674	34,315
<b>Total current liabilities</b>		<b>334,224</b>	<b>144,619</b>
<b>Total liabilities</b>		<b>334,224</b>	<b>144,619</b>
<b>Net assets</b>		<b>1,611,909</b>	<b>3,213,772</b>
<b>EQUITY</b>			
Issued capital	8	6,975,607	6,975,607
Reserves	9(a)	1,729,727	1,628,019
Accumulated losses	9(b)	(7,093,425)	(5,389,854)
<b>Total equity</b>		<b>1,611,909</b>	<b>3,213,772</b>

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

## Statement of Changes in Equity

For the year ended 30 June 2020

	Notes	Issued capital \$	Reserves \$	Accumulated losses \$	Total \$
<b>Balance at 1 July 2019</b>		<b>6,975,607</b>	<b>1,628,019</b>	<b>(5,389,854)</b>	<b>3,213,772</b>
Total Comprehensive Income					
Loss for the year		–	–	(1,703,571)	(1,703,571)
<b>Total comprehensive loss for the year</b>		<b>–</b>	<b>–</b>	<b>(1,703,571)</b>	<b>(1,703,571)</b>
<i>Transactions with owners in their capacity as owners</i>					
Share based payment	10	–	101,708	–	101,708
<b>Balance at 30 June 2020</b>		<b>6,975,607</b>	<b>1,729,727</b>	<b>(7,093,425)</b>	<b>1,611,909</b>
<b>Balance at 1 July 2018</b>		<b>6,975,607</b>	<b>1,416,448</b>	<b>(3,382,566)</b>	<b>5,009,489</b>
Total Comprehensive Income					
Loss for the year		–	–	(2,007,288)	(2,007,288)
<b>Total comprehensive loss for the year</b>		<b>–</b>	<b>–</b>	<b>(2,007,288)</b>	<b>(2,007,288)</b>
<i>Transactions with owners in their capacity as owners</i>					
Share based payment	10	–	211,571	–	211,571
<b>Balance at 30 June 2019</b>		<b>6,975,607</b>	<b>1,628,019</b>	<b>(5,389,854)</b>	<b>3,213,772</b>

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

## Statement of Cash Flows

For the year ended 30 June 2020

	Notes	30 June 2020 \$	30 June 2019 \$
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees		(2,154,471)	(2,210,241)
Research & Development tax refund		654,421	297,300
ATO cash flow boost		50,000	—
Interest received		60,834	103,580
<b>Net cash outflows from operating activities</b>	<b>13</b>	<b>(1,389,216)</b>	<b>(1,809,361)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(1,389,216)</b>	<b>(1,809,361)</b>
Cash and cash equivalents at the beginning of the financial year		3,304,878	5,114,239
<b>Cash and cash equivalents at end of year</b>	<b>5</b>	<b>1,915,662</b>	<b>3,304,878</b>

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



# Notes to the Financial Statements

30 June 2020

## 1 Corporate information

The financial report of CannPal Animal Therapeutics Limited (the “Company”) for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of the directors on 24 September 2020.

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

The nature of the operations and principle activities are described in the Directors’ report. The Company is a listed public company limited by shares and trading on the Australian Securities Exchange.

## 2.1 Summary of significant accounting policies

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (‘AASB’) and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (‘IASB’).

#### *Historical cost convention*

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

#### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies.

### (b) Going Concern

The financial statements have been approved by the Directors on a going concern basis, which contemplates the continuity of normal business activity and realisation of assets and the settlement of liabilities in the normal course of business. In determining the appropriateness of the basis of preparation, the Directors have considered the impact of the COVID-19 pandemic on the position of the Company at 30 June

2020 and its operations in future periods. The financial statements do not include any adjustment relating to the recoverability and classification of recorded asset amounts, nor the amounts or classification of liabilities that might be necessary should the Company not be able to continue as a going concern.

### (c) Investments and other financial assets

Financial assets are classified as either financial assets held for trading (financial assets at fair value through profit or loss), loans and receivables, held to maturity investments or available for sale investments, as appropriate. When financial assets are initially recognised they are recorded at fair value, plus in the case of investments not held for trading, directly attributable transaction costs.

### (d) Revenue recognition

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

#### *Interest income*

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

#### *Government Grants / Research & Development*

Government grants are assistance by the government in the form of transfers of resources to the Company in return for past or future compliance with certain conditions relating to the operating activities of the entity. AASB 120 requires that income earned from grants in relation to expenditure on intangible assets is offset against the value of those assets. Income earned from grants relating to costs that are recognised in the statement of profit or loss and other comprehensive income is recognised as income over the period necessary to match it with the costs to which it relates to. Where income is earned from grants that is related to costs recognised in the statement of profit or loss and other comprehensive income in a prior period, that grant income is recognised as other income during the current period. Research & Development tax offsets relate to the same accounting policy treatment as Government grants.

# Notes to the Financial Statements

30 June 2020

## (e) Income tax

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

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

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

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

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

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

## (f) Cash and cash equivalents

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

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

## (g) Trade and other receivables

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

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

## (h) Trade and other payables

Liabilities for creditors and other amounts are carried at amortised cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company. Payables include outstanding settlements on the purchase of investments and distributions payable. The carrying period is dictated by market conditions and is generally less than 30 days.

## (i) Goods and Services Tax (GST)

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

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

# Notes to the Financial Statements

30 June 2020

## 2.1 Summary of significant accounting policies *continued*

### (j) Earnings per share

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

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

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

### (k) Employee benefits provisions

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided or upon the actual absence of the employee when the benefit is not accumulated. The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on when the Company expects the benefits to be wholly settled.

### (l) Contributed equity

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

### (m) Share based payments

#### *Equity settled transactions*

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

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

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than (if applicable) non-vesting conditions that do not determine whether

the Company receives the services that entitle the employees to receive payment in equity or cash.

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

At each subsequent reporting date until vesting, the cumulative charge to the statement of profit or loss and other comprehensive income is the product of:

- The grant date fair value of the award.
- The current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met.
- The expired portion of the vesting period.

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

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

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

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



# Notes to the Financial Statements

30 June 2020

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

## Critical accounting judgements and estimates

The preparation of financial statements requires the use of certain critical accounting judgements and estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. There are no areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements except for the following:

- *Share-based payments*

The Company initially measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and condition of the grant.

This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 10.

- *Coronavirus (COVID-19) pandemic*

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

## 2.2 Application of new and revised accounting standards

### New accounting standards and interpretations

The Company has adopted all new accounting standards and interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for annual reporting periods beginning 1 July 2019. The adoption of these new and revised standards and interpretations did not have any effect on the financial position or performance of the Company.

The changes in accounting policies and impact on the financial statements were:

AASB 16 Leases had no impact on the Company because the Company has no operating leases.

### Accounting standards and interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective will be adopted by the Company from the application date of the standard or interpretation.

## 3 Segment Reporting

The Company's operations are based in Australia. Given the nature of the Company, its size and current operations, the Company's management does not treat any part of the Company as a separate operating segment. Internal financial information used by the Company's decision makers is presented on a "whole of entity" manner without dissemination to any separately identifiable segments.

Accordingly, the financial information reported elsewhere in this financial report is representative of the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

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

# Notes to the Financial Statements

30 June 2020

## 4 Income tax expense

	30 June 2020 \$	30 June 2019 \$
<b>(a) Income tax expense</b>		
Current tax expense	—	—
	—	—
<b>(b) Reconciliation of income tax expense to prima facie tax payable</b>		
Loss before income tax expense	(1,703,571)	(2,007,288)
Tax at the Australian tax rate of 30% (2019: 30%)	(511,071)	(602,186)
Tax losses not brought to account as a deferred tax asset	511,071	602,186
Income tax benefit / (expense)	—	—

Deferred tax assets on losses to a value of \$774,081 (2019: \$654,108) to date are not brought to account due to not being probable of being recovered.

## 5 Cash and cash equivalents

	30 June 2020 \$	30 June 2019 \$
Cash at bank	1,915,662	3,304,878
	<b>1,915,662</b>	<b>3,304,878</b>

## 6 Trade and other receivables

	30 June 2020 \$	30 June 2019 \$
Other debtors	80	647
GST receivable	30,391	52,866
	<b>30,471</b>	<b>53,513</b>

There are no receivables past due or impaired. Due to the short-term nature of these receivables, their carrying value approximates their fair value.

# Notes to the Financial Statements

30 June 2020

## 7 Trade and other payables

	30 June 2020 \$	30 June 2019 \$
Payroll accruals	10,599	9,741
Audit fees	13,427	13,726
Trade creditors	248,799	68,112
Directors' fees	18,725	18,725
	<b>291,550</b>	<b>110,304</b>

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

## 8 Issued capital

	30 June 2020 Shares	30 June 2020 \$	30 June 2019 Shares	30 June 2019 \$
Ordinary shares fully paid	93,125,000	6,975,607	93,125,000	6,975,607

### Movements in ordinary share capital:

Date	Details	Number of shares	\$
1 July 2018	Opening balance	93,125,000	6,975,607
30 June 2019	Balance	93,125,000	6,975,607
30 June 2020	Balance	93,125,000	6,975,607

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

## 9 Reserves and accumulated losses

	30 June 2020 \$	30 June 2019 \$
<b>(a) Reserves</b>		
Share based payment reserve		
Opening balance	1,628,019	1,416,448
Expense for the year	101,708	211,571
<b>Closing balance</b>	<b>1,729,727</b>	<b>1,628,019</b>

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



# Notes to the Financial Statements

30 June 2020

## 9 Reserves and accumulated losses continued

	30 June 2020 \$	30 June 2019 \$
<b>(b) Accumulated losses</b>		
Movements in accumulated losses were as follows:		
Opening balance	5,389,854	3,382,566
Net loss after tax attributable to members of the Company	1,703,571	2,007,288
<b>Closing balance</b>	<b>7,093,425</b>	<b>5,389,854</b>

## 10 Share-based payments (SBP)

### (a) Movements during the year

Movements in the number of options on issue during the current and prior financial years are as follows. The following table illustrates the number and weighted average exercise prices of and movements in share options issued during the year.

	2020		2019	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding at the beginning of year	12,500,000	0.22	12,500,000	0.22
Granted during the year	500,000	0.20	—	—
Forfeited during the year	—	—	—	—
Exercised during the year	—	—	—	—
Expired during the year	(2,000,000)	0.25	—	—
Outstanding at the end of year	11,000,000	0.22	12,500,000	0.22
Exercisable at the end of the year	11,000,000	0.22	12,500,000	0.22

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in all SBP on issue:

Zelda Therapeutics Limited (Class A)	2020 Number	2020 WAEP	2019 Number	2019 WAEP
<b>Opening balance at the start of the period</b>	7,250,000	\$0.20	7,250,000	\$0.20
Granted during the period	—	—	—	—
<b>Balance Outstanding at the end of period</b>	<b>7,250,000</b>	<b>\$0.20</b>	<b>7,250,000</b>	<b>\$0.20</b>
Exercisable at the end of the period	7,250,000	\$0.20	7,250,000	\$0.20

## Notes to the Financial Statements

30 June 2020

Directors (Class B)	2020 Number	2020 WAEP	2019 Number	2019 WAEP
Opening balance at the start of the period	2,000,000	\$0.25	2,000,000	\$0.25
Expired during the period	2,000,000	\$0.25	–	–
<b>Balance Outstanding at the end of period</b>	<b>–</b>	<b>–</b>	<b>2,000,000</b>	<b>\$0.25</b>
Exercisable at the end of the period	–	–	2,000,000	\$0.25

These Director options are issued to directors of the Company in consideration for providing their experience, knowledge, assistance and access. These options are exercisable at \$0.25 over the assessed two year vesting period and will automatically lapse if the option holder ceases to be a Director of the Company, which implies that there is a service based condition attached to the Director options, therefore it has been expensed over the vesting period.

Advisors (Class C)	2020 Number	2020 WAEP	2019 Number	2019 WAEP
Opening balance at the start of the period	1,500,000	\$0.25	1,500,000	\$0.25
Granted during the period	–	–	–	–
<b>Balance Outstanding at the end of period</b>	<b>1,500,000</b>	<b>\$0.25</b>	<b>1,500,000</b>	<b>\$0.25</b>
Exercisable at the end of the period	1,500,000	\$0.25	1,500,000	\$0.25

These advisor options are issued to advisors of the Company in consideration for the advisors providing their experience, knowledge, assistance and access. These options are exercisable at \$0.25 on or before three years from the date of issue and will automatically lapse if the option holder ceases to be an advisor of the Company, which implies that there is a service based condition attached to the advisor options, therefore it has been expensed over the vesting period.

Lead Manager (Class D)	2020 Number	2020 WAEP	2019 Number	2019 WAEP
Opening balance at the start of the period	1,500,000	\$0.25	1,500,000	\$0.25
Granted during the period	–	–	–	–
<b>Balance Outstanding at the end of period</b>	<b>1,500,000</b>	<b>\$0.25</b>	<b>1,500,000</b>	<b>\$0.25</b>
Exercisable at the end of the period	1,500,000	\$0.25	1,500,000	\$0.25

These Lead Manager options are issued to Merchant Corporate Advisory Pty Ltd in consideration for the services provided relating to the assistance of the initial seed raising, securing strategic investments and partnerships and managing the IPO process for the Company. These options are exercisable at \$0.25 on or before three years from the date of issue to acquire fully paid ordinary shares in the capital of the Company, therefore it has been fully expensed to share issue costs as it relates to services provided for the listing of the Company.

Employee (Class E)	2020 Number	2020 WAEP	2019 Number	2019 WAEP
Opening balance at the start of the period	800,000	\$0.20	1,000,000	\$0.20
Net granted (Forfeited) during the period	(50,000)	\$0.20	200,000	\$0.20
<b>Balance Outstanding at the end of period</b>	<b>750,000</b>	<b>\$0.20</b>	<b>800,000</b>	<b>\$0.20</b>
Exercisable at the end of the period	750,000	\$0.20	800,000	\$0.20

# Notes to the Financial Statements

30 June 2020

## 10 Share-based payments (SBP) continued

These Employee options are issued to Margaret Curtis (Head of Clinical Development and R&D) in consideration for the following three conditions stated in the employee contract:

- 250,000 Options to be issued on the execution date of the employee contract with an exercise price of \$0.20 each and an expiry date of 8 November 2022. These Options will vest on the date that is 12 months after their date of issue, therefore it has been fully expensed in prior periods.
- 250,000 Options to be issued upon the Company submitting an application to have a nutraceutical product registered with the APVMA (Australian Pesticides and Veterinary Medicines Authority) or equivalent as an animal food product in Australia or other target region. These Options will vest on the

date that is 24 months after their date of issue. This condition was not met and expired during the period, therefore the expense recognised in prior period is fully reversed in current period.

- 250,000 Options to be issued upon the Company commencing a target animal safety study for CPAT-01 within 24 months of the commencement date. These Options will vest on the date the condition is achieved and it was achieved in current period, therefore it has been fully expensed in current period. The options were issued on 31 December 2019.
- 250,000 Options If the Company commences the CPAT-01 field trials with a final formulation within 30 months of the commencement date. These Options will vest on the date the condition is achieved and it was achieved in current period, therefore it has been fully expensed in current period. The options were issued on 31 December 2019.

Performance Rights (Class F)	2020 Number	2019 Number
Opening Balance at the start of the period	1,875,000	1,875,000
Balance Outstanding at the end of the period	<b>1,875,000</b>	<b>1,875,000</b>
Exercisable at the end of the period	—	—

These Performance Rights are issued to Layton Mills in consideration for the following four performance milestones that will expire on the date that is five years from the date of issue if the relevant milestone attached to that Performance Right has not been achieved. The vesting conditions (non-market) and performance milestones are listed below:

- 625,000 Class A Performance Rights shall convert into an equal number of ordinary shares upon the Company receiving conditional approval to commence trading on the Australian Securities Exchange (ASX) and the completion of a capital raise of at least \$4,000,000. This milestone was granted prior year upon successful completion of the initial public offering of the Company.
- 625,000 Class B Performance Rights shall convert into an equal number of ordinary shares upon the Company entering into a commercial licencing agreement for the commercialisation of any of its products. This milestone was granted during the period as it was assessed by management as more than likely to be met.

- 625,000 Class C Performance Rights shall convert into an equal number of ordinary shares upon the Company achieving revenue from sales or licensing of its products of \$1,000,000 or more within 36 months of successfully listing on the ASX. This milestone hasn't been granted as the condition is less than likely to be met as assessed by management.
- 625,000 Class D Performance Rights shall convert into an equal number of ordinary shares upon the Company acquiring regulatory approval from the US Food & Drug Administration, including approval under the Minor Use/Minor Species Animal Health Act of 2004 (US) (or equivalent) for any of the Company's products. This milestone hasn't been granted as the condition is less than likely to be met as assessed by management.

The fair value is determined by an internal valuation using a Black-Scholes option pricing model. It was assumed that no dividends are expected to be declared or paid by the Company during the terms of the various classes of Options. The following inputs were used:



# Notes to the Financial Statements

30 June 2020

- (i) A risk-free rate of a five-year Australian Government bond has been used on the Performance Rights and Options, therefore a rate of 2.12% is used as the risk-free rate for all options and performance rights milestones.
- (ii) After taking into account the volatility of comparable ASX listed companies over one, two and three year periods, the opinion was formed that the fair volatility factor for the purpose of valuation as at grant date should be 100%.

## (b) Inputs to the model

Option Type	Class	Number	FY	Grant Date	Vesting Date	Expiry Date	Exercise price \$	Fair Value \$	SBP expense 30/06/2020	SBP reserve 30/06/2020
Zelda	A	7,250,000	2017	24/03/2017	24/03/2017	24/03/2020	0.20	0.1250	–	\$906,494
Directors	B	–	2017	01/06/2017	31/05/2019	Expired	0.25	0.1163	–	\$232,674
Advisors	C	1,500,000	2018	10/07/2017	09/07/2020	09/07/2020	0.25	0.1163	\$58,328	\$173,071
Lead Manager	D	1,500,000	2018	25/08/2017	31/03/2018	26/09/2020	0.25	0.1163	–	\$174,506
Employee	E	250,000	2018	09/11/2017	09/11/2018	08/11/2022	0.20	0.1239	–	\$30,980
Employee	E	–	2018	20/11/2017	Lapsed	Expired	0.20	0.1239	(\$14,967)	\$14,967
Employee	E	250,000	2018	20/11/2017	31/12/2019	31/12/2024	0.20	0.1239	\$21,016	\$30,980
Employee	E	250,000	2018	20/11/2017	31/12/2019	31/12/2024	0.20	0.1239	\$18,524	\$30,980
<b>Total Options</b>		<b>11,000,000</b>							<b>\$82,901</b>	<b>\$1,579,685</b>
Performance Rights	F	625,000	2018	01/07/2017	01/07/2017	30/06/2022	–	0.15	–	\$93,776
Performance Rights	F	625,000	2018	01/07/2017	30/06/2022	30/06/2022	–	0.15	\$18,807	\$56,266
<b>Total Performance Rights</b>		<b>1,250,000</b>							<b>\$18,807</b>	<b>\$150,042</b>

Other inputs to the model used for the share options issued in the prior period:

Option Type	Volatility Factor %	Risk free rate %	Model used	Share Price
<b>Zelda Class A</b>	100	2.02	Black Scholes	\$0.20
<b>Directors Class B</b>	100	2.02	Black Scholes	\$0.25
<b>Advisors Class C</b>	100	2.02	Black Scholes	\$0.25
<b>Lead Manager Class D</b>	100	2.02	Black Scholes	\$0.25
<b>Employee Class E</b>	100	2.12	Black Scholes	\$0.20
<b>Performance Rights Class F</b>	100	2.12	Black Scholes	\$0.20

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

# Notes to the Financial Statements

30 June 2020

## 11 Key management personnel disclosures

### Key management personnel compensation

	30 June 2020 \$	30 June 2019 \$
Short-term employee benefits	545,026	530,289
Post-employment benefits	35,023	33,884
Share based payments	43,380	153,404
	<b>623,429</b>	<b>717,577</b>

## 12 Related party transactions

### (a) Directors and Key Management Personnel

The names of persons who were Directors of CannPal Animal Therapeutics Limited at any time during the financial year and at the date of this report are as follows: Geoff Starr, Robert Clifford, Layton Mills, Robert Johnston and Kathryn Adams. Margaret Curtis is head of Research and Development.

### (b) Related party transactions

All related party transactions are made at arm's length on normal commercial terms and conditions. Outstanding balances at year end are unsecured and settlement occurs in cash. Other than what is mentioned below, there were no transactions with Key Management Personnel and no other related party transactions that occurred during the year.

#### *Transactions with Directors and Key Management Personnel (KMP)*

- Non-Executive Directors who received options in consideration for providing their experience, knowledge, assistance and access outlined in note 10.

#### *Transactions with CEO/Managing Director*

- CEO/Managing Director who received performance rights, then converted to shares in consideration for the completion of the performance rights milestone outlined in note 10.

## 13 Reconciliation of loss after income tax to cash inflows from operating activities

	30 June 2020 \$	30 June 2019 \$
Loss for the year	(1,703,571)	(2,007,288)
Non cash share based expense	101,708	211,571
(Increase)/decrease in trade and other receivables	567	(647)
Increase/(decrease) in trade and other payables	212,080	(12,997)
<b>Net cash outflows from operating activities</b>	<b>(1,389,216)</b>	<b>(1,809,361)</b>

# Notes to the Financial Statements

30 June 2020

## 14 Financial risk management

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

### (a) Credit risk

Credit risk primarily arises from investments in debt securities and from trading derivative products. Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers. None of these assets are impaired nor past due but not impaired. As at 30 June 2020 the Company does not hold any debt securities.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. The majority of cash assets are held with one bank, which has a credit rating of A-1, which is the significant concentration risk.

### (b) Liquidity risk

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

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

## 15 Earnings per share (EPS)

	30 June 2020 Cents	30 June 2019 Cents
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### (a) Basic loss per share:

Loss per share attributable to the ordinary equity holders of the Company	(1.83)	(2.16)
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### (b) Reconciliation of earnings used in calculating earnings per share

	30 June 2020 \$	30 June 2019 \$
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#### Basic and diluted loss per share

Loss from continuing operations	(1,703,571)	(2,007,288)
Loss attributable to the ordinary equity holders of the Company used in calculating basic loss per share	(1,703,571)	(2,007,288)

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

	30 June 2020 Number	30 June 2019 Number
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Weighted average number of ordinary shares used as the denominator in calculating basic loss per share	93,125,000	93,125,000
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Basic loss per share amounts are calculated by dividing the net loss attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year.



# Notes to the Financial Statements

30 June 2020

## 16 Events occurring after reporting date

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it has not had a significant impact up to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

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

## 17 Commitments and contingencies

The Company has a commitment of US\$45,000 under an agreement for research and development costs. Subject to achieving some conditions in the agreement, there may be further commitment.

There were no other commitments or contingencies as at 30 June 2020 (2019: nil).

## 18 Remuneration of auditor

During the year the following fees were paid or payable for services provided by the Auditor of the Company.

	30 June 2020 \$	30 June 2019 \$
<b>Audit and Other Assurance Services</b>		
Audit and review of the financial reports – BDO Audit (WA) Pty Ltd	31,332	33,163
<b>Total</b>	<b>31,332</b>	<b>33,163</b>

## Directors' Declaration

30 June 2020

The Directors of the Company declare that:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Company's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Board

CannPal Animal Therapeutics Limited



**Geoff Starr**  
**Chairman**

24 September 2020  
Sydney, NSW



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## INDEPENDENT AUDITOR'S REPORT

To the members of CannPal Animal Therapeutics Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of CannPal Animal Therapeutics Limited (the Company), which comprises the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) Giving a true and fair view of the Company's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

#### Key audit matters

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

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



### Accounting for share based payments

<b>Key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>The Company awarded share options and performance rights to the Company's advisors and to eligible executives and employees in the prior year which continued to be accounted for as share based payments in current year as disclosed in Note 10 for the financial report.</p> <p>Share based payments are a complex accounting area and due to the judgemental estimates used in determining the fair value of the share based payments in accordance with AASB 2 Share Based Payments, we consider the accounting of the share based payment expense to be a key audit matter.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Reviewing relevant supporting documentation to obtain an understanding of the contractual nature and terms and conditions of the share based payment arrangements;</li> <li>• Assessing management's determination of achieving non-market vesting conditions of the performance rights;</li> <li>• Assessing the allocation of the share based payment expense over management's expected vesting period; and</li> <li>• Assessing the adequacy and completeness of the related disclosures in Note 10 of the financial report</li> </ul>

### Other information

The directors are responsible for the other information. The other information comprises the information in the Company's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

### Responsibilities of the directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.





#### **Auditor's responsibilities for the audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

[https://www.auasb.gov.au/admin/file/content102/c3/ar1\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf)

This description forms part of our auditor's report.

#### **Report on the Remuneration Report**

##### **Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 19 to 25 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of CannPal Animal Therapeutics Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

##### **Responsibilities**

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

#### **BDO Audit (WA) Pty Ltd**

A handwritten signature in black ink, appearing to read 'Neil Smith', is written over a faint, larger 'BDO' logo.

**Neil Smith**

**Director**

Perth, 24 September 2020

## Shareholder Information

30 June 2020

The shareholder information set out below was applicable as at 1 September 2020.

The company used the cash and assets in a form readily convertible to cash in a way consistent with its business objectives for the whole of the reporting period. The company has no current on-market buy back.

### Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

Number of holders of ordinary shares	
1 to 1,000	34
1,001 to 5,000	906
5,001 to 10,000	327
10,001 to 100,000	465
100,001 and over	63
	<b>1,795</b>
Holding less than a marketable parcel	735

### Equity security holders

*Twenty largest quoted equity security holders*

The names of the twenty largest security holders of quoted equity securities are listed below:

Name	Number held	% of total shares issued
The Trust Company (Australia) Limited	18,511,707	19.88%
Pepaanne Pty Ltd	7,667,737	8.23%
Gemelli Nominees Pty Ltd	7,500,000	8.05%
Ms Tania Maree Vidovic	6,884,682	7.39%
Mr Layton Patrick Mills	6,884,679	7.39%
Mr John Andrew Rogers	3,102,238	3.33%
Ajava Holdings Pty Ltd	2,000,000	2.15%
Ms Angela Maree Becroft	1,721,170	1.85%
Ms Kate Eloise Toft	1,721,170	1.85%
Joyress Pty Ltd	1,500,000	1.61%
JP Morgan Nominees Australia Pty Limited	1,301,683	1.40%
JAB Investments (SA) Pty Ltd	1,000,000	1.07%
Pelagya Pty Ltd	1,000,000	1.07%
Croft Family Super Pty Ltd	895,000	0.96%
Miss Meng Wang	665,000	0.71%
Grant Super Fund 2017 Pty Ltd	641,786	0.69%
Mr Layton Patrick Mills	625,000	0.67%
Auto Management Pty Ltd	600,000	0.64%
Moggs Creek Pty Ltd	537,866	0.58%
Emac Investments Holdings Pty Ltd	537,866	0.58%
<b>Top 20 Holders of Ordinary Shares</b>	<b>65,297,584</b>	<b>70.12%</b>
<b>Total Remaining Holders Balance</b>	<b>27,827,416</b>	<b>29.88%</b>

## Shareholder Information

30 June 2020

### Unquoted Options

	Number on issue	Number of holders
Expiring 24/03/2022 exercisable at \$0.20	7,250,000	1
Expiring 26/09/2020 exercisable at \$0.25	1,500,000	1
Expiring 09/11/2022 exercisable at \$0.20	250,000	1
Expiring 31/12/2024 exercisable at \$0.20	500,000	1
<b>Totals</b>	<b>9,500,000</b>	<b>4</b>

Substantial holders in the company are set out below:

The Trust Company (Australia) Limited	18,511,707	19.88%
Pepaanne Pty Ltd	7,667,737	8.23%
Mr Layton Patrick Mills	7,509,679	8.06%
Gemelli Nominees Pty Ltd	7,500,000	8.05%
Ms Tania Maree Vidovic	6,884,682	7.39%

### Voting rights

The voting rights attached to ordinary shares are set out below:

#### *Ordinary shares*

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

There are no other classes of equity securities.



# Corporate Governance Statement

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**This Corporate Governance Statement is current as at 4 September 2020 and has been approved by the Board of the Company on that date.**

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

The Company has adopted a Corporate Governance Plan which provides the written terms of reference for the Company's corporate governance duties.

Due to the current size and nature of the existing Board and the magnitude of the Company's operations, the Board does not consider that the Company will gain any benefit from individual Board committees and that its resources would be better utilised in other areas as the Board is of the strong view that at this stage the experience and skill set of the current Board is sufficient to perform these roles. Under the Company's Board Charter, the duties that would ordinarily be assigned to individual committees are currently carried out by the full Board under the written terms of reference for those committees.

The Company's Corporate Governance Plan is available on the Company's website at [www.cannpal.com](http://www.cannpal.com)

Recommendations (3 <sup>rd</sup> Edition)	Comply	Explanation
<b>Principle 1: Lay solid foundations for management and oversight</b>		
<b>Recommendation 1.1</b> A listed entity should have and disclose a charter which sets out the respective roles and responsibilities of the Board, the Chair and management, and includes a description of those matters expressly reserved to the Board and those delegated to management.	YES	<p>The Company has adopted a Board Charter that sets out the specific roles and responsibilities of the Board, the Chair and management and includes a description of those matters expressly reserved to the Board and those delegated to management.</p> <p>The Board Charter sets out the specific responsibilities of the Board, requirements as to the Board's composition, the roles and responsibilities of the Chairman and Company Secretary, the establishment, operation and management of Board Committees, Directors' access to Company records and information, details of the Board's relationship with management, details of the Board's performance review and details of the Board's disclosure policy.</p> <p>A copy of the Company's Board Charter, which is part of the Company's Corporate Governance Plan, is available on the Company's website.</p>

Recommendations (3 <sup>Rd</sup> Edition)	Comply	Explanation
<b>Principle 1: Lay solid foundations for management and oversight continued</b>		
<b>Recommendation 1.2</b> A listed entity should: <ul style="list-style-type: none"> <li>a. undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a Director; and</li> <li>b. provide security holders with all material information relevant to a decision on whether or not to elect or re-elect a Director.</li> </ul>	YES	<ul style="list-style-type: none"> <li>a. The Company has guidelines for the appointment and selection of the Board in its Corporate Governance Plan. The Company's Nomination Committee Charter (in the Company's Corporate Governance Plan) requires the Nomination Committee (or, in its absence, the Board) to ensure appropriate checks (including checks in respect of character, experience, education, criminal record and bankruptcy history (as appropriate)) are undertaken before appointing a person, or putting forward to security holders a candidate for election, as a Director.</li> <li>b. Under the Nomination Committee Charter, all material information relevant to a decision on whether or not to elect or re-elect a Director must be provided to security holders in the Notice of Meeting containing the resolution to elect or re-elect a Director.</li> </ul>
<b>Recommendation 1.3</b> A listed entity should have a written agreement with each Director and senior executive setting out the terms of their appointment.	YES	<p>The Company's Nomination Committee Charter requires the Nomination Committee (or, in its absence, the Board) to ensure that each Director and senior executive is a party to a written agreement with the Company which sets out the terms of that Director's or senior executive's appointment.</p> <p>The Company has written agreements with each of its Directors and senior executives.</p>
<b>Recommendation 1.4</b> The company secretary of a listed entity should be accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.	YES	<p>The Board Charter outlines the roles, responsibility and accountability of the Company Secretary. In accordance with this, the Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.</p>

*continued next page*

## Corporate Governance Statement continued

Recommendations (3 <sup>Rd</sup> Edition)	Comply	Explanation
<b>Principle 1: Lay solid foundations for management and oversight continued</b>		
<p><b>Recommendation 1.5</b></p> <p>A listed entity should:</p> <ol style="list-style-type: none"> <li>have a diversity policy which includes requirements for the Board or a relevant committee of the Board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;</li> <li>disclose that policy or a summary of it; and</li> <li>disclose as at the end of each reporting period: <ol style="list-style-type: none"> <li>the measurable objectives for achieving gender diversity set by the Board in accordance with the entity's diversity policy and its progress towards achieving them; and</li> <li>either: <ol style="list-style-type: none"> <li>the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or</li> <li>if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in the Workplace Gender Equality Act.</li> </ol> </li> </ol> </li> </ol>	PAR-TIALLY	<ol style="list-style-type: none"> <li>The Company has adopted a Diversity Policy which provides a framework for the Company to establish and achieve measurable diversity objectives, including in respect of gender diversity. The Diversity Policy allows the Board to set measurable gender diversity objectives, if considered appropriate, and to assess annually both the objectives, if any have been set, and the Company's progress in achieving them.</li> <li>The Diversity Policy is available, as part of the Corporate Governance Plan, on the Company's website. <ol style="list-style-type: none"> <li>The Board does not presently intend to set measurable gender diversity objectives because: <ul style="list-style-type: none"> <li>the Board does not anticipate there will be a need to appoint any new Directors or senior executives due to limited nature of the Company's existing and proposed activities and the Board's view that the existing Directors and senior executives have sufficient skill and experience to carry out the Company's plans; and</li> <li>if it becomes necessary to appoint any new Directors or senior executives, the Board considered the application of a measurable gender diversity objective requiring a specified proportion of women on the Board and in senior executive roles will, given the small size of the Company and the Board, unduly limit the Company from applying the Diversity Policy as a whole and the Company's policy of appointing based on skills and merit: and</li> </ul> </li> <li>the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes) for each financial year will be disclosed in the Company's Annual Report and on the Company's website.</li> </ol> </li> </ol>

Recommendations (3 <sup>Rd</sup> Edition)	Comply	Explanation
<b>Principle 1: Lay solid foundations for management and oversight continued</b>		
<b>Recommendation 1.6</b> A listed entity should: <ul style="list-style-type: none"> <li>a. have and disclose a process for periodically evaluating the performance of the Board, its committees and individual Directors; and</li> <li>b. disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</li> </ul>	YES	<ul style="list-style-type: none"> <li>a. The Company's Nomination Committee (or, in its absence, the Board) is responsible for evaluating the performance of the Board, its committees and individual Directors on an annual basis. It may do so with the aid of an independent advisor. The process for this is set out in the Company's Corporate Governance Plan, which is available on the Company's website.</li> <li>b. The Company's Corporate Governance Plan requires the Company to disclose whether or not performance evaluations were conducted during the relevant reporting period. The Company intends to complete performance evaluations in respect of the Board, its committees (if any) and individual Directors for each financial year in accordance with the above process.</li> </ul>
<b>Recommendation 1.7</b> A listed entity should: <ul style="list-style-type: none"> <li>a. have and disclose a process for periodically evaluating the performance of its senior executives; and</li> <li>b. disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</li> </ul>	YES	<ul style="list-style-type: none"> <li>a. The Company's Nomination Committee (or, in its absence, the Board) is responsible for evaluating the performance of the Company's senior executives on an annual basis. The Company's Remuneration Committee (or, in its absence, the Board) is responsible for evaluating the remuneration of the Company's senior executives on an annual basis. A senior executive, for these purposes, means key management personnel (as defined in the Corporations Act) other than a non-executive Director. The applicable processes for these evaluations can be found in the Company's Corporate Governance Plan, which is available on the Company's website.</li> <li>b. The Company's Corporate Governance Plan requires the Company to disclose whether or not performance evaluations were conducted during the relevant reporting period. The Company intends to complete performance evaluations in respect of the senior executives (if any) for each financial year in accordance with the applicable processes.</li> </ul>

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## Corporate Governance Statement continued

Recommendations (3 <sup>rd</sup> Edition)	Comply	Explanation
<b>Principle 2: Structure the Board to add value</b>		
<p><b>Recommendation 2.1</b></p> <p>The Board of a listed entity should:</p> <p>a. have a nomination committee which:</p> <ol style="list-style-type: none"> <li>has at least three members, a majority of whom are independent Directors; and</li> <li>is chaired by an independent Director, and disclose:</li> <li>the charter of the committee;</li> <li>the members of the committee; and</li> <li>as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> </ol> <p>b. if it does not have a nomination committee, disclose that fact and the processes it employs to address Board succession issues and to ensure that the Board has the appropriate balance of skills, experience, independence and knowledge of the entity to enable it to discharge its duties and responsibilities effectively.</p>	YES	<p>a. The Company does not have a Nomination Committee. The Company's Nomination Committee Charter provides for the creation of a Nomination Committee (if it is considered it will benefit the Company), with at least three members, a majority of whom are independent Directors, and which must be chaired by an independent Director.</p> <p>b. The Company does not have a Nomination Committee as the Board considers the Company will not currently benefit from its establishment. In accordance with the Company's Board Charter, the Board carries out the duties that would ordinarily be carried out by the Nomination Committee under the Nomination Committee Charter, including the following processes to address succession issues and to ensure the Board has the appropriate balance of skills, experience, independence and knowledge of the entity to enable it to discharge its duties and responsibilities effectively:</p> <ol style="list-style-type: none"> <li>devoting time at least annually to discuss Board succession issues and updating the Company's Board skills matrix; and</li> <li>all Board members being involved in the Company's nomination process, to the maximum extent permitted under the Corporations Act and ASX Listing Rules.</li> </ol>
<p><b>Recommendation 2.2</b></p> <p>A listed entity should have and disclose a Board skill matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.</p>	YES	<p>Under the Nomination Committee Charter (in the Company's Corporate Governance Plan), the Nomination Committee (or, in its absence, the Board) is required to prepare a Board skill matrix setting out the mix of skills and diversity that the Board currently has (or is looking to achieve) and to review this at least annually against the Company's Board skills matrix to ensure the appropriate mix of skills and expertise is present to facilitate successful strategic direction.</p> <p>The Company has a Board skill matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership. A copy is available Company's Annual Report and on the Company's website.</p> <p>The Board Charter requires the disclosure of each Board member's qualifications and expertise. Full details as to each Director and senior executive's relevant skills and experience are available Company's Annual Report and on the Company's website.</p>

Recommendations (3 <sup>rd</sup> Edition)	Comply	Explanation
<b>Principle 2: Structure the Board to add value continued</b>		
<b>Recommendation 2.3</b> A listed entity should disclose: <ul style="list-style-type: none"> <li>a. the names of the Directors considered by the Board to be independent Directors;</li> <li>b. if a Director has an interest, position, association or relationship of the type described in Box 2.3 of the ASX Corporate Governance Principles and Recommendation (3rd Edition), but the Board is of the opinion that it does not compromise the independence of the Director, the nature of the interest, position, association or relationship in question and an explanation of why the Board is of that opinion; and</li> <li>c. the length of service of each Director.</li> </ul>	YES	<ul style="list-style-type: none"> <li>a. The Board Charter requires the disclosure of the names of Directors considered by the Board to be independent. The Company will disclose those Directors it considers to be independent in its Annual Report and on its ASX website. The Board considers the following Directors are independent: Geoff Starr, Robert Clifford and Dr Kate Adams.</li> <li>b. Robert Clifford falls into this category through holdings of shares in the Company via his family trust. However, the total voting power of the shares are not substantial and not material to his independence as a director. The Company will disclose in its Annual Report and ASX website any instances where this applies and an explanation of the Board's opinion why the relevant Director is still considered to be independent.</li> <li>c. The Company's Annual Report and Website will disclose the length of service of each Director, as at the end of each financial year.</li> </ul>
<b>Recommendation 2.4</b> A majority of the Board of a listed entity should be independent Directors.	YES	<p>The Company's Board Charter requires that, where practical, the majority of the Board should be independent.</p> <p>The Board currently comprises a total of 4 directors, of whom 3 are considered to be independent. As such, independent directors are currently an independent majority of the Board.</p>
<b>Recommendation 2.5</b> The Chair of the Board of a listed entity should be an independent Director and, in particular, should not be the same person as the CEO of the entity.	YES	<p>The Board Charter provides that, where practical, the Chair of the Board should be an independent Director and should not be the CEO/Managing Director.</p> <p>The Chair of the Company is an independent Director and is not the CEO/Managing Director.</p>
<b>Recommendation 2.6</b> A listed entity should have a program for inducting new Directors and providing appropriate professional development opportunities for continuing Directors to develop and maintain the skills and knowledge needed to perform their role as a Director effectively.	YES	<p>In accordance with the Company's Board Charter, the Nominations Committee (or, in its absence, the Board) is responsible for the approval and review of induction and continuing professional development programs and procedures for Directors to ensure that they can effectively discharge their responsibilities. The Company Secretary is responsible for facilitating inductions and professional development.</p>
<b>Principle 3: Act ethically and responsibly</b>		
<b>Recommendation 3.1</b> A listed entity should: <ul style="list-style-type: none"> <li>a. have a code of conduct for its Directors, senior executives and employees; and</li> <li>b. disclose that code or a summary of it.</li> </ul>	YES	<ul style="list-style-type: none"> <li>a. The Company's Corporate Code of Conduct applies to the Company's Directors, senior executives and employees.</li> <li>b. The Company's Corporate Code of Conduct (which forms part of the Company's Corporate Governance Plan) is available on the Company's website.</li> </ul>

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## Corporate Governance Statement continued

Recommendations (3 <sup>rd</sup> Edition)	Comply	Explanation
<b>Principle 4: Safeguard integrity in financial reporting</b>		
<p><b>Recommendation 4.1</b></p> <p>The Board of a listed entity should:</p> <p>a. have an audit committee which:</p> <ol style="list-style-type: none"> <li>has at least three members, all of whom are non-executive Directors and a majority of whom are independent Directors; and</li> <li>is chaired by an independent Director, who is not the Chair of the Board, and disclose:</li> <li>the charter of the committee;</li> <li>the relevant qualifications and experience of the members of the committee; and</li> <li>in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> </ol> <p>b. if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its financial reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</p>	YES	<p>a. The Company does have an Audit and Risk Committee. The Company's Corporate Governance Plan contains an Audit and Risk Committee Charter that provides for the creation of an Audit and Risk Committee (if it is considered it will benefit the Company), with at least three members, all of whom must be independent Directors, and which must be chaired by an independent Director who is not the Chair.</p> <p>b. The Company does have an Audit and Risk Committee. The Audit and Risk Committee carries out duties under the Audit and Risk Committee Charter including the following processes to independently verify and safeguard the integrity of its financial reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner:</p> <ol style="list-style-type: none"> <li>the Board devotes time at annual Board meetings to fulfilling the roles and responsibilities associated with maintaining the Company's internal audit function and arrangements with external auditors; and</li> <li>all members of the Board are involved in the Company's audit function to ensure the proper maintenance of the entity and the integrity of all financial reporting.</li> </ol>
<p><b>Recommendation 4.2</b></p> <p>The Board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.</p>	YES	<p>The Company's Audit and Risk Committee Charter requires the CEO and CFO (or, if none, the person(s) fulfilling those functions) to provide a sign off on these terms.</p> <p>The Company intends to obtain a sign off on these terms for each of its financial statements in each financial year.</p>
<p><b>Recommendation 4.3</b></p> <p>A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.</p>	YES	<p>The Company's Corporate Governance Plan provides that the Board must ensure the Company's external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.</p>

Recommendations (3 <sup>Rd</sup> Edition)	Comply	Explanation
<b>Principle 5: Make timely and balanced disclosure</b>		
<b>Recommendation 5.1</b> A listed entity should: <ul style="list-style-type: none"> <li>a. have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and</li> <li>b. disclose that policy or a summary of it.</li> </ul>	YES	<ul style="list-style-type: none"> <li>a. The Board Charter provides details of the Company's disclosure policy. In addition, the Corporate Governance Plan details the Company's disclosure requirements as required by the ASX Listing Rules and other relevant legislation.</li> <li>b. The Corporate Governance Plan, which incorporates the Board Charter, is available on the Company website.</li> </ul>
<b>Principle 6: Respect the rights of security holders</b>		
<b>Recommendation 6.1</b> A listed entity should provide information about itself and its governance to investors via its website.	YES	Information about the Company and its governance is available in the Corporate Governance Plan which can be found on the Company's website.
<b>Recommendation 6.2</b> A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	YES	The Company has adopted a Shareholder Communications Strategy which aims to promote and facilitate effective two-way communication with investors. The Strategy outlines a range of ways in which information is communicated to shareholders and is available on the Company's website as part of the Company's Corporate Governance Plan.
<b>Recommendation 6.3</b> A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	YES	Shareholders are encouraged to participate at all general meetings and AGMs of the Company. Upon the despatch of any notice of meeting to Shareholders, the Company Secretary shall send out material stating that all Shareholders are encouraged to participate at the meeting.
<b>Recommendation 6.4</b> A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	YES	<p>The Shareholder Communication Strategy provides that security holders can register with the Company to receive email notifications when an announcement is made by the Company to the ASX, including the release of the Annual Report, half yearly reports and quarterly reports. Links are made available to the Company's website on which all information provided to the ASX is immediately posted.</p> <p>Shareholders queries should be referred to the Company Secretary at first instance.</p>

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## Corporate Governance Statement continued

Recommendations (3 <sup>rd</sup> Edition)	Comply	Explanation
<b>Principle 7: Recognise and manage risk</b>		
<p><b>Recommendation 7.1</b></p> <p>The Board of a listed entity should:</p> <ul style="list-style-type: none"> <li>a. have a committee or committees to oversee risk, each of which: <ul style="list-style-type: none"> <li>I. has at least three members, a majority of whom are independent Directors; and</li> <li>II. is chaired by an independent Director, and disclose:</li> <li>III. the charter of the committee;</li> <li>IV. the members of the committee; and</li> <li>V. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> </ul> </li> <li>b. if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the process it employs for overseeing the entity's risk management framework.</li> </ul>	YES	<ul style="list-style-type: none"> <li>a. The Company does have an Audit and Risk Committee. The Company's Corporate Governance Plan contains an Audit and Risk Committee Charter that provides for the creation of an Audit and Risk Committee (if it is considered it will benefit the Company), with at least three members, all of whom must be independent Directors, and which must be chaired by an independent Director who is not the Chair. A copy of the Corporate Governance Plan is available on the Company's website.</li> <li>b. The Company does have an Audit and Risk Committee. The Audit and Risk Committee carries out duties under the Audit and Risk Committee Charter, including the following processes to oversee the entity's risk management framework: <ul style="list-style-type: none"> <li>III. the Board devotes time at quarterly Board meetings to fulfilling the roles and responsibilities associated with overseeing risk and maintaining the entity's risk management framework and associated internal compliance and control procedures; and</li> <li>II. monitoring and reviewing any matters of significance affecting financial reporting and compliance, the integrity of the financial reporting of the Company, the Company's internal financial control system and risk management systems and the external audit function.</li> </ul> </li> </ul>
<p><b>Recommendation 7.2</b></p> <p>The Board or a committee of the Board should:</p> <ul style="list-style-type: none"> <li>a. review the entity's risk management framework with management at least annually to satisfy itself that it continues to be sound; and</li> <li>b. disclose in relation to each reporting period, whether such a review has taken place.</li> </ul>	YES	<ul style="list-style-type: none"> <li>a. The Audit and Risk Committee Charter requires that the Audit and Risk Committee (or, in its absence, the Board) should, at least annually, satisfy itself that the Company's risk management framework continues to be sound.</li> <li>b. The Company's Corporate Governance Plan requires the Company to disclose at least annually whether such a review of the company's risk management framework has taken place.</li> </ul>

Recommendations (3 <sup>Rd</sup> Edition)	Comply	Explanation
<b>Principle 7: Recognise and manage risk continued</b>		
<b>Recommendation 7.3</b> A listed entity should disclose: <ul style="list-style-type: none"> <li>a. if it has an internal audit function, how the function is structured and what role it performs; or</li> <li>b. if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.</li> </ul>	YES	<ul style="list-style-type: none"> <li>a. The Audit and Risk Committee Charter provides for the Audit and Risk Committee to monitor the need for an internal audit function.</li> <li>b. The Company does not have an internal audit function. <ul style="list-style-type: none"> <li>I. The Board will continually evaluate and assess risk management and internal control processes, as the Company is limited in scope and size for the foreseeable future, this process can be improved and expanded as the Company grows.</li> </ul> </li> </ul>
<b>Recommendation 7.4</b> A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	YES	<p>The Audit and Risk Committee Charter requires the Audit and Risk Committee (or, in its absence, the Board) to assist management determine whether the Company has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.</p> <p>The Company's Corporate Governance Plan requires the Company to disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks. The Company will disclose this information in its Annual Report and on its ASX website as part of its continuous disclosure obligations.</p>

*continued next page*

## Corporate Governance Statement continued

Recommendations (3 <sup>rd</sup> Edition)	Comply	Explanation
<b>Principle 8: Remunerate fairly and responsibly</b>		
<p><b>Recommendation 8.1</b></p> <p>The Board of a listed entity should:</p> <p>a. have a remuneration committee which:</p> <ol style="list-style-type: none"> <li>has at least three members, a majority of whom are independent Directors; and</li> <li>is chaired by an independent Director, and disclose:</li> <li>the charter of the committee;</li> <li>the members of the committee; and</li> <li>as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> </ol> <p>b. if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p>	YES	<p>a. The Company does not have a Remuneration Committee. The Company's Corporate Governance Plan contains a Remuneration Committee Charter that provides for the creation of a Remuneration Committee (if it is considered it will benefit the Company), with at least three members, a majority of whom must be independent Directors, and which must be chaired by an independent Director.</p> <p>b. The Company does not have a Remuneration Committee as the Board considers the Company will not currently benefit from its establishment. In accordance with the Company's Board Charter, the Board carries out the duties that would ordinarily be carried out by the Remuneration Committee under the Remuneration Committee Charter including the following processes to set the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive:</p> <ol style="list-style-type: none"> <li>the Board devotes time at the annual Board meeting to assess the level and composition of remuneration for Directors and senior executives.</li> </ol>
<p><b>Recommendation 8.2</b></p> <p>A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive Directors and the remuneration of executive Directors and other senior executives and ensure that the different roles and responsibilities of non-executive Directors compared to executive Directors and other senior executives are reflected in the level and composition of their remuneration.</p>	YES	<p>The Company's Corporate Governance Plan requires the Board to disclose its policies and practices regarding the remuneration of Directors and senior executives, which is disclosed on the Company's website.</p>
<p><b>Recommendation 8.3</b></p> <p>A listed entity which has an equity-based remuneration scheme should:</p> <p>a. have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and</p> <p>b. disclose that policy or a summary of it.</p>	YES	<p>a. The Company has an equity based remuneration scheme. The Company has a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme.</p> <p>A copy of the Company's Trading Policy will be provided on the Company's website through its Corporate Governance Plan.</p>







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