# Cynata Therapeutics Limited

**ACN 104 037 372**

## and its controlled entities

# Annual report for the financial year ended 30 June 2014

# Corporate directory

**Board of Directors**

| | |
|---|---|
| Dr Stewart Washer | Executive Chairman |
| Dr Ross Macdonald | Managing Director/Chief Executive Officer |
| Mr Howard Digby | Non-Executive Director |
| Mr Peter Webse | Non-Executive Director |

**Company Secretary**
Mr Peter Webse

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**Website**
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**Auditors**
Stantons International
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West Perth, Western Australia 6005

**Share Registry**
Security Transfer Registrars Pty Limited
770 Canning Highway
Applecross, Western Australia 6153
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**Stock Exchange**
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Level 40, Central Park
152-158 St Georges Terrace
Perth, Western Australia 6000

ASX Code: CYP

# Annual report for the financial year ended 30 June 2014

## Contents

# Directors' report

The directors of Cynata Therapeutics Limited, formerly Eco Quest Limited ("Cynata" or "the Company") and its controlled entities ("the Group") submit herewith the annual report of the Group for the financial year ended 30 June 2014. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

**Information about the directors**

The names and particulars of the directors of the Group during or since the end of the financial year are:

| **Name** | **Particulars** |
|---|---|
| Dr Stewart Washer<br>*BSc (Hons), PhD* | Executive Chairman, joined the Board in August 2013. Dr Washer has 21 years of CEO and Board experience in medical technology, biotech and agrifood companies. He is currently the Chairman of Orthocell Ltd (ASX: OCC) and Minomic International Ltd. Dr Washer was previously the CEO of Calzada Ltd (ASX: CZD), the founding CEO of Phylogica Ltd (ASX: PYC) and before this, he was CEO of Celentis and managed the commercialisation of intellectual property from AgResearch in New Zealand with 650 scientists and $130m revenues. He was also a founder of a NZ$120m New Zealand based life science fund and Venture Partner with the Swiss based Inventages Nestlé Fund. He is currently the Investment Director with Bioscience Managers. Dr Washer has held a number of Board positions in the past as the Chairman of iSonea Ltd (ASX: ISN), Resonance Health Ltd (ASX: RHT) and Hatchtech Pty Ltd, and as a Director of iCeutica Pty Ltd, Immuron Ltd (ASX: IMC) and AusBiotech Ltd. He was also a Senator with Murdoch University and is currently the Chairman of Firefly Health. |
| Dr Ross Macdonald<br>*PhD (Biochemistry), Grad Dip in Bus Admin* | Chief Executive Officer, joined the Board in August 2013. Dr Macdonald has over 20 years' experience and a track record of success in pharmaceutical and biotechnology businesses. His career history includes positions as Vice President of Business Development for Sinclair Pharmaceuticals Ltd, a UK-based specialty pharmaceuticals company and Vice President, Corporate Development for Stiefel Laboratories Inc, the largest independent dermatology company in the world and acquired by GlaxoSmithKline in 2009 for £2.25b. Dr Macdonald has also served as CEO of Living Cell Technologies Ltd, Vice President of Business Development of Connetics Corporation and Vice President of Research and Development of F H Faulding & Co Ltd. His other positions have included non-executive director roles at Telesso Technologies Ltd, iSonea Ltd, Hatchtech Pty Ltd and Relevare Pharmaceuticals Ltd. Dr Macdonald currently serves as a member of the Investment Committee of UniSeed Management Pty Ltd. |
| Mr Howard Digby<br>*B.Eng (Hons)* | Non Executive Director, joined the Board in May 2012. Mr Digby has over 24 year career in management in Australia and the Asia Pacific region, mostly in the information technology industry. He started out his career for IBM in Perth and Sydney before joining Adobe (NSDQ: ADBE), Gartner (NYSE: IT) and then serving as managing director for the Economist Group based in Hong Kong. He was Chairman of the Business Software Alliance, an industry lobby group and a board member of the British Chamber of Commerce Policy Unit. Mr Digby is currently the Chairman of Sun Biomedical Limited (ASX: SBN). |

| | |
|---|---|
| Mr Peter Webse *B.Bus, FGIA, FCIS, FCPA, MAICD* | Non Executive Director, joined the Board in May 2012. Mr Webse has over 23 years' company secretarial experience and is the managing director of Platinum Corporate Secretariat Pty Ltd, a company specialising in providing company secretarial, corporate governance and corporate advisory services. Mr Webse was a non-executive director of Blina Minerals NL (ASX: BDI). He is currently a non-executive director of Sun Biomedical Limited (ASX: SBN). |
| Mr Darren Olney-Fraser *Bsc, LLM* | Appointed to the Board as Acting Managing Director in October 2012 and appointed as Executive Chairman in May 2012. Mr Olney-Fraser resigned during the year. |

The above named directors held office during the whole of the financial year and since the end of the financial year except for:

- Dr Stewart Washer – appointed 1 August 2013
- Dr Ross Macdonald – appointed 1 August 2013
- Mr Darren Olney-Fraser – resigned 1 August 2013

### Directorships of other listed companies

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

| Name | Company | Period of directorship |
|---|---|---|
| Stewart Washer | iSonea Limited | 2012-2014 |
| | Immuron Limited | 2012-2013 |
| Ross Macdonald | iSonea Limited | 2012-2014 |
| | Telesso Technologies Limited | 2003-2013 |
| Howard Digby | Sun Biomedical Limited | Since 2012 |
| Peter Webse | Sun Biomedical Limited | Since 2012 |
| | Blina Minerals NL | 2012-2014 |
| Darren Olney-Fraser | Mariner Corporation Limited | Since 2010 |
| | Stanfield Funds Management Limited | Since 2009 |

### Directors' shareholdings

The following table sets out each director's relevant interest in shares, debentures and rights or options in shares or debentures of the Company or a related body corporate as at the date of this report:

| | Fully paid ordinary shares | Share options |
|---|---|---|
| **Directors** | **Number** | **Number** |
| Stewart Washer[1] | 154,856 | 2,500,000 |
| Ross Macdonald[1] | 8,500 | 2,500,000 |
| Howard Digby | 237,500 | 687,500 |
| Peter Webse | 107,500 | 102,500 |

[1] Appointed 1 August 2013. The number of options is on a post consolidation basis. On 27 September 2013, 50,000,000 options were issued to each of S Washer and R Macdonald respectively pursuant to shareholder approval granted at the General Meeting held on 27 September 2013. A 1:20 consolidation was approved and effected on 14 November 2013.

## Share options granted to directors and senior management

During and since the end of the financial year, an aggregate 5,200,000 share options (post consolidation) were granted to the following directors and senior management as part of their remuneration:

| Directors and senior management | Number of options granted | Issuing entity | Number of ordinary shares under option |
|---|---|---|---|
| Stewart Washer | 2,500,000 | Cynata Therapeutics Limited | 2,500,000 |
| Ross Macdonald | 2,500,000 | Cynata Therapeutics Limited | 2,500,000 |
| Kilian Kelly | 200,000 | Cynata Therapeutics Limited | 200,000 |

## Company Secretary

Mr Peter Webse has held the position of company secretary of Cynata Therapeutics Limited since April 2012. Peter is the Managing Director of Platinum Corporate Secretariat Pty Ltd, a company specialising in providing company secretarial, corporate governance and corporate advisory services. Peter acts as Company Secretary for a number of ASX listed resource and biotech companies.

## Dividends

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

## Shares under option or issued on exercise of options

Details of unissued shares or interests under option as at the date of this report are:

| Issuing entity | Grant date | Number of shares under option | Class of shares | Exercise price of option | Expiry date of options |
|---|---|---|---|---|---|
| Cynata Therapeutics Limited[1] | 8 May 2012 | 11,112,250 | Ordinary | $0.20 | 31 Dec 2014 |
| Cynata Therapeutics Limited[2] | 27 Nov 2012 | 500,000 | Ordinary | $0.40 | 09 Sept 2016 |
| Cynata Therapeutics Limited[3] | 27 Sept 2013 | 5,000,000 | Ordinary | $0.40 | 27 Sept 2018 |
| Cynata Therapeutics Limited[4] | 29 May 2014 | 200,000 | Ordinary | $0.40 | 30 Nov 2015 |
| Cynata Therapeutics Limited[5] | 29 May 2014 | 600,000 | Ordinary | $0.40 | 30 Nov 2015 |

[1] Listed options. The options are shown on a post consolidated basis. The options were consolidated on a 1 for 20 basis following shareholders' approval on 29 October 2013.
[2] Unlisted options issued to Mr Digby. The options are shown on a post consolidation basis (1 for 20). All the options have now vested (refer to the 2013 annual report for more information).
[3] 100,000,000 unlisted options (on a pre-consolidation basis) issued to Dr Macdonald and Dr Washer following shareholders' approval on 27 September 2013 and were subsequently consolidated on a 1 for 20 basis.
[4] Unlisted options issued to Dr Kelly on 29 May 2014 as part of his remuneration.
[5] Unlisted options issued to external advisers for the provision of corporate advisory services.

The holders of these options do not have the right, by virtue of the option, to participate in any share issue or interest issue of the Company or of any other body corporate or registered scheme.

There have been no options granted over unissued shares or interests of any controlled entity within the Group during or since the end of the reporting period.

Details of shares or interests issued during or since the end of the financial year as a result of exercise of an option are:

| Issuing entity | Number of shares issued | Class of shares | Amount paid for shares | Amount unpaid on shares |
|---|---|---|---|---|
| Cynata Therapeutics Limited | 475,000[1] | Ordinary | $0.20 | $nil |
| Cynata Therapeutics Limited | 825,000[1] | Ordinary | $0.20 | $nil |
| Cynata Therapeutics Limited | 950,000[1] | Ordinary | $0.20 | $nil |
| Cynata Therapeutics Limited | 500,000[1] | Ordinary | $0.20 | $nil |
| Cynata Therapeutics Limited | 589,042[1] | Ordinary | $0.20 | $nil |
| Cynata Therapeutics Limited | 2,451 | Ordinary | $0.20 | $nil |
| Cynata Therapeutics Limited | 50,000 | Ordinary | $0.20 | $nil |

[1] These figures are shown on a post consolidation basis (1 for 20).

## Indemnification of officers and auditors

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company (as named above), the company secretary, and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

## Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 9 board meetings were held.

| | Board of Directors | |
|---|---|---|
| Directors | Held | Attended |
| Stewart Washer | 8 | 8 |
| Ross Macdonald | 8 | 8 |
| Howard Digby | 8 | 8 |
| Peter Webse | 9 | 9 |
| Darren Olney-Fraser | 1 | 1 |

## Proceedings on behalf of the Company

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

## Non-audit services

The auditors did not perform any non-audit services during the financial year.

### Auditor's independence declaration

The auditor's independence declaration is included on page 17 after this report

# Operating and financial review

## Principal activities

Following shareholder approval in October 2013 of a change in nature and scale of the Company's activities pursuant to the acquisition of Cynata Inc. (as described more fully below), the Group's principal activities in the course of the remainder of the financial year were the development and commercialisation of a proprietary mesenchymal stem cell (MSC) technology for potential human therapeutic use, which the Company has branded Cymerus™. Cynata's Cymerus™ technology represents an important breakthrough in stem cell product research that facilitates large-scale manufacture of MSCs from a single donor and a single donation, comparing favourably to most other MSC technologies that require multiple donors and multiple donations. This has the potential to revolutionise commercial manufacture of MSC based therapeutic products.

## Operating results

The consolidated loss of the Group for the financial year, after providing for income tax, amounted to \$3,039,663 (2013: \$915,701). Further discussion on the Group's operations is provided below:

## Review of operations

**Overview**

During 2012, Eco Quest Limited, an Australian Securities Exchange (ASX) listed company, commenced dialogue with Cynata Inc, the licensee of certain stem cell technology owned by Wisconsin Alumni Research Foundation (WARF) with a view to investing in Cynata Inc to enable further development of the technology. Accordingly, during 2012, as announced to the ASX, Eco Quest Ltd purchased 18,750,000 shares in Cynata Inc for an investment of US\$750,000. On 12 July 2013, Eco Quest Ltd made a further investment into Cynata Inc. This investment of US\$250,000 was in consideration for the issue of 6,250,000 Cynata Inc shares to Eco Quest Ltd. At that time, Eco Quest Ltd held 33.2% of the issued capital of Cynata Inc.

Eco Quest Ltd announced on 12 July 2013 that it had also entered into a set of formal agreements (Option Agreements) under which Eco Quest Ltd acquired the right (but not the obligation), to acquire from shareholders in Cynata Inc all Cynata Inc's shares that the Company did not own, in consideration for, in aggregate, 10,000,001 Eco Quest Ltd shares after consolidating the issued capital of the Company on a 1 for 20 basis. On 24 September 2013, the Company announced the exercise of its options to acquire the Cynata Inc shares pursuant to the Option Agreements. Given that completion of the exercise of the Option Agreements would result in a significant change in the nature and scale of Eco Quest Ltd's activities, approval of its Shareholders was required. This occurred at its Annual General Meeting on 29 October 2013. Approval was also obtained to change the name of the Company from Eco Quest Ltd to Cynata Therapeutics Limited. At the same meeting, shareholders approved a capital raising of \$5,000,000 though the issue of 12,500,000 shares at \$0.40 per share, in respect of which a prospectus was issued on 14 October 2013.

Part of the transaction described above involved Eco Quest Ltd undertaking a suspension of trading on ASX and this occurred on 29 October 2013. In the weeks subsequent to the suspension, the management team undertook an aggressive investor relations campaign to highlight the outstanding stem cell technology licensed from WARF and its exciting therapeutic and commercial potential. Following successful completion of the capital raising and the acquisition of Cynata Inc, the company's securities resumed trading on the ASX on 29 November 2013 as Cynata Therapeutics Ltd under the ticker symbol CYP.

The transition from Eco Quest Ltd to Cynata Therapeutics Ltd involved a reshaping of the corporate identity, reflected in the Company's new website at www.cynata.com. The trade mark Cymerus™ has also been registered as a means of building brand identity in the Company's product technology.

The new management team of Dr Stewart Washer (Executive Chairman), Dr Ross Macdonald (Managing Director and Chief Executive Officer) and Dr Kilian Kelly (Vice President, Product Development, who commenced with the Company in March 2014), supported by the continued involvement of Dr Ian Dixon and Professor Igor Slukvin (the founders of Cynata Inc) ensures the Company is well placed to deliver on the expectations of stakeholders. It is expected that the management team will remain small, with external assistance being brought in as required. The Company continues to enjoy a consulting relationship with Dr Igor Slukvin. The product development activities described below will largely be conducted by external providers.

**Product Development**

During the 2013-14 year, the Company implemented and progressed plans to develop its unique Cymerus™ technology with a goal to commercialise therapeutic applications of stem cell based products deriving from it.

***Regulatory Review.*** In November 2013 the Company commissioned the international regulatory consultancy ERA to undertake a review of the regulatory landscape for stem cell-based therapeutics. Regulators in major jurisdictions worldwide, including the US FDA, are working to maintain abreast of developments in the stem cell field and the Company considers it vitally important to obtain as much clarity as possible before embarking on a product development program. From this review the Company identified the likely pre-clinical activities and chemistry, manufacturing and control (CMC) testing required to support an application to a regulatory agency and/or an institutional review body to approve a plan to conduct a Phase 1 clinical trial. These studies will also form part of further regulatory submissions, including an eventual application for marketing approval. Of particular relevance to the regulatory review is that the Cynata product (i) will be derived from an iPS cell and (ii) it will be allogeneic and as such the Company is seeking to ensure that the data package thoroughly addresses these and other features of our Cymerus™ product.

The Company is presently determining the most appropriate location/jurisdiction for the proposed Phase 1 clinical trial, giving consideration to likely approval times and duration, tax and other incentives, recruitment issues and overall regulatory hurdles. The target indication is presently graft-versus-host disease. This disease often follows a bone marrow transplant procedure and occurs when the immune cells in the donor material (the graft) attack the recipient's tissues (the host) as "foreign". Bone marrow transplants are used in the treatment of certain cancers including leukemia.

***Proof-of-Concept Studies.*** During 2013 Cynata Inc conducted a proof-of-concept study in which the efficacy of Cynata's proprietary Cymerus™ off-the-shelf stem cell product was clearly demonstrated in a mouse model of critical limb ischaemia (CLI), a condition that frequently arises as a complication of diabetes. The successful outcome of this study, together with a desire to add further supportive data to the pre-clinical data package, led to the Company entering into a collaborative arrangement with the University of Massachusetts – Amherst, through its UMass Innovation Institute, under the supervision of Assistant Professor Lisa M. Minter. Professor Minter will investigate, in a humanised rodent model established in her laboratory, the effects of Cynata's Cymerus™ mesenchymal stem cell (MSC) product in preventing and treating graft-versus-host disease (GvHD). The study commenced in March 2014 and is expected to conclude in early 2015.

***Manufacturing Process Development.*** An essential element in bringing the core technology to commercial therapeutic use is an ability to manufacture product at commercial scale. Fortunately, by producing human MSCs from iPSC-derived mesenchymoangioblasts (MCAs), this appears to be feasible. However, it is necessary to translate the lab-based processes to an industrial setting and so a key part of the Cymerus™ product development program is the development of a manufacturing process, ultimately to cGMP standard. This activity will also generate product (i.e. cells) for use in the pre-clinical and clinical development programs in the coming 1-2 years.

To this end, in February 2014 Cynata engaged Waisman Biomanufacturing in the USA to undertake, under contract, manufacturing process development with detailed and controlled documentation, and MSC product manufacture. With its proximity to the laboratories of Professor Slukvin, Waisman is very well placed to undertake this program. Waisman specialises in translating scientific discoveries for early stage clinical trials by developing manufacturing and quality control processes in conjunction with product development and regulatory support. Work has progressed well under this relationship and the Company expects adequate supply of Cymerus™ cells (MSCs) of suitable quality to be available for the formal pre-clinical and clinical programs as well as to supply the Company’s collaborators and commercial partners.

***Cymerus™ Product Characterisation**.* Once material has been generated pursuant to the manufacturing program described above, Cynata intends to undertake a range of testing procedures to characterise the product and demonstrate that it is potent, consistent and safe. The information so obtained will be used to prepare an application to conduct a Phase 1 clinical trial. In a transaction subsequent to the end of the 2013-14 financial year, the Company entered into a contract with an international contract research organisation to undertake this activity.

**Business Development**

Cynata intends to create shareholder value by developing an “off the shelf”, allogeneic (i.e. non donor-related), therapeutic stem cell platform, which will be further developed into specific cellular therapeutic products to treat a range of medically and economically important disease.

Until recently, the idea of using stem cells to “repair” the human body and modulate inflammatory processes seemed to be an optimistic expectation. However, the recent market approval of two stem cell based products and a range of stem cell products in mid- and late-stage clinical testing, has confirmed that stem cell regenerative medicine is becoming a reality. A number of important clinical successes, together with some inevitable disappointments, have helped further define and understand the parameters of stem cell therapy to ensure that it will become a new paradigm in human health. The potential impact is shown in the observation that, in the US, around $300 billion is spent annually on drugs that generally only *treat the symptoms* of disease or injury, while regenerative therapies could actually *cure* the condition. A further analysis of the commercial potential of stem cells provides an estimate of the value of the stem cells market to reach US$119billion in 2018.

The Company proposes to address two target markets for the Cymerus™ technology:

(a) development of specific therapeutics products using Cymerus™ stem cells; and
(b) licensing Cymerus™ stem cell manufacturing to other parties.

As noted above, the Company is presently targeting graft-versus-host disease for the first-in-man indication (Phase 1) clinical study of a Cymerus™ therapeutic product. MSCs have the ability to modulate a recipient's immune response: consequently, MSCs may be useful treatments for diseases resulting from an immune response, such as GvHD. Numerous clinical trials of MSCs as a GvHD treatment have been conducted, most with positive results.

Whilst the ultimate commercial potential of any Cymerus™ therapeutic product is a key driver, it is important also to consider, for a Phase 1 study, other factors such as the potential clinical outcomes of the target indication, current standard-of-care therapies, incidence, the likely duration of the study and recruitment potential. Thus, the Company may choose a target indication for a Phase 1 study that has a modest commercial potential but which provides clear and speedy endpoints and thereby facilitates a shorter path to potentially more commercially attractive indications. Graft-versus-host disease (GvHD) is one such potential target indication which is often clinically devastating but also relatively uncommon.

The Company's strategy for commercializing potential specific Cymerus™ therapeutic products is through the formation of development and commercialization partnerships. In parallel with the product development and regulatory activities, the Company continually assesses the optimal approach to commercializing specific therapeutic products with the goal to maximise value and potential return to all stakeholders. This involves ongoing evaluation and assessment of strategic issues, such as the costs and risks associated with development of Cymerus™ products, at what development stage partnering might occur, the resources and market access capabilities provided by potential partners and in which markets partnering could be appropriate.

To that end, the Company has engaged with potential commercial partners and in June 2014 announced a collaboration with Grey Innovation to develop potential treatments for lung disorders through enabling the direct delivery of Cymerus™ stem cells into the lung. The delivery of stem cells into the lung requires a specialised nebuliser system which delivers viable cells. This specialised nebuliser, called Respire, has been developed at Monash University and is being commercialised by a team from RMIT, Eastern Health, and Grey Innovation. The collaboration will apply the Respire nebuliser technology to test the delivery of Cymerus™ cells for future treatment of lung disorders. During the 2013-14 year the Company also progressed commercial discussions with other parties and will update the market as and when these are finalised into deals.

## Financial position

The net assets of the Group have increased by $8,211,789 from 30 June 2013 to $9,854,632 in 2014 (2013: $1,642,843). This increase is mainly due to the following factors:

- proceeds from a share placement via a prospectus raising $5,000,000 (before costs);
- proceeds from a Share Purchase Plan (SPP) raising $461,273 (before costs);
- proceeds from a share placement raising $300,000 (before costs);
- proceeds from the exercise of listed options raising approximately $678,299; and
- the recognition of the fair value attributable to interests in research and development of stem cells arising on the acquisition of US based Cynata Incorporation (*refer to note 13 for further information*).

The directors believe the Group is in a strong and stable financial position to expand and grow its current operations.

## Significant changes in state of affairs

The following significant changes in the state of affairs of the Company occurred during the financial year:

- On 7 August 2013, the Company raised $300,000 (before costs) via the issue of 30,000,000 ordinary shares at $0.01 per share (share placement).
- On 2 September 2013, the Company raised $461,273 (before costs) via the issue of 46,127,340 ordinary shares (Share Purchase Plan).
- During the months of August 2013 and October 2013, a total of 66,780,832 ordinary shares were issued at $0.01 as a result of the exercise of 66,780,832 listed options.
- On 24 September 2013, the Company exercised its options to acquire Cynata Inc shares pursuant to the Options Agreements announced on 12 July 2013. 10,000,001 shares (post consolidated basis) were issued for $0.40 for a non-cash consideration.
- On 14 November 2013, the Company consolidated its issued capital on a 1 for 20 basis.
- On 4 November 2013, the Company raised $5,000,000 (before costs) via the issue of 12,500,000 ordinary shares at $0.40 in accordance with a Prospectus dated 14 October 2013.
- During the months of December 2013 and January 2014, a total of 52,451 ordinary shares were issued at $0.20 as a result of the exercise of 52,451 listed options.

Changes in controlled entities

- On 12 July 2013, the Company made a further investment of US$250,000 into Cynata Inc. This investment was in consideration for the issue of 6,250,000 Cynata Inc shares to the Company. Upon completion of this investment, the Company gained a combined interest of 33% in Cynata Inc.
- On 24 September 2013, the Company exercised its option to acquire all remaining shares of Cynata Inc, increasing its interest from 33% to 100% (*refer to note 13 for further information*).

## Events after the reporting period

On 14 July 2014, the Company announced that it has signed an agreement with WuXi AppTec (NYSE: WX), a leading global biopharmaceutical contract research organisation, to conduct preclinical safety studies with the Company's unique Cymerus™ stem cell technology. The studies will be conducted at WuXi AppTec's GLP-compliant, FDA-registered facility in St Paul, Minnesota.

On 28 July 2014, the Company announced that it has signed an agreement with the University of Wisconsin – Madison, one of the world's leading stem cell centres, to develop a novel approach for preserving the Cymerus™ cell therapy products to enhance their shelf life and convenience. The development program will be overseen by internationally recognised pioneer of stem cell research and Cynata Incorporation's co-founder, Professor Igor Slukvin.

Other than the above, there has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or state of affairs of the Group in future financial years.

## Future developments, prospects and business strategies

The focus of the Company's activities during the 2014-15 year and beyond is to continue development of the Cymerus™ technology with a particular emphasis in the near term on completing the pre-clinical safety program, completing manufacturing process scale-up and validation and commencing the clinical (Phase 1) program. In parallel with this, the Company intends to continue its vigorous program of engagement and dialogue with potential commercial partners with a view to executing further value-accretive transactions.

## Environmental regulations

The Group's operations are not subject to significant environmental regulation under the Australian Commonwealth or State law.

# Remuneration report

This audited remuneration report sets out information about the remuneration of Cynata Therapeutics Limited's key management personnel for the financial year ended 30 June 2014. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group. The prescribed details for each person covered by this report are detailed below under the following headings:

- key management personnel
- remuneration policy
- relationship between the remuneration policy and Company performance
- remuneration of key management personnel
- key terms of employment contracts.

**Key management personnel**

The directors and other key management personnel of the Group during or since the end of the financial year were:

| Non-executive directors | Position |
|---|---|
| Mr Howard Digby | Non-executive director[1] |
| Mr Peter Webse | Non-executive director |

| Executive directors | Position |
|---|---|
| Dr Stewart Washer (appointed 1 August 2013) | Executive Chairman |
| Dr Ross Macdonald (appointed 1 August 2013) | Managing Director, Chief Executive Officer |
| Mr Darren Olney-Fraser (resigned 1 August 2013) | Executive Chairman |

| Other key management personnel | Position |
|---|---|
| Dr Kilian Kelly (appointed 1 March 2014) | Vice President, Product Development |

[1] Executive director from 10 September 2012 to 28 February 2014.

Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year.

**Remuneration policy**

Cynata's remuneration policy, which is set out below, is designed to promote superior performance and long term commitment to the Company.

As at the date of this report, the Company has two executives – the Chairman and the Chief Executive Officer, two non-executive directors and one Vice President, Product Development. As set out below, total remuneration costs for the 2014 financial year were $1,896,481, up from $323,328 for the previous financial year.

*Non-executive director remuneration*

Non-executive directors are remunerated by way of fees, in the form of cash, non-cash benefits, superannuation contributions or salary sacrifice into equity and do not normally participate in schemes designed for the remuneration of executives.

Shareholder approval must be obtained in relation to the overall limit set for the non-executive directors' fees. The maximum aggregate remuneration approved by shareholders for non-executive directors is $300,000 per annum. The directors set the individual non-executive director fees within the limit approved by shareholders.

*Executive director remuneration*

Executive directors receive a base remuneration which is market related, and may be entitled to performance based remuneration, which is determined on an annual basis.

Overall remuneration policies are subject to the discretion of the board and can be changed to reflect competitive and business conditions where it is in the interests of the Company and shareholders to do so. Executive remuneration and other terms of employment are reviewed annually by the board having regard to the performance, relevant comparative information and expert advice.

The board's remuneration policy reflects its obligation to align executive remuneration with shareholder interests and to retain appropriately qualified executive talent for the benefit of the Company. The main principles are:

(a) remuneration reflects the competitive market in which the Company operates;
(b) individual remuneration should be linked to performance criteria if appropriate; and
(c) executives should be rewarded for both financial and non-financial performance.

The total remuneration of executives consists of the following:

(a) salary – executives receive a fixed sum payable monthly in cash;
(b) cash at risk component – executives may participate in share and option schemes generally made in accordance with thresholds set in plans approved by shareholders if deemed appropriate. However, the board considers it appropriate to issue shares and options to executives outside of approved schemes in exceptional circumstances; and
(c) other benefits – executives may, if deemed appropriate by the board, be provided with a fully expensed mobile phone and other forms of remuneration.

The board has not formally engaged the services of a remuneration consultant to provide recommendations when setting the remuneration received by directors or other key management personnel during the financial year.

*Equity-settled compensation*

The fair value of the equity which executives and employees are granted is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

**Relationship between the remuneration policy and company performance**

The board considers that at this time, evaluation of the Group's financial performance using generally accepted measures such as profitability, total shareholder return or per company comparison are not relevant as the Group is at an early stage in the implementation of a corporate strategy that includes the identification and acquisition of new business opportunities as outlined in the directors' report.

The table below sets out summary information about the Group's earnings and movements in shareholder wealth for the five years to 30 June 2014:

| | 30 June 2014 $ | 30 June 2013 $ | 30 June 2012 $ | 30 June 2011 $ | 30 June 2010 $ |
|---|---|---|---|---|---|
| Revenue | 107,755 | 71,021 | 323,867 | 353,499 | 140,006 |
| Net loss before tax | 3,039,663 | 915,701 | 1,582,567 | 2,572,297 | 2,116,125 |
| Net loss after tax | 3,039,663 | 915,701 | 1,542,307 | 2,564,979 | 2,116,125 |
| Share price at start of year[1] | 0.20 | 0.20 | 0.60 | 1.80 | 1.00 |
| Share price at end of year[1] | 0.40 | 0.20 | 0.20 | 0.60 | 1.80 |
| Basic/diluted loss per share[1] | 6.76 | 3.80 | 16.2 | 50.4 | 55.0 |

[1] the prices are shown on a post consolidated (1 for 20) basis.

**Remuneration of key management personnel**

| 2014 | Short-term employee benefits | | Post-employment benefits | Share-based payment | | Value of options as proportion of remuneration |
|---|---|---|---|---|---|---|
| | Salary & fees $ | Other $ | Superannuation $ | Options $ | Total $ | |
| **Directors** | | | | | | |
| Stewart Washer[1] | 106,311 | - | 9,834 | 611,284 | 727,429 | 84.03% |
| Ross Macdonald[1] | 192,958 | - | 17,849 | 611,284 | 822,091 | 74.36% |
| Howard Digby | 85,431 | - | 7,902 | 58,555 | 151,888 | 38.56% |
| Peter Webse[2] | 37,333 | 73,000 | - | - | 110,333 | - |
| Darren Olney-Fraser[3] | 5,000 | - | - | - | 5,000 | - |
| **Other KMP** | | | | | | |
| Kilian Kelly[4] | 70,175 | - | 6,491 | 3,074 | 79,740 | 3.86% |
| **Total** | **497,208** | **73,000** | **42,076** | **1,284,197** | **1,896,481** | **67.77%** |

[1] Appointed 1 August 2013.

[2] The amount of $73,000 in 'Other' represents company secretarial fees of $4,000 per month and an amount of $25,000 for additional company secretary work outside the scope of the consultancy agreement with Platinum Corporate Secretariat Pty Ltd (Platinum). Mr Webse is the sole director of Platinum.

[3] Resigned 1 August 2013.

[4] Appointed 1 March 2014 as Vice President, Product Development.

| 2013 | Short-term employee benefits | | Post-employment benefits | Share-based payment | | Value of options as proportion of remuneration |
|---|---|---|---|---|---|---|
| | Salary & fees $ | Other $ | Superannuation $ | Options $ | Total $ | |
| **Directors** | | | | | | |
| Darren Olney-Fraser[1] | 60,000 | - | - | - | 60,000 | - |
| Howard Digby | 99,886 | - | 8,990 | 69,202 | 178,078 | 38.86% |
| Peter Webse[2] | 36,000 | 49,250 | - | - | 82,250 | - |
| Stewart Washer[3] | - | - | - | - | - | - |
| Ross Macdonald[3] | - | - | - | - | - | - |
| **Total** | **195,886** | **49,250** | **8,990** | **69,202** | **323,328** | **21.40%** |

[1] Mr Olney-Fraser's services were provided by Mariner Corporation Limited (Mariner). The amounts set out above were paid to Mariner. Mr Olney-Fraser resigned on 1 August 2013.

[2] The amount of $49,250 in 'Other' represents company secretarial fees of $4,000 per month and an amount of $1,250 for additional work performed outside the scope of the consultancy agreement with Platinum Corporate Secretariat Pty Ltd (Platinum). Mr Webse is the sole director of Platinum.

[3] Appointed 1 August 2013.

**Bonuses and share-based payments granted as compensation for the current financial year**

*Bonuses*
No bonuses were paid to key management personnel during the financial year (2013: $nil).

*Incentive share-based payments arrangements*
During the financial year, the following share-based payment arrangements were in existence:

| Option series | Grant date | Expiry date | Exercise price | Grant date fair value | Vesting date |
|---|---|---|---|---|---|
| 1 | 28 Mar 2011 | 30 Nov 2013 | $0.020[i] | $0.0181[i] | At date of grant |
| 2 | 27 Nov 2012 | 9 Sept 2016 | $0.020[i] | $0.0128[i] | 19 May 2014 |
| 3* | 27 Sept 2013 | 27 Sept 2018 | $0.020[i] | $0.0145[i] | 50% - at grant date |
| 4** | 29 May 2014 | 30 Nov 2015 | $0.400[ii] | $0.1844[ii] | 29 May 2015 |
| 5*** | 29 May 2014 | 30 Nov 2015 | $0.400[ii] | $0.1844[ii] | 1 Dec 2014 |

* Unlisted options issued to Drs Stewart Washer and Ross Macdonald. In accordance with the terms of the share-based arrangement, 50% of the options vest immediately at grant date, 30% vest if the volume weighted average share price over a period of 10 consecutive trading days is at least $0.04 ($0.80 post consolidation). The remaining 20% vest if the volume weighted average share price over a period of 10 consecutive days is at least $0.06 ($1.20 post consolidation).
** Unlisted options issued to Dr Kilian Kelly.
*** Unlisted options issued to external advisers.
[i] Pre consolidation option prices. The post consolidation prices are increased by a factor of twenty.
[ii] Post consolidated option prices.

There has been no alteration of the terms and conditions of the above share-based payment arrangements since the grant date.

Details of share-based payments granted as compensation to key management personnel during the current financial year:

| Granted as compensation during the financial year | | | | | | |
|---|---|---|---|---|---|---|
| Name | Option series | No. granted | No. vested | % of grant vested | % of grant forfeited | % of compensation for the year consisting of options |
| S Washer | 3 | 2,500,000[1] | 1,250,000 | 50% | nil | 84.03% |
| R Macdonald | 3 | 2,500,000[1] | 1,250,000 | 50% | nil | 74.36% |
| K Kelly | 4 | 200,000 | nil | nil | nil | 3.86% |

[1] post consolidated basis (1 for 20) figures.

The following table summarises the value of options to key management personnel granted, exercised or lapsed during the financial year, in relation to options granted to key management personnel as part of their remuneration:

| | Value of options granted at the grant date (1) $ | Value of options exercised at the exercised date $ | Value of options lapsed at the date of lapse $ |
|---|---|---|---|
| S Washer | 726,274 | - | - |
| R Macdonald | 726,274 | - | - |
| K Kelly | 36,885 | - | - |

[1] The value of the options granted during the year is recognised in compensation over the vesting period of the grant, in accordance with Australian Accounting Standards.

**Key terms of employment contracts**

On 1 August 2013, Dr Stewart Washer was appointed as Executive Chairman and his remuneration and other terms of appointment were formalised in an executive service agreement, the key terms and conditions of which are:

- Term of agreement – the earlier of 24 months expiring 31 July 2015 or until termination by the Company.
- Initial salary of $48,000 p.a which increased to $96,000 p.a upon achievement of $1 million from equity capital raisings and further increased to $150,000 p.a upon settlement of the Company's acquisition of US based Cynata Inc and reinstatement to trading after re-compliance with Chapters 1 and 2 of the ASX Listing Rules. The current salary is $150,000 p.a inclusive of statutory superannuation.
- The agreement may be terminated by either party by providing 6 months' notice.

On 1 August 2013, Dr Ross Macdonald was appointed as Managing Director/Chief Executive Officer and his remuneration and other terms of appointment were formalised in an executive service agreement, the key terms and conditions of which are:

- Term of agreement – the earlier of 24 months expiring 31 July 2015 or until termination by the Company.
- Initial salary of $60,000 p.a which increased to $120,000 p.a upon achievement of $1 million from equity capital raisings and further increased to $300,000 p.a upon settlement of the Company's acquisition of US based Cynata Inc and reinstatement to trading after re-compliance with Chapters 1 and 2 of the ASX Listing Rules. The current salary is $300,000 p.a inclusive of statutory superannuation.
- The agreement may be terminated by either party by providing 6 months' notice.

On 1 March 2014, Dr Kilian Kelly was appointed as Vice President, Product Development and his remuneration and other terms of appointment were formalised in an employment contract, the key terms and conditions of which are:

- A salary of $230,000 p.a inclusive of statutory superannuation.
- The right to participate in the Company's equity-based incentive scheme up to 10% of the annual salary and based on attainment of agreed performance indicators.
- The contract may be terminated by either party providing 3 months' notice after 3 month interim employment period.

On 1 March 2014, Mr Howard Digby reverted to a Non-Executive Director with a salary of $40,000 p.a inclusive of statutory superannuation. Mr Digby was previously paid a fee of $10,000 p.m inclusive of statutory superannuation for the provision of executive Director's services for the period 6 September 2012 to 28 February 2014. The agreement between Mr Digby and the Company is not subject to a fixed term.

Mr Peter Webse's services as Non-Executive Director and Company Secretary are provided through Platinum Corporate Secretariat Pty Ltd ("Platinum"). Platinum is paid a fee of $36,000 (exc. GST) p.a for the provision of Mr Webse's services as a Non-Executive Director (commenced 18 May 2012). On 1 March 2014, the fee was increased to $40,000 (exc. GST) p.a. A consultancy agreement was entered into with Platinum, commencing 3 April 2012, for the provision of company secretarial services at a fee of $4,000 (exc. GST) p.m plus additional services charged at a rate of $250 per hour as agreed from time to time. The agreement is subject to 2 months' notice of termination.

**Key management personnel equity holdings**

*Fully paid ordinary shares of Cynata Therapeutics Limited*

| 2014 | Balance at 1 July<br>No. | Balance after 1:20 consolidation (a)<br>No. | Granted as compensation<br>No. | Received on exercise of options<br>No. | Net other change<br>No. | Balance at 30 June<br>No. |
|---|---|---|---|---|---|---|
| S Washer[1] | - | - | - | - | 154,856 | 154,856 |
| R Macdonald[1] | - | - | - | - | 8,500 | 8,500 |
| H Digby | 3,750,000 | 187,500 | - | - | 50,000 | 237,500 |
| P Webse | 2,150,000 | 107,500 | - | - | - | 107,500 |
| D Olney-Fraser[2] | - | - | - | - | - | N/A |

[1] Appointed 1 August 2013

[2] Resigned 1 August 2013

(a) A 1 for 20 consolidation was effected on 14 November 2013

| 2013 | Balance at 1 July<br>No. | Granted as compensation<br>No. | Received on exercise of options<br>No. | Net other change<br>No. | Balance at 30 June<br>No. |
|---|---|---|---|---|---|
| D Olney-Fraser | - | - | - | - | - |
| H Digby | 3,750,000 | - | - | - | 3,750,000 |
| P Webse | 2,150,000 | - | - | - | 2,150,000 |

*Share options of Cynata Therapeutics Limited*

| 2014 | Balance at 1 July 2013<br>No. | Balance after 1:20 consolid-ation<br>No. | Granted as compens-ation<br>No. | Exerci-sed<br>No. | Net other change<br>No. | Balance at 30 June 2014<br>No. | Balance vested at 30 June 2014<br>No. | Vested and exercisable<br>No. | Options vested during year<br>No. |
|---|---|---|---|---|---|---|---|---|---|
| S Washer[1] | - | n/a | 2,500,000 | - | - | 2,500,000 | 1,250,000 | 1,250,000 | 1,250,000 |
| R Macdonald[1] | - | n/a | 2,500,000 | - | - | 2,500,000 | 1,250,000 | 1,250,000 | 1,250,000 |
| H Digby | 13,750,000 | 687,500 | - | - | - | 687,500 | 687,500 | 687,500 | 375,000 |
| P Webse[2] | 2,550,000 | 127,500 | - | - | (25,000) | 102,500 | 102,500 | 102,500 | - |
| K Kelly[3] | - | - | 200,000 | - | - | 200,000 | - | - | - |

[1] Dr Washer and Dr Macdonald were granted 50,000,000 unlisted options pre-consolidation (1:20) basis

[2] Amount in 'Net other change' represents options lapsed on 30 November 2013

[3] Appointed 1 March 2014

| 2013 | Balance at 1 July 2012<br>No. | Balance after 1:20 consolid-ation<br>No. | Granted as compens -ation<br>No. | Exerci-sed<br>No. | Net other change<br>No. | Balance at 30 June 2013<br>No. | Balance vested at 30 June 2013<br>No. | Vested and exercisable<br>No. | Options vested during year<br>No. |
|---|---|---|---|---|---|---|---|---|---|
| D Olney Fraser | - | n/a | - | - | - | - | - | - | - |
| H Digby[1] | 3,750,000 | n/a | - | - | 10,000,000 | 13,750,000 | 6,250,000 | 6,250,000 | 2,500,000 |
| P Webse | 2,550,000 | n/a | - | - | - | 2,550,000 | - | - | - |

[1] Unlisted options

All share options issued to key management personnel were made in accordance with the provisions of the employee share option plan.

No share options were exercised by key management personnel during the financial year (2013: nil). Further details of the employee share option plan and of share options granted during the 2014 and 2013 financial years are contained in note 19 to the financial statements.

This directors' report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the directors

Dr Ross Macdonald
**Managing Director**
Perth, 26 August 2014

Stantons International Audit and Consulting Pty Ltd
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26 August 2014

Board of Directors
Cynata Therapeutics Limited
PO Box 7165
Hawthorn North,
Victoria 3122

Dear Directors

**RE: CYNATA THERAPEUTICS LIMITED**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Cynata Therapeutics Limited.

As the Audit Director for the audit of the financial statements of Cynata Therapeutics Limited for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

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

Yours sincerely

**STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD**
**(Trading as Stantons International)**
**(An Authorised Audit Company)**

**Samir Tirodkar**
Director

Liability limited by a scheme approved
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Member of Russell Bedford International

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# INDEPENDENT AUDITOR'S REPORT
# TO THE MEMBERS OF
# CYNATA THERAPEUTICS LIMITED

## Report on the Financial Report

We have audited the accompanying financial report of Cynata Therapeutics Limited, which comprises the consolidated statement of financial position as at 30 June 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal controls as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 3.1, the directors also state, in accordance with Australian Accounting Standard AASB 101: *Presentation of Financial Statements,* that the financial statements comply with International Financial Reporting Standards.

*Auditor's responsibility*

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

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

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

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's opinion*

In our opinion:

(a) the financial report of Cynata Therapeutics Limited is in accordance with the *Corporations Act 2001*, including:

 (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

 (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001;* and

(b) the financial report of the Company also complies with International Financial Reporting Standards as disclosed in note 3.1.

**Report on the Remuneration Report**

We have audited the remuneration report included in pages 10 to 16 of the directors' report for the year ended 30 June 2014. 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.

*Auditor's opinion*

In our opinion the remuneration report of Cynata Therapeutics Limited for the year ended 30 June 2014 complies with section 300 A of the *Corporations Act 2001.*

**STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD**

**(Trading as Stantons International)**

**(An Authorised Audit Company)**

Stantons International

**Samir Tirodkar**
Director

West Perth, Western Australia
26 August 2014

# Directors' declaration

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 3 to the financial statements;

(c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group; and

(d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

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

On behalf of the directors

Dr Ross Macdonald
**Managing Director**
Perth, 26 August 2014

# Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2014

| | Note | Consolidated | Single entity |
|---|---|---|---|
| | | Year ended | |
| | | 30 June 2014 | 30 June 2013 |
| | | $ | $ |
| **Continuing operations** | | | |
| Revenue | 6 | - | 33,964 |
| Cost of sales | | - | (8,689) |
| Gross profit | | - | 25,275 |
| Other income | 7 | 107,755 | 37,057 |
| Share of loss of associate | | - | (103,618) |
| Product development costs | | (502,821) | (90,986) |
| Employee benefits expenses | 8 | (602,166) | (113,991) |
| Depreciation and amortisation | | (208) | - |
| Share based payment expenses | 8 | (1,302,639) | (69,202) |
| Borrowing costs | | - | (981) |
| Other expenses | 8 | (739,584) | (599,255) |
| **Loss before income tax** | | **(3,039,663)** | **(915,701)** |
| Income tax expense | 9 | - | - |
| **Loss for the year** | | **(3,039,663)** | **(915,701)** |
| **Other comprehensive income, net of income tax** | | | |
| **Items that will not be reclassified subsequently to profit or loss** | | - | - |
| **Items that may be reclassified subsequently to profit or loss** | | - | - |
| Exchange differences on translating foreign operations | | 5,291 | - |
| **Other comprehensive income for the year, net of income tax** | | **5,291** | **-** |
| **Total comprehensive loss for the year** | | **(3,034,372)** | **(915,701)** |
| **Loss for the year attributable to:** | | | |
| Owners of Cynata Therapeutics Limited | | **(3,039,663)** | **(915,701)** |
| **Total comprehensive loss for the year attributable:** | | | |
| Owners of Cynata Therapeutics Limited | | **(3,034,372)** | **(915,701)** |
| **Loss per share:** | | | |
| Basic and diluted (cents per share) | 10 | 6.76 | 3.80 |

Notes to the consolidated financial statements are included on pages 25 to 54.

# Consolidated statement of financial position as at 30 June 2014

| | Note | Consolidated 30 June 2014 $ | Single entity 30 June 2013 $ |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 22 | 5,094,582 | 1,116,587 |
| Trade and other receivables | 11 | 9,547 | 33,261 |
| **Total current assets** | | **5,104,129** | **1,149,848** |
| | | | |
| **Non-current assets** | | | |
| Investments in associates | 12 | - | 642,695 |
| Intangibles | 13 | 4,821,799 | - |
| Total non-current assets | | 4,821,799 | 642,695 |
| **Total assets** | | **9,925,928** | **1,792,543** |
| | | | |
| **Current liabilities** | | | |
| Trade and other payables | 14 | 53,907 | 51,078 |
| Provisions | 15 | 17,389 | 98,622 |
| **Total current liabilities** | | 71,296 | 149,700 |
| **Total liabilities** | | **71,296** | **149,700** |
| | | | |
| **Net assets** | | **9,854,632** | **1,642,843** |
| | | | |
| **Equity** | | | |
| Issued capital | 16 | 22,281,642 | 12,338,120 |
| Option reserves | 17 | 2,846,691 | 1,544,052 |
| Foreign currency translation reserve | | 5,291 | - |
| Accumulated losses | | (15,278,992) | (12,239,329) |
| **Total equity** | | **9,854,632** | **1,642,843** |

Notes to the consolidated financial statements are included on pages 25 to 54.

# Consolidated statement of changes in equity for the year ended 30 June 2014

| | Issued Capital $ | Option Reserve $ | Foreign currency translation reserve $ | Accumulated losses $ | Total $ |
|---|---|---|---|---|---|
| ***Single** entity* | | | | | |
| **Balance at 1 July 2012** | **10,913,811** | **1,263,570** | **-** | **(11,323,628)** | **853,753** |
| Loss for the year | - | - | | (915,701) | (915,701) |
| Other comprehensive income for the year, net of tax | - | - | - | - | - |
| **Total comprehensive loss for the year** | **-** | **-** | **-** | **(915,701)** | **(915,701)** |
| Issue of ordinary shares | 1,750,000 | - | - | - | 1,750,000 |
| Share issue costs | (325,691) | - | - | - | (325,691) |
| Share based payments | - | 280,482 | - | - | 280,482 |
| **Balance at 30 June 2013** | **12,338,120** | **1,544,052** | **-** | **(12,239,329)** | **1,642,843** |
| ***Consolidated*** | | | | | |
| **Balance at 1 July 2013** | **12,338,120** | **1,544,052** | **-** | **(12,239,329)** | **1,642,843** |
| Loss for the year | - | - | - | (3,039,663) | (3,039,663) |
| Other comprehensive income for the year, net of tax | - | - | 5,291 | - | 5,291 |
| **Total comprehensive loss for the year** | **-** | **-** | **5,291** | **(3,039,663)** | **(3,034,372)** |
| Issue of ordinary shares | 6,439,572 | - | - | - | 6,439,572 |
| Issue of ordinary shares related to business combination | 4,000,000 | - | - | - | 4,000,000 |
| Share issue costs | (496,050) | - | - | - | (496,050) |
| Share based payments | - | 1,302,639 | - | - | 1,302,639 |
| **Balance at 30 June 2014** | **22,281,642** | **2,846,691** | **5,291** | **(15,278,992)** | **9,854,632** |

Notes to the consolidated financial statements are included on pages 25 to 54.

# Consolidated statement of cash flows for the year ended 30 June 2014

| | Note | Consolidated | Single entity |
|---|---|---|---|
| | | Year ended | |
| | | 30 June 2014 | 30 June 2013 |
| | | $ | $ |
| **Cash flows from operating activities** | | | |
| Receipts from customers | | - | 44,964 |
| Payments to suppliers and employees | | (1,458,627) | (846,805) |
| Interest received | | 82,697 | 37,057 |
| Interest paid | | - | (981) |
| Research and development tax refund received | | 25,058 | - |
| Development costs paid | | (502,821) | - |
| Net cash used in operating activities | 22 | (1,853,693) | (765,765) |
| **Cash flows from investing activities** | | | |
| Cash acquired from acquisition of subsidiary | 13.3 | 159,469 | - |
| Payments for investments | | (271,303) | (746,313) |
| Net cash used in investing activities | | (111,834) | (746,313) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of equity instruments of the Company | | 6,439,572 | 1,750,000 |
| Payment for share issue costs | | (496,050) | (114,411) |
| Net cash provided by financing activities | | 5,943,522 | 1,635,589 |
| **Net increase in cash and cash equivalents** | | **3,977,995** | **123,511** |
| Cash and cash equivalents at the beginning of the year | | 1,116,587 | 993,076 |
| **Cash and cash equivalents at the end of the year** | 22 | **5,094,582** | **1,116,587** |

Notes to the consolidated financial statements are included on pages 25 to 54.

# Notes to the consolidated financial statements for the year ended 30 June 2014

## 1. General information

Cynata Therapeutics Limited ("the Company") is a listed public company incorporated in Australia. The addresses of its registered office and principal place of business are disclosed in the corporate directory to the annual report.

The principal activities of the Company and its controlled subsidiaries ("the Group") are described in the directors' report.

## 2. Application of new and revised Accounting Standards

### *2.1 New and revised AASBs affecting amounts reported and/or disclosed in the financial statements*

In the current year, the Group has applied a number of new and revised accounting standards issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2013.

| | |
|---|---|
| AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements' | This standard removes the individual key management personnel disclosure requirements in AASB 124 'Related Party Disclosures'. As a result, the Group only discloses the key management personnel management compensation in total and for each of the categories required in AASB 124.<br>In the current year, the individual key management personnel disclosure previously required by AASB 124 is now disclosed in the remuneration report due to an amendment to Corporations Regulations 2001 issued in June 2013. |
| AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards' | AASB 10 replaces the parts of AASB 127 'Consolidated 'and Separate Financial Statements' that deal with consolidated financial statements and Interpretation 112 'Consolidation – Special Purpose Entities'. AASB 10 changes the definition of control such that an investor controls an investee when a) it has power over an investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee, and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. |
| AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13' | The Group has applied AASB 13 for the first time in the current year. AASB 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of AASB 13 is broad; the fair value measurement requirements of AASB 13 apply to both financial instrument items and non-financial instrument items for which other AASBs require or permit fair value measurements and disclosures about fair value measurements, except for share based payment transactions that are within the scope of AASB 2 'Share-based Payment', leasing transactions that are within the scope of AASB 117 'Leases', and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes). |

*2.1 New and revised AASBs affecting amounts reported and/or disclosed in the financial statements (cont'd)*

| | |
|---|---|
| AASB 12 'Disclosure of Interests in Other Entities' | AASB 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of AASB 12 has resulted in more extensive disclosures in the consolidated financial statements. |

*2.2 Standards and Interpretations in issue not yet adopted*

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

| **Standard/Interpretation** | **Effective for annual reporting periods beginning on or after** | **Expected to be initially applied in the financial year ending** |
|---|---|---|
| AASB 9 'Financial Instruments', and the relevant amending standards[1] | 1 January 2017 | 30 June 2018 |
| AASB 1031 'Materiality' (2013) | 1 January 2017 | 30 June 2018 |
| AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities' | 1 January 2014 | 30 June 2015 |
| AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets' | 1 January 2014 | 30 June 2015 |
| AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting' | 1 January 2014 | 30 June 2015 |
| AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities' | 1 January 2014 | 30 June 2015 |
| AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments' | 1 January 2014 | 30 June 2015 |

[1] The AASB has issued the following versions of AASB 9 and the relevant amending standards;

- AASB 9 'Financial Instruments' (December 2009), AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9', AASB 2012-6 'Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures'
- AASB 9 'Financial Instruments' (December 2010), AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)', AASB 2012-6 'Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosure'.
- In December 2013 the AASB issued AASB 2013-9 'Amendment to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments', Part C – Financial Instruments. This amending standard has amended the mandatory effective date of AASB 9 to 1 January 2017. For annual reporting periods beginning before 1 January 2017, an entity may early adopt either AASB 9 (December 2009) or AASB 9 (December 2010) and the relevant amending standards.

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

| Standard/Interpretation | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|---|---|
| Narrow-scope amendments to IAS 19 Employee Benefits entitled Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) | 1 July 2014 | 30 June 2015 |
| Annual Improvements to IFRSs 2010-2012 Cycle | 1 July 2014 | 30 June 2015 |
| Annual Improvements to IFRSs 2011-2013 Cycle | 1 July 2014 | 30 June 2015 |
| IFRS 14 Regulatory Deferral Accounts | 1 January 2016 | 30 June 2017 |

The Company has not yet fully assessed the impact of the new Standards not yet adopted but does not expect a material impact on the financial statements.

## 3. Significant accounting policies

### *3.1 Statement of compliance*

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 26 August 2014.

### *3.2 Basis of preparation*

The consolidated financial statements have been prepared on the basis of historical cost, except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. All amounts are presented in Australian dollars, unless otherwise noted.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Group takes into account the characteristics of the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 2 or value in use in AASB 136.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

### *3.3 Basis of consolidation*

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

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

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

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

- the size of the Company's holdings of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and

any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

### *3.4 Business combinations*

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquire and the equity instruments issued by the Group in exchange for control of the acquire. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with AASB 112 'Income Taxes' and AASB 119 'Employee Benefits' respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 'Share-based Payment' at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the net fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another Standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with AASB 139, or AASB 137 'Provisions, Contingent Liabilities and Contingent Assets' as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquire is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

### *3.5 Goodwill*

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business (see 3.3 above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Groups' cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### *3.6 Investments in associates*

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with AASB 5. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of AASB 139 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with AASB 136 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with AASB 136 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with AASB 139. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate.

In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

### *3.7 Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

#### 3.7.1 Interest income

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

### *3.8 Leasing*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

3.8.1 The Group as a lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

3.8.2 The Group as a lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as liability. The aggregate benefit of incentives is recognised as a reduction of rental expenses on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### *3.9 Foreign currencies*

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Australian dollars ('$'), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Australian dollars using the exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

### *3.10 Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### *3.11 Employee benefits*

<u>Short-term and long-term employee benefits</u>

A liability is recognised for benefits accrued to employees in respect of wages and salaries and annual leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

### *3.12 Share-based payments arrangements*

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 19.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

### *3.13 Taxation*

Income tax expense represents the sum of the tax currently payable and deferred tax.

3.13.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

3.13.2 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3.13.3 Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

### *3.14 Intangible assets*

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

### *3.15 Impairment of tangible and intangible assets other than goodwill*

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair values less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### *3.16 Provisions*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### *3.17 Financial instruments*

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

### *3.17.1 Financial assets*

Financial assets are classified into the following specified categories: financial assets ‘at fair value through profit or loss’ (FVTPL), ‘held-to maturity’ investments, ‘available-for-sale’ (AFS) financial assets and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3.17.1.1 <u>Financial assets at FVTPL</u>

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and AASB 139 'Financial Instruments: Recognition and Measurement' permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item.

3.17.1.2 Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

3.17.1.3 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets that are carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial asset that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

3.17.1.4 Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

***3.17.2 Financial liabilities and equity instruments***

3.17.2.1 Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

3.17.2.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group of entity are recognised at the proceeds received, net of direct issue costs.

3.17.2.3 Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

3.17.2.4 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and AASB 139 'Financial Instruments: Recognition and Measurement' permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item.

3.17.2.5 Other financial liabilities

Other financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

3.17.2.6 Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### *3.18 Goods and services tax*

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. for receivables and payables which are recognised inclusive of GST.

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

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

### *3.19 Comparative amounts*

When current period balances have been classified differently within current period disclosures when compared to prior periods, comparative disclosures have been restated to ensure consistency of presentation between periods.

## 4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period on which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

***Key sources of estimation uncertainty***

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

At 30 June 2014, the carrying value of goodwill was $4,821,799 (2013: nil). The directors performed an impairment review and do not recommend an impairment.

## 5. Segment information

The Company operates in one business segment and one geographical segment, namely the development and commercialisation of therapeutic products in Australia only. AASB 8 'Operating Segments' states that similar operating segments can be aggregated to form one reportable segment. However, none of the operating segments currently meet any of the prescribed quantitative thresholds, and as such do not have to be reported separately. The Company has therefore decided to aggregate all its reporting segments into one reportable operating segment.

The revenue and results of this segment are those of the Group as a whole and are set out in the consolidated statement of profit or loss and other comprehensive income. The segment assets and liabilities are those of the Group and set out in the consolidated statement of financial position.

## 6. Revenue

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| Sale of goods and services | - | 33,964 |

## 7. Other income

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| **Continuing operations** | | |
| Interest revenue | 82,697 | 37,057 |
| Other income | 25,058 | - |
| | 107,755 | 37,057 |

## 8. Loss for the year

***Loss for the year has been arrived at after charging the following items of expenses:***

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| Employee benefits expenses | | |
| Consultancy fees | 45,256 | - |
| Wages and salaries | 500,880 | 99,886 |
| Superannuation expenses | 43,756 | 8,990 |
| Leave entitlements | 12,274 | 5,115 |
| Total employee benefits expenses | 602,166 | 113,991 |
| Share-based payment expenses | 1,302,639 | 69,202 |
| Other expenses | | |
| Rent | 6,326 | 10,978 |
| Share register fees | 26,010 | 11,393 |
| Director fees | 49,753 | 96,000 |
| Legal costs | 82,441 | 73,865 |
| Other administrative expenses | 575,054 | 407,019 |
| Total other expenses | 739,584 | 599,255 |

## 9. Income taxes relating to continuing operations

### *9.1 Income tax recognised in profit or loss*

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| Current tax | - | - |
| Deferred tax | - | - |
| | - | - |

The income tax expense for the year can be reconciled to the accounting loss as follows:

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| Loss before tax from continuing operations | (3,039,663) | (915,701) |
| Income tax expense calculated at 30% (2013: 30%) | (911,899) | (274,710) |
| Effect of expenses that are not deductible in determining taxable loss | 313,273 | 20,769 |
| Effect of unused tax losses not recognised as deferred tax assets | 598,626 | 253,941 |
| | - | - |

The tax rate used for the 2014 and 2013 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

### *9.2 Income tax recognised directly in equity*

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| ***Current tax*** | | |
| Share issue costs | - | - |
| ***Deferred tax*** | | |
| Arising on transactions with owners: | | |
| Share issue costs deductible over 5 years | - | - |
| | - | - |

## 9. Income taxes relating to continuing operations (cont'd)

### *9.3 Unrecognised deferred tax assets*

| | 2014 $ | 2013 $ |
|---|---|---|
| Unused tax losses (revenue) for which no deferred tax assets have been recognised | 3,655,242 | 3,056,616 |

All unused tax losses were incurred by Australian entities.

This benefit for tax losses will only be obtained if the specific entity carrying forward the tax losses derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, and the Company complies with the conditions for deductibility imposed by tax legislation.

## 10. Loss per share

| | 2014 cents per share | 2013 cents per share |
|---|---|---|
| Basic and diluted loss per share (cents per share) (i) | 6.76 | 3.8 |

(i) The basic and diluted loss per share for the 2013 year has been adjusted following a 1 for 20 consolidation on 14 November 2013.

### *10.1 Basic and diluted loss per share*

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

| | 2014 $ | 2013 $ |
|---|---|---|
| Loss for the year attributable to owners of the Company | (3,039,663) | (915,701) |

| | 2014 No. | 2013 No. |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic and diluted loss per share | 44,942,360 | 23,543,990[i] |

[i] The weighted average number of ordinary shares for 2013 has been adjusted by a factor of twenty as a result of the share consolidation of 1 for 20 on 14 November 2013.

## 11. Trade and other receivables

| | 2014 $ | 2013 $ |
|---|---|---|
| Deposits made | 3,568 | 14,366 |
| Other receivables | 5,979 | 18,895 |
| | 9,547 | 33,261 |

At the reporting date, none of the receivables were past due.

## 12. Investment in associates

| | 2014 $ | 2013 $ |
|---|---|---|
| Investment in Cynata Incorporated (i) | - | 746,313 |
| Share of loss of associate | - | (103,618) |
| | - | 642,695 |

(i) In December 2012, the Company took a 27% stake in privately held US company Cynata Inc. for a combined outlay of US$750,000 equivalent of AU$746,313. In accordance with AASB 128 Investments in Associates, the carrying amount of $642,695 was recorded after recognising the investor's share of loss of the investee. On 12 July 2013, the Company made an additional investment of US$250,000 equivalent of AU$271,303 in Cynata Inc. Upon completion of this investment, the Company gained a combined interest of 33% in Cynata Inc. On 24 September 2013, the Company exercised its option to acquire all remaining shares of Cynata Inc. (*Refer to note 13 for more information*).

## 13. Business combinations

### *13.1 Subsidiaries acquired*

| | Principal activity | Date of acquisition | Proportion of shares acquired | Consideration transferred (ii) |
|---|---|---|---|---|
| **2014** | | | (%) | $ |
| Cynata Incorporated (i) | Development of a therapeutic stem cell platform | 01/12/2013 | 100 | 5,017,616 |

(i) On 24 September 2013, the Company exercised its option to acquire all remaining shares in Cynata Incorporated, increasing its interest from 33% to 100%. The acquisition became effective as from 1 December 2013.
(ii) Refer to note 13.2 below.

### *13.2 Consideration transferred*

| | Cynata Incorporated $ |
|---|---|
| Cash (i) | 1,017,616 |
| Non-cash – issue of shares (ii) | 4,000,000 |
| | 5,017,616 |

(i) This represents a combined sum of US$1,000,000 transferred via three (3) stages to acquire 33% of Cynata Incorporated. On 17 September 2012, a payment of US$250,000 was made to acquire 11% of Cynata Incorporated (Stage 1). On 21 December 2012, a payment of US$500,000 was made via the subscription of 12,500,000 shares in Cynata Incorporated at US$0.04 per share to acquire a further 18% (Stage 2). On 12 July 2013, a payment of US$250,000 was made to bring the Company's stake in Cynata Incorporated to 33% (Stage 3). The payments made to acquire the 33% of Cynata Incorporated have been assessed to represent the fair value.

(ii) This represents the issue of 10,000,001 shares at $0.40 to acquire the remaining 67% of Cynata Incorporated.

The reason for the acquisition of Cynata Incorporated is detailed in the operating and financial review section of the annual report.

## 13. Business combinations (cont'd)

### 13.3 Assets acquired and liabilities assumed at the date of acquisition

| | Cynata Incorporated $ |
|---|---|
| **Current assets** | |
| Cash | 159,469 |
| Trade and other receivables | 2,429 |
| **Non-current assets** | |
| Plant and equipment | 208 |
| **Current liabilities** | |
| Trade and other payables | (93,252) |
| **Net assets** | 68,854 |

The fair values of assets acquired and liabilities assumed are approximated by the carrying value.

### 13.4 Fair value attributable to interests in research and development of stem cells arising on acquisition

| | Cynata Incorporated $ |
|---|---|
| Consideration transferred | 5,017,616 |
| Less: equity accounting adjustment | (126,963) |
| Less: fair value of identifiable net assets acquired | (68,854) |
| Fair value of R&D arising on acquisition | 4,821,799 |

The fair value attributable to interests in research and development of stem cells is due to, and in recognition of, the successful development activities and data generated by Cynata Incorporated as at the acquisition date, representing progress toward the eventual commercialisation of the relevant technology.

### 13.5 Net cash outflow on acquisition of subsidiaries

| | 2014 $ | 2013 $ |
|---|---|---|
| Consideration paid in cash | 1,017,616 | - |
| Less: cash and cash equivalent balances acquired | (159,469) | - |
| | 858,147 | - |

### 13.6 Impact of acquisition on the results of the Group

Loss of Cynata Incorporated and its wholly owned subsidiary Cynata Australia Pty Ltd included in the consolidated loss of the Group since the acquisition date amounted to $174,073.

Had the results of Cynata Incorporated and Cynata Australia Pty Ltd been consolidated from 1 July 2013, consolidated loss of the Group would have been $3,163,530 for the year ended 30 June 2014.

## 14. Trade and other payables

| | 2014 $ | 2013 $ |
|---|---|---|
| Trade payables | 34,882 | 13,988 |
| Accrued expenses | 19,025 | 37,090 |
| | 53,907 | 51,078 |

## 15. Provisions

| | 2014 $ | 2013 $ |
|---|---|---|
| Provisions (for creditors in dispute) (i) | - | 93,507 |
| Provisions for employee entitlements | 17,389 | 5,115 |
| | 17,389 | 98,622 |

(i) In the year ended 30 June 2013, the Company received claims from ex-directors and services providers of the Company totalling approximately $93,507 for services rendered and termination payments. The whole amount was settled at the beginning of the 2014 year.

## 16. Issued capital

| | 2014 $ | 2013 $ |
|---|---|---|
| 54,959,153 fully paid ordinary shares (30 June 2013: 505,223,461 before 1 for 20 consolidation) | 22,861,642 | 12,338,120 |

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

| **Fully paid ordinary shares** | **30 June 2014** | | **30 Jun 2013** | |
|---|---|---|---|---|
| | **No.** | **$** | **No.** | **$** |
| Balance at beginning of period | 505,223,461 | 12,338,120 | 405,223,461 | 10,913,811 |
| Share placement (i) | 30,000,000 | 300,000 | - | - |
| Exercise of share options (ii) | 55,000,000 | 550,000 | - | - |
| Share purchase plan (iii) | 45,749,030 | 457,490 | - | - |
| Exercise of share options (iv) | 11,780,832 | 117,809 | - | - |
| Share purchase plan (v) | 378,310 | 3,783 | - | - |
| Reduced after 1 for 20 share consolidation (vi) | (615,724,932) | - | - | - |
| Issue in business combination (vii) | 10,000,001 | 4,000,000 | - | - |
| Shares issued (viii) | 12,500,000 | 5,000,000 | - | - |
| Exercise of share options (ix) | 2,451 | 490 | - | - |
| Exercise of share options (x) | 50,000 | 10,000 | - | - |
| Shares issued | - | - | 100,000,000 | 1,750,000 |
| Share issue costs | - | (496,050) | - | (325,691) |
| | 54,959,153 | 22,281,642 | 505,223,461 | 12,338,120 |

(i) Share placement at $0.01 per share on 7 August 2013.
(ii) Exercise of listed options at $0.01 each during the month of August 2013.
(iii) Share Purchase plan at $0.01 per share on 2 September 2013.
(iv) Exercise of listed options at $0.01 each on 2 October 2013.
(v) Issue of 378,310 fully paid ordinary shares at $0.01 per share on 2 October 2013. These shares were rejected in error pursuant to the share purchase plan completed on 2 September 2013.
(vi) A 1 for 20 share consolidation was effected on 14 November 2013.
(vii) Shares issued for non-cash as consideration for the acquisition by the Company from the vendors of Cynata Inc. for the shares that the Company did not already own pursuant to the option agreement released to the ASX on 12 July 2013.
(viii) Issue of fully paid ordinary shares at $0.40 per share in accordance with the Prospectus dated 14 October 2013.
(ix) Exercise of listed options at $0.20 each on 17 December 2013.
(x) Exercise of listed options at $0.20 on 21 January 2014.

## 17. Reserves

| *Share-based payments* | 2014 $ | 2013 $ |
|---|---|---|
| Balance at beginning of year | 1,544,052 | 1,263,570 |
| Recognition of share-based payments (i) | 1,302,639 | 280,482 |
| | 2,846,691 | 1,544,052 |

(i) Further information about share-based payments is set out in note 19.

## 18. Financial instruments

### *18.1 Capital management*

The Group' objective when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid, return to capital to shareholders, issue new shares or sell assets to reduce debt.

Given the nature of the business, the Group monitors capital on the basis of current business operations and cash flow requirements. There were no changes in the Company's approach to capital management during the year.

### *18.2 Categories of financial instruments*

| **Financial assets** | 2014 $ | 2013 $ |
|---|---|---|
| Cash and cash equivalents | 5,094,582 | 1,116,587 |
| Trade and other receivables | 9,547 | 33,261 |
| | 5,104,129 | 1,149,848 |
| **Financial liabilities** | | |
| Trade and other payables | 53,907 | 13,988 |
| | 53,907 | 13,988 |

The fair value of the above financial instruments approximates their carrying values.

### *18.3 Financial risk management objectives*

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of those risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Group's risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the Group where such impacts may be material. The board receives monthly financial reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The overall objective of the board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

### 18.4 *Market risk*

Market risk for the Group arises from the use of interest bearing financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rate (see 18.5 below).

### 18.5 *Interest rate risk management*

Interest rate risk arises on cash and cash equivalents and receivables from related parties. The Group does not enter into any derivative instruments to mitigate this risk. As this is not considered a significant risk for the Group, no policies are in place to formally mitigate this risk.

*Interest rate sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end on the reporting period.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 30 June 2014 would increase/decrease by $50,946 (2013: $11,166)

### 18.6 *Foreign currency risk management*

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. At 30 June 2014, the Company has cash denominated in US dollars (US$1,000,000). The AUD equivalent at 30 June 2014 is $1,059,504. A 5% movement in foreign exchange rates would increase or decrease the Group's loss before tax by approximately $52,975.

### 18.7 *Credit risk management*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

### 18.8 *Liquidity risk management*

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity by maintaining adequate banking facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

**Contractual cash flows**

| | **Carrying Amount** | **Less than 1 month** | **1-3 months** | **3-12 months** | **1 year to 5 years** | **Total contractual cash flows** |
|---|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** | **$** |
| **2014** | | | | | | |
| Trade and other payables | 53,907 | - | 53,907 | - | - | 53,907 |
| **2013** | | | | | | |
| Trade and other payables | 13,988 | - | 13,988 | - | - | 13,988 |

## 19. Share-based payments

### *19.1 Employee share option plan*

Options may be issued to external consultants or non-related parties without shareholders' approval, where the annual 15% capacity pursuant to ASX Listing Rule 7.1 has not been exceeded. Options cannot be offered to a director or an associate except where approval is given by shareholders at a general meeting.

During the financial year, the Company issued a total of 100,000,000 unlisted options (on a pre-consolidation basis) to Dr Washer and Dr Macdonald, 200,000 unlisted options (on a post consolidation basis) to Dr Kelly and 600,000 unlisted options (on a post consolidated basis) to external advisers. Options issued as part of remuneration to directors and key management personnel are included in the remuneration report.

Each option converts into one ordinary share of Cynata Therapeutics Limited on exercise. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The following share-based payment arrangements were in existence at the reporting date:

| Option series | Number | Grant date | Grant date fair value $ | Exercise price $ | Expiry date | Vesting date |
|---|---|---|---|---|---|---|
| 1 | 500,000 | 27 Nov 2012 | 0.260 | 0.400 | 9 Sept 2016 | 25% - at grant date<br>25% - vested upon 12 months of continuous employment<br>25% - vested on 19 May 2014 upon 24 months continuous employment<br>25% - vested on 19 May 2014 upon 24 months of continuous employment |
| 2 | 5,000,000 | 27 Sept 2013 | 0.290 | 0.400 | 27 Sept 2018 | 50% - at grant date<br>30% - if VWAP over 10 consecutive dates is at least $0.80<br>20% - if VWAP over 10 consecutive days is at least $1.20 |
| 3 | 200,000 | 29 May 2014 | 0.184 | 0.400 | 30 Nov 2015 | 29 May 2015 |
| 4 | 600,000 | 29 May 2014 | 0.184 | 0.400 | 30 Nov 2015 | 1 Dec 2014 |

The number of options, grant date fair values and exercise prices in the table above are represented on a post consolidated (1 for 20) basis.

There has been no alterations to the terms and conditions of the above share-based payment arrangements other than the consolidation of 1 for 20 basis.

## 19. Share-based payments (cont'd)

### *19.2 Fair value of share options granted in the year*

Options were priced using the Black-Scholes pricing method. Expected volatility is based on the historical share price volatility over the past 12 months. The 1 for 20 consolidation has been taken into consideration while determining the share price volatility.

The weighted average fair value of options granted during the year (after considering the 1 for 20 consolidation) is $0.272 (2013: $0.011 – pre-consolidation).

Where relevant, the fair value of the options has been adjusted based on management's best estimate for the effects of non-transferability of the options.

***Inputs into the model***

| Input | Series 2[i] | Series 3 | Series 4 |
|---|---|---|---|
| Grant date share price | $0.420 | $0.355 | $0.355 |
| Exercise price | $0.400 | $0.400 | $0.400 |
| Expected volatility | 126% | 120% | 120% |
| Option life | 5 years | 1 year 187 days | 1 year 187 days |
| Dividend yield | n/a | n/a | n/a |
| Risk-free interest rate | 3.46% | 2.45% | 2.45% |

[i] The amounts are shown on a post consolidation basis. No discount was applied to 50% of the options; a discount of 40% was applied to the remaining 50%.

### *19.3 Movements in share options during the year*

The following reconciles the share options outstanding at the beginning and end of the year:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Number of options No. | Weighted average exercise price $ | Number of options No. | Weighted average exercise price $ |
| Balance at beginning of the year | 300,574,487 | 0.011 | 253,574,487 | 0.010 |
| Balance after 1:20 consolidation | 15,028,743 | 0.220 | n/a | n/a |
| Granted during the year | 5,800,000 | 0.400 | 50,000,000 | 0.012 |
| Forfeited during the year | - | - | - | - |
| Exercised during the year[i] | (3,391,493) | 0.200 | - | - |
| Expired during the year[ii] | (25,000) | 3.980 | (3,000,000) | 0.199 |
| Balance at end of year | **17,412,250** | **0.272** | **300,574,487** | **0.011** |
| Exercisable at end of year | **17,412,250** | **0.272** | **300,574,487** | **0.011** |

[i] Refer to note 19.4 below.
[ii] Amount is shown on a post consolidated (1 for 20) basis.

## 19. Share-based payments (cont'd)

### *19.4 Share options exercised during the year*

The following share options were exercised during the year (2013: nil):

| 2014 Options series | Number exercised | Exercise date | Share price at exercise date[i] |
|---|---|---|---|
| Listed | 475,000[i] | 16 August 2013 | $0.360 |
| Listed | 825,000[i] | 22 August 2013 | $0.340 |
| Listed | 950,000[i] | 28 August 2013 | $0.420 |
| Listed | 500,000[i] | 29 August 2013 | $0.380 |
| Listed | 589,042[i] | 2 October 2013 | $0.440 |
| Listed | 2,451 | 17 December 2013 | $0.400 |
| Listed | 50,000 | 21 January 2014 | $0.455 |

[i] These figures are shown on a post consolidation basis (1 for 20).

### *19.5 Share options outstanding at the end of the year*

The share options outstanding at the end of the year had a weighted average exercise price of $0.272 (2013: $0.220) and a weighted average remaining contractual life of 609 days (2013: 957 days).

## 20. Key management personnel

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

| | 2014 $ | 2013 $ |
|---|---|---|
| Short-term employee benefits | 570,208 | 245,136 |
| Post-employment benefits | 42,076 | 8,990 |
| Share-based payments | 1,284,197 | 69,202 |
| | 1,896,481 | 323,328 |

**Short-term employee benefits**

These amounts include fees paid to non-executive directors as well as salary and paid leave benefits awarded to executive directors. It also includes fees paid to entities controlled by the directors.

**Post-employment benefits**

These amounts are superannuation contributions made during the year.

**Share-based payments**

These amounts represent the expense related to the participation of KMP in equity-settled benefit schemes as measured by the fair value of the options granted on grant date.

Further information in relation to KMP remuneration can be found in the directors' report.

## 21. Related party transactions

### *21.1 Entities under the control of the Group*

The Group consists of the parent entity, Cynata Therapeutics Limited and its wholly-owned US-based subsidiary Cynata Incorporated, which in turn owns 100% of Cynata Australia Pty Ltd, the operating entity of Cynata Incorporated.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

### *21.2 Key management personnel*

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered key management personnel.

For details of disclosures relating to key management personnel, refer to the remuneration report contained in the directors' report and note 20.

### *21.3 Other related party transactions*

Mr Olney-Fraser's services were provided by Mariner Corporation Limited (Mariner). Mr Olney-Fraser is the Chief Executive Officer of Mariner. The amounts set in table in the remuneration report were paid to Mariner. Mr Olney-Fraser resigned as director of the Company on 1 August 2013.

Mr Webse's services are provided by Platinum Corporate Secretariat Pty Ltd (Platinum). Mr Webse is the sole director of Platinum. Company secretarial fee paid to Platinum is disclosed in the remuneration report.

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

## 22. Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| Cash and bank balances | 5,094,582 | 1,116,587 |

## 22 Cash and cash equivalents (cont'd)

### *22.1 Reconciliation of loss for the year to net cash flows from operating activities*

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| **Cash flow from operating activities** | | |
| Loss for the year | (3,039,663) | (915,701) |
| Adjustments for: | | |
| Share of loss of associate | 23,345 | 103,618 |
| Share-based payments | 1,302,639 | 69,202 |
| Depreciation and amortisation | 208 | - |
| Net liability assumed from acquisition of subsidiary | (90,823) | - |
| | | |
| Movements in working capital | | |
| Decrease/(increase) in trade and other receivables | 23,714 | (9,498) |
| Increase/(decrease) in payables | 2,829 | (6,235) |
| Increase/(decrease) in provisions – annual leave | 12,274 | (7,151) |
| Decrease in provisions – creditors in dispute | (93,507) | - |
| Difference arising from foreign exchange | 5,291 | - |
| **Net cash outflows from operating activities** | (1,853,693) | (765,765) |

The Company issued 10,000,001 shares at $0.40 for a non-cash consideration to acquire the remaining 67% of Cynata Incorporated (*refer to note 13 for more information*). Apart from this, there were no other non-cash financing or investing activities during the year.

## 23. Contingent liabilities and contingent assets

The contingent liabilities as disclosed in the annual report for the year ended 30 June 2013 amounting to $93,507 had been settled. There are no other contingent liabilities as at 30 June 2014.

## 24. Commitments for expenditure

The Group had the following commitments as at 30 June 2014:

***Wisconsin Alumni Research Foundation (WARF)***

Pursuant to a License Agreement with WARF, Cynata Incorporation (Cynata Inc.) is required to pay a license fee of US$60,000 in March 2015 (the final instalment of the $170,000 license fee). In addition to this, Cynata Inc. agreed to pay WARF a minimum annual royalty, starting in calendar year 2014, against which any earned royalty paid for the same calendar year will be credited. The annual royalty is US$50,000 per calendar year, payable by 31 December each year. The License Agreement with WARF also includes obligations for Cynata Inc to pay WARF certain fees upon attainment of product development milestones.

Futhermore, Cynata Inc. has agreed to reimburse WARF towards the costs incurred by WARF in filing, prosecuting and maintaining certain of the licensed patents and patent applications outlined in the License Agreement. If Cynata Inc. exercises its rights to sub-license certain rights under the License Agreement, it must pay US$10,000 to WARF and also 30% of any fees received by Cynata Inc. from such sub-licenses.

***Waisman Biomanufacturing***

The Company has a commitment of US$175,980 payable not later than 1 year (2013: nil). On 19 February 2014, the Company paid a 25% deposit (US$43,995). Subsequent to 19 February 2014, a total of US$76,045 was paid. The remaining commitment as at 30 June 2014 amounts to US$55,940.

## 24. Commitments for expenditure (cont'd)

***University of Massachusetts Amherst***

Pursuant to an agreement with the University of Massachusetts Amherst through the University of Massachusetts Innovation Institute, the Company has a commitment of up to US$14,307. Subsequent to 3 March 2014, a total of US$11,446 has been paid.

## 25. Remuneration of auditors

***Auditor of the Group***

| | 2014 $ | 2013 $ |
|---|---|---|
| Audit or review of the financial statements | 26,144 | 20,500 |
| | - | 4,366 |
| | 26,144 | 24,866 |

The auditor of the Group is Stantons International.

## 26. Events after the reporting period

On 14 July 2014, the Company announced that it had signed an agreement with WuXi AppTec (NYSE: WX), a leading global biopharmaceutical contract research organisation, to conduct preclinical safety studies with the Company's unique Cymerus™ stem cell technology. The studies will be conducted at WuXi AppTec's GLP-compliant, FDA-registered facility in St Paul, Minnesota.

On 28 July 2014, the Company announced that it has signed an agreement with the University of Wisconsin – Madison, one of the world's leading stem cell centres, to develop a novel approach for preserving the Cymerus™ cell therapy products to enhance their shelf life and convenience. The development program will be overseen by internationally recognised pioneer of stem cell research and Cynata Incorporation's co-founder, Professor Igor Slukvin.

## 27. Parent entity information

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to note 3 for a summary of significant accounting policies relating to the Group.

***Financial position***

| | 2014 $ | 2013 $ |
|---|---|---|
| **Assets** | | |
| Current assets | 5,103,630 | 1,149,848 |
| Non-current assets | 4,922,063 | 642,695 |
| Total assets | 10,025,693 | 1,792,543 |
| **Liabilities** | | |
| Current liabilities | 38,016 | 13,988 |
| Provisions | 17,389 | 135,712 |
| Total liabilities | 55,405 | 149,700 |
| **Equity** | | |
| Issued capital | 22,281,642 | 12,338,120 |
| Reserves | 2,846,691 | 1,544,052 |
| Accumulated losses | (15,158,045) | (12,239,329) |
| Total equity | 9,970,288 | 1,642,843 |
| ***Financial performance*** | | |
| Loss for the year | (2,918,716) | (915,701) |

## 27. Parent entity information (cont'd)

### Commitments and contingencies

There were no material commitments or contingencies at the reporting date for the parent company except for those mentioned in note 24 above.

## 28. Subsidiaries

Details of the Company's subsidiaries at the end of the reporting period are as follows:

| Name of subsidiary | Principal activity | Place of incorporation | Proportion of ownership interest and voting power held by the Group | |
|---|---|---|---|---|
| | | | 2014 | 2013 |
| Cynata Incorporated (i) | Holds licences with WARF for core IPs | USA | 100% | 27% |
| Cynata Australia Pty Ltd (ii) | Non-operating subsidiary from date of reconstruction | Australia | 100% | 27% |

(i) For more information regarding the acquisition Cynata Incorporated, refer to note 13.
(ii) Cynata Australia Pty Ltd is a wholly owned subsidiary of Cynata Incorporated.

## 29. Approval of financial statements

The financial statements were approved by the board of directors and authorised for issue on 26 August 2014.

# Corporate Governance Statement

The Board of Directors of Cynata Therapeutics Limited (the "Company") is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Company has adopted systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this report. Commensurate with the spirit of the ASX Guidelines, the Company has followed each Recommendation where the Board has considered the Recommendation to be appropriate. Where, after due consideration, the Company's corporate governance practices depart from the Recommendations, the Board has offered full disclosure of the nature of, and reason for, the adoption of its own practice.

The table below summarises the Company's compliance with the Corporate Governance Council's Recommendations during the reporting period.

| | **Recommendation** | **Comply Yes / No** | **Reference / Explanation** |
|---|---|---|---|
| 1.1 | Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions. | Yes | Page 56 |
| 1.2 | Companies should disclose the process for evaluating the performance of senior executives. | Yes | Page 61 |
| 2.1 | A majority of the Board should be independent directors. | No | Pages 57,63 |
| 2.2 | The chairperson should be an independent director. | No | Pages 57,63 |
| 2.3 | The roles of chairperson and chief executive officer should not be exercised by the same individual. | Yes | Pages 57,63 |
| 2.4 | The Board should establish a nomination committee. | No | Pages 58,63 |
| 2.5 | Disclose the process for evaluating the performance of the board, its committees and individual directors. | Yes | Page 61 |
| 3.1 | Establish a code of conduct and disclose the code or a summary of the code as to:<br>- the practices necessary to maintain confidence in the Company's integrity;<br>- the practices necessary to take into account legal obligations and the reasonable expectations of stakeholders;<br>- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | Yes | Page 59 |
| 3.2 | Establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include the requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them. | Yes | Page 59,63 |
| 3.3 | Disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them. | No | Pages 59,63 |
| 3.4 | Disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board. | Yes | Page 59 |
| 4.1 | The Board should establish an audit committee. | No | Pages 58,63 |
| 4.2 | The audit committee should be structure so that it:<br>- consists only of non-executive directors;<br>- consists of a majority of independent directors;<br>- is chaired by an independent chair, who is not chair of the Board;<br>- has at least three members. | No | Pages 58,63 |
| 4.3 | The audit committee should have a formal charter. | No | Pages 59,63 |
| 5.1 | Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies. | Yes | Page 59 |
| 6.1 | Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of that policy. | Yes | Page 60 |
| 7.1 | Establish policies for the oversight of risk and management of material business risks and disclose a summary of those policies. | Yes | Page 60 |
| 7.2 | The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks. | Yes | Page 60 |
| 7.3 | Disclose whether the Board has received assurance from the CEO (or equivalent) and Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | Yes | Page 60 |
| 8.1 | The Board should establish a remuneration committee. | No | Pages 58,63 |
| 8.2 | The remuneration committee should be structure so that it:<br>- consists of a majority of independent directors;<br>- is chaired by an independent chair;<br>- has at least 3 members. | No | Pages 58,63 |
| 8.3 | Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives. | Yes | Page 61 |

The Company's corporate governance practices were in place throughout the year ended 30 June 2014 unless stated otherwise.

Further information about the Company's corporate governance practices is set out on the Company's website at www.cynata.com. In accordance with the recommendations of the ASX, information published on the Company's website includes charters (for the Board and its sub-committees, if any), codes of conduct and other policies and procedures relating to the Board and its responsibilities.

## 1. Board of Directors

### *1.1 Role of the Board and Management*

The Board represents shareholders' interests in developing and then continuing a successful business, which seeks to optimise medium to long-term financial gains for shareholders. By not focusing on short-term gains for shareholders, the Board believes that this will ultimately result in the interests of all stakeholders being appropriately addressed when making business decisions.

The Board is responsible for ensuring that the Company is managed in such a way to best achieve this desired result. Given the early development stage of this business, the Board currently undertakes an active, not passive role.

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

The Board has sole responsibility for the following:

- Appointment, evaluation and, if necessary, removal of the Managing Director, any other executive directors, the Company Secretary and the Chief Financial Officer (if applicable) and approval of their remuneration;
- Determining, in conjunction with management, corporate strategy, objectives, operations, plans and approving and appropriately monitoring plans, new investments, major capital and operating expenditures, capital management, acquisitions, divestitures and major funding activities;
- Establishing appropriate levels of delegation to the Managing Director to allow the business to be managed efficiently;
- Approval of remuneration methodologies and systems;
- Monitoring actual performance against planned performance expectations and reviewing operating information at a requisite level to understand at all times the financial and operating conditions of the Company;
- Monitoring the performance of senior management, including the implementation of strategy and ensuring appropriate resources are available;
- Overseeing the management of business risks, safety, occupational health and environmental issues;
- Satisfying itself that the financial statements of the Company fairly and accurately set out the financial position and financial performance of the Company for the period under review;
- Satisfying itself that there are appropriate reporting systems and controls in place to assure the Board that proper operational, financial, compliance, risk management and internal control processes are in place and functioning appropriately;
- Assuring itself that appropriate audit arrangements are in place in relation to the Company's financial affairs;
- Authorising the issue of any shares, options, equity instruments or other securities within the constraints of the Corporations Act and the ASX Listing Rules; and
- Ensuring that the Company acts legally and responsibly on all matters and assuring itself that the Company has adopted, and that its practice is consistent with, a number of guidelines including:
  - Directors' Code of Conduct;
  - Corporate Code of Conduct;
  - Securities Trading Policy;
  - Performance Evaluation Policy;
  - Remuneration Policy;
  - Diversity Policy;
  - Shareholder Communications Policy;
  - Continuous Disclosure Policy; and
  - Risk Management Policy.

The Managing Director's responsibilities include the overall operational, business management and financial performance of the Company, whilst also managing the Company in accordance with the strategy, plans and policies approved by the Board to achieve agreed goals.

The Board's role and the Company's corporate governance practices are being continually reviewed and improved as the Company's business develops.

***1.2 Composition of the Board and New Appointments***

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

| | |
|---|---|
| Dr Stewart Washer | Executive Chairman (appointed 1 August 2013); |
| Dr Ross Macdonald | Managing Director (appointed 1 August 2013); |
| Mr Howard Digby | Non-Executive Director (appointed as Non-Executive Director 18 May 2012, appointed Executive Director 10 September 2012, reverted to Non-Executive Director 1 March 2014) |
| Mr Peter Webse | Non-Executive Director (appointed 18 May 2012) |
| Mr Darren Olney-Fraser | Executive Chairman (resigned 1 August 2013) |

The Directors' determine the size of the Board, with reference to the Company's Constitution and Board Charter, which provides that the number of Directors shall not be less than three and not more than seven. There is no requirement for any share holding qualification.

Information on the skills, experience and expertise relevant to the position of each Director who is in office at the date of the Annual Report and their term of office are detailed in the Directors' Report, together with details of the number of Board meetings held during the financial year and the attendance of the Directors at those meetings.

The Company currently has no independent Directors. Dr Stewart Washer and Dr Ross Macdonald, who were appointed on 1 August 2013, are not considered to be independent by virtue of their positions as Executive Chairman and Managing Director respectively. Mr Howard Digby, who is a Non-Executive Director, is not considered to be independent as he has previously been an Executive Director of the Company. Mr Peter Webse is a Non-Executive Director. However, the Board does not consider him to be independent due to his role as managing director of Platinum Corporate Secretariat Pty Ltd, which provides consulting company secretarial services to the Company. Mr Darren Olney-Fraser was not considered to be independent as he was Executive Chairman of the Company until his resignation on 1 August 2013. However, the Directors believe that the individuals on the Board can make, and do make, quality and independent judgments in the best interests of the Company on all relevant issues.

The Directors are satisfied that the structure of the Board is appropriate for the size of the Company, the nature of its operations and its current financial standing. The membership of the Board, its activities and composition is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the Board shall include quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the Company's scope of activities, intellectual ability to contribute to Board duties and ability to undertake Board duties and responsibilities.

Directors are initially appointed by the full Board subject to election by shareholders at the next annual general meeting. No member of the Board, other than the Managing Director, may serve for more than three years or past the third annual general meeting following their appointment, whichever is the longer, without being re-elected by the shareholders. Prior to the Board proposing re-election of Directors, their performance is evaluated by the Board to ensure that they continue to contribute effectively. Nominations for appointment to the Board are considered by the Board as a whole and with the objective to ensure that the Board comprises Directors with a mix of qualifications, experience and expertise which will assist it in fulfilling its responsibilities, as well as assisting the Company in achieving growth and delivering value to shareholders.

Subject to the requirements of the Corporations Act 2001, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a Director. The Managing Director may be appointed for any period and on any terms the Directors think fit and, subject to the terms of any agreement entered into, the Board may revoke any appointment.
The appointment of the Company Secretary is a matter for the Board.

The Company's Board Charter is available on its website.

### *1.3 Committees of the Board*

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of separate committees at this time including audit, remuneration or nomination committees, preferring at this stage to manage the Company through the full Board of Directors.

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

### *1.4 Conflicts of Interest*

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

### *1.5 Independent Professional Advice*

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

## 2. Ethical Standards

The Board acknowledges the need for continued maintenance of the highest standard of corporate governance practice and ethical conduct by all Directors and employees of the Company.

### *2.1 Directors' Code of Conduct*

The Board has adopted a Directors' Code of Conduct to promote ethical and responsible decision-making by the Directors. The code is based on a code of conduct for Directors prepared by the Australian Institute of Company Directors.

The principles of the code are:

- A Director must act honestly, in good faith and in the best interests of the Company as a whole.
- A Director has a duty to use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office.
- A Director must use the powers of office for a proper purpose and in the best interests of the Company as a whole.
- A Director must recognise that the primary responsibility is to the Company's shareholders as a whole but should, where appropriate, have regard for the interest of all stakeholders of the Company.
- A Director must not make improper use of information acquired as a Director.
- A Director must not take improper advantage of the position of Director.
- A Director must not allow personal interests, or the interests of any associated person, to conflict with the interests of the Company.
- A Director has an obligation to be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken by the Board.
- Confidential information received by a Director in the course of the exercise of directorial duties remains the property of the Company and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by the Company, or the person from whom the information is provided, or is required by law.
- A Director should not engage in conduct likely to bring discredit upon the Company.
- A Director has an obligation at all times, to comply with the spirit, as well as the letter of the law and with the principles of the Code.
- A Director has an obligation, at all times, to adhere to the policies of the Company.

The principles are supported by guidelines as set out by the Australian Institute of Company Directors for their interpretation. Directors are also obliged to comply with the Company's Corporate Code of Conduct, as outlined below.

The Company's Directors' Code of Conduct is available on its website.

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

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

An employee that breaches the Corporate Code of Conduct may face disciplinary action including, in the cases of serious breaches, dismissal. If an employee suspects that a breach of the Corporate Code of Conduct has occurred or will occur, he or she must report that breach to the Company Secretary. No employee will be disadvantaged or prejudiced if he or she reports in good faith a suspected breach. All reports will be acted upon and kept confidential.

The Company's Corporate Code of Conduct is available on its website.

### *2.3 Dealings in Company Securities*
The Company has adopted a Securities Trading Policy outlining when Directors, senior management and other employees may deal in the Company's securities and contains procedures to reduce the risk of insider trading

The Securities Trading Policy has been issued to the ASX and a copy is available on the Company's website.

### *3 Diversity Policy*
The Company has adopted a formal Diversity Policy and is committed to workplace diversity, with a particular focus on supporting the representation of women at the senior level of the Company and on the Company Board.

The Company is currently in an early stage of its development and given that it currently has a limited number of employees, the application of measurable objectives in relation to gender diversity, at various levels of the Company's business, is not considered to be appropriate nor practical.

The Board will review this position on an annual basis and will implement measurable objectives as and when they deem the Company to require them.

There were no women employees during the reporting period and no women on the Board.

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

## 4. Disclosure of Information
### *4.1 Continuous Disclosure to ASX*
The Company's Continuous Disclosure Policy sets out the obligations under the ASX Listing Rules and the Corporations Act for all Directors and employees in relation to continuous disclosure and the type of information that requires disclosure. The Policy also provides procedures for internal notification and external disclosure, as well as procedures for promoting understanding of compliance with the disclosure requirements and for monitoring compliance.

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

The Managing Director, in conjunction with the Board, is the person primarily responsible for ensuring that the Company complies with its continuous disclosure obligations. The Company Secretary is responsible for all communications with ASX.

The Company's Continuous Disclosure Policy is available on its website.

### *4.2 Communication with Shareholders*

The Company has a Shareholder Communications Policy which has been designed to promote effective communication with shareholders and encourage shareholder participation at annual general meetings.

The Company's Policy requires that shareholders are informed of all major developments that impact on the Company. The Managing Director has primary responsibility for communication with shareholders.

Information is communicated to shareholders through:

- distribution of the half-yearly and annual reports (in hardcopy when requested) via the Company's web site;
- ASX Quarterly Cash Flow Reports which are placed on the Company's web site;
- disclosures and announcements made to the ASX, which are placed on the Company's web site;
- notices and explanatory memoranda of Annual General Meetings and General Meetings;
- presentations at the Annual General Meeting/General Meetings; and
- the Company's web site www.cynata.com.

The Company's Shareholder Communications Policy is available on its website.

### 5. Risk Management

The Board is responsible for the oversight of the Company's risk management and control framework. Responsibility for control and risk management is delegated to the appropriate level of management within the Company with the Managing Director having ultimate responsibility to the Board for the risk management and control framework.

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

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

The Company's Managing Director and Chief Financial Officer (or equivalent) report annually in writing to the Board that:

- the financial statements of the Company present a true and fair view, in all material aspects, of the Company's financial condition and operating results and are in accordance with accounting standards;
- the above statement is founded on a sound system of risk management and internal control; and
- the risk management and internal control framework is operating effectively in all material respects in relation to financial reporting risks.

The Company's practice is to invite the auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Management has reported to the Board as to the Company's management of its material business risks.

A summary of the Company's policies on risk management is available on its website.

## 6. Remuneration and Performance

### *6.1 Board Performance and Remuneration*

The Board conducts an annual review of the role of the Board, assessing its performance over the previous 12 months and examining ways of assisting the Board in performing its duties more effectively.

The annual review includes consideration of the following measures:

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

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

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

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

There was an informal performance review of the Board conducted during the financial year.

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

The maximum aggregate remuneration approved by shareholders for Non-Executive Directors is $300,000 per annum. The Directors set the individual Non-Executive Directors fees within the limit approved by shareholders.

The total fees paid to Non-Executive Directors during the reporting period were $50,667.

### *6.2 Executive Performance and Remuneration*

The Board will annually review the performance of the Executive Chairman, the Managing Director and any other Executive Directors. At the commencement of each financial year, the Board and Executive Chairman will agree, where applicable, a set of generally Company specific performance measures to be used in the review of the forthcoming year.

These will include:

(a) financial measures of the Company's performance;
(b) the extent to which key operational goals and strategic objectives are achieved;
(c) development of management and staff;
(d) compliance with legal and Company policy requirements; and
(e) achievement of key performance indicators.

The Managing Director is responsible for assessing the performance of the senior executives, if any, within the Company which directly report to him. This is to be performed through a performance appraisal process and measured against key performance indicators (where applicable), including the business performance of the Company, and agreed at the beginning of each financial year.

There was an informal performance review of the Executive Chairman and the Executive Director conducted during the financial year.

The Company's remuneration policy is designed to promote superior performance and long term commitment to the Company. Executives and employees receive a base remuneration which is market related, and may be entitled to performance based remuneration which is determined on an annual basis.

Overall remuneration policies are subject to the discretion of the Board and can be changed to reflect competitive and business conditions where it is in the interests of the Company and shareholders to do so.

Executive remuneration and other terms of employment are reviewed annually by the Board having regard to the performance, relevant comparative information and expert advice.

The Board's remuneration policy reflects its obligation to align executive remuneration with shareholder interests and to retain appropriately qualified executive talent for the benefit of the Company. The main principles of the policy are:

- remuneration reflects the competitive market in which the Company operates;
- individual remuneration should be linked to performance criteria if appropriate; and
- executives should be rewarded for both financial and non-financial performance.

The total remuneration of executives consists of the following:

(a) salary – executives receive a fixed sum payable monthly in cash;

(b) cash at risk component – the executives are eligible to participate in a cash bonus plan if deemed appropriate;

(c) share and option at risk component – executives may participate in share and option schemes generally made in accordance with thresholds set in plans approved by shareholders if deemed appropriate. However, the Board considers it appropriate to retain flexibility to issue shares and options to executives outside of approved schemes in exceptional circumstances; and

(d) other benefits – executives may, if deemed appropriate by the Board, be provided with a fully expensed mobile phone and other forms of remuneration.

The Company's Performance and Remuneration Policies are available on its website.

## 7. Compliance with ASX Corporate Governance Recommendations

During the Company's 2014 financial year ("Reporting Period") the Company complied with the ASX Principles and Recommendations other than in relation to the matters specified below.

| Principle Ref | Recommendation Ref | Notification of Departure | Explanation for Departure |
|---|---|---|---|
| 2 | 2.1 | A majority of the Board are not independent Directors. | Given the present size and complexity of the Company, the composition of the Board is considered appropriate. The Board will consider the appointment of independent directors as the Company increases in size and complexity. |
| 2 | 2.2 | The chair is not an independent Director. | Given the present size and complexity of the Company, an independent chair has not been appointed. The Board will consider the appointment of an independent chair as the Company increases in size and complexity. |
| 2 | 2.3 | The roles of the chair and chief executive office were exercised by the same individual. | From 1 August 2013, the roles of chair and chief executive officer have not been exercised by the same individual with the Company having a separate Executive Chairman and Managing Director. Prior to that date the Company had one executive who also performed the role of Executive Chairman. |
| 2 & 8 | 2.4, 8.1, 8.2 | Nomination and Remuneration Committees have not been established. | The full Board carries out the functions associated with Nomination and Remuneration Committees. Due to the relatively small size of the Board, it considers that a separate Nomination and Remuneration Committees would not add efficiency to the process of determining the level of remuneration of Directors and key executives. |
| 3 | 3.2, 3.3 | The Diversity Policy does not include measurable objectives for achieving gender diversity. | The Board considers that due to the size of the Company, setting measurable diversity objectives is not appropriate. The Company has a limited number of employees and utilises external consultants and contractors as and when required. |
| 4 | 4.1, 4.2, 4.3 | A separate Audit Committee has not been established. | The Board considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify the formation of an audit committee. The Board as a whole considers those matters that would usually be the responsibility of an audit committee and considers that, at this stage, no efficiencies or other benefits would be gained by establishing a separate audit committee. |

# ASX Additional Information as at 30 September 2014

**Substantial Shareholders**

The Company does not have any substantial shareholders.

**Distribution of Ordinary Shares**

| Category | Number of Holders | Ordinary Shares | % of Issued Capital |
|---|---|---|---|
| 1 – 1,000 | 254 | 116,626 | 0.21 |
| 1,001 – 5,000 | 264 | 740,004 | 1.35 |
| 5,001 – 10,000 | 119 | 964,493 | 1.75 |
| 10,001 – 100,000 | 403 | 13,627,685 | 24.79 |
| 100,001 and over | 83 | 39,524,095 | 71.90 |
| | **1,123** | **54,972,903** | **100.00** |

**Distribution of Listed Options Shares (CYPO)**

| Category | Number of Holders | Ordinary Shares | % of Issued Capital |
|---|---|---|---|
| 1 – 1,000 | 55 | 22,259 | 0.20 |
| 1,001 – 5,000 | 30 | 80,321 | 0.72 |
| 5,001 – 10,000 | 18 | 129,667 | 1.17 |
| 10,001 – 100,000 | 54 | 2,537,430 | 22.86 |
| 100,001 and over | 25 | 8,328,823 | 75.05 |
| | **182** | **11,098,500** | **100.00** |

**Voting Rights**

(a) at meetings of members each member entitled to vote may vote in person or by proxy or attorney;
(b) on a show of hands each person present who is a member has one vote, and on a poll each person present in person or by proxy or by attorney has one vote for each ordinary share held; and
(c) no voting rights attach to the listed and unlisted options.

**Number of Holders of Unlisted Options**

5,000,000 unlisted $0.40 Options expiring 27/09/2018 held by 2 holders [(1)];

500,000 unlisted $0.40 Options expiring 09/09/2016 held by 1 holder [(2)]; and

800,000 unlisted $0.40 Options expiring 30/11/2015 held by 2 holders [(3)].

Unlisted Option Holders holding 20% or more:

[(1)] 2,500,000 Options held in the name of Mal Washer Nominees Pty Ltd (50%) and 2,500,000 Options held in the name of Mrs Sharon Anne Macdonald (50%).

[(2)] 500,000 Options held in the name of Mr Howard Digby (100%).

[(3)] 600,000 Options held in the name of Mrs Sara Gillian Cameron (75%) and 200,000 Options held in the name of Mrs Tamara Angela Kelly (25%).

**Shares and Options Escrowed**

There are 10,000,001 ordinary shares escrowed until 22 November 2015 and 500,000 unlisted $0.40 Options expiring 09/09/2015 and 5,500,000 unlisted $0.40 Options expiring 27/09/2018 escrowed until 29 November 2015.

**ASX Listing Rule 4.10.19**

The Group has used its cash and assets in a form readily convertible to cash that it had at the time of reinstatement of the Group's securities to quotation following compliance with Listing Rule 11.1.3 in a way consistent with its business objectives.

**On-Market Buy-Back**

There is no current on-market buy back.

**Unmarketable Parcels**

The number of shareholders holding less than a marketable parcel is 305.

**20 Largest Shareholders**

| Name | Number of Shares Held | % of Issued Capital |
|---|---|---|
| Ian Dixon | 2,383,317 | 4.34 |
| Igor Slukvin | 2,383,317 | 4.34 |
| Celtic Capital Pte Ltd <Trading 1 A/C> | 2,000,000 | 3.64 |
| J K Nominees Pty Ltd <JK Fund A/C> | 1,993,916 | 3.63 |
| Tisia Nominees Pty Ltd <Henderson Family A/C> | 1,975,000 | 3.59 |
| Allen Bollands | 1,787,488 | 3.25 |
| Roger Aston | 1,787,488 | 3.25 |
| Denlin Nominees Pty Ltd | 1,646,916 | 3.00 |
| Equitas Nominees Pty Limited <Group A A/C> | 1,425,500 | 2.59 |
| Webinvest Pty Ltd <OLSB Unit Trust> | 1,325,000 | 2.41 |
| Bannaby Investments Pty Ltd <Bannaby Super Fund A/C> | 1,293,916 | 2.35 |
| Maksym Vodyanyk | 1,191,658 | 2.17 |
| Intersuisse Nominees Pty Ltd <Cust A/C> | 1,181,257 | 2.15 |
| Ardroy Securities Pty Ltd <Cameron Investment Unit A/C> | 970,000 | 1.76 |
| Gregory M & L M Pinkus <Pinkus Fam S/F A/C> | 850,000 | 1.55 |
| Peter Barrett Capp <Capp Fam A/C> | 700,000 | 1.27 |
| Aviemore Capital Pty Ltd | 689,046 | 1.25 |
| Cabletime Pty Ltd <Ingodwe A/C> | 562,500 | 1.02 |
| ANZ Trustees Limited <The JO & JR Wicking A/C> | 495,000 | 0.90 |
| Grant Thomas Paterson <GTP Family A/C> | 493,916 | 0.90 |
| | **27,135,235** | **49.36** |

**20 Largest Listed Option Holders (ASX: CYPO)**

| Name | Number of Options Held | % of Listed Options |
|---|---|---|
| ELG Nominees Pty Ltd | 2,005,000 | 18.07 |
| John W King Nominees Pty Ltd | 1,000,000 | 9.01 |
| Celtic Capital Pte Ltd <Trading 1 A/C> | 650,000 | 5.86 |
| Pershing Nominees Pty Ltd <Settlement Account> | 479,941 | 4.32 |
| Equitas Nominees Pty Limited <Group A A/C> | 411,800 | 3.71 |
| Ardroy Securities Pty Ltd <Cameron Investment Unit A/C> | 400,000 | 3.60 |
| Emily Kate Muschol | 370,000 | 3.33 |
| Grant Thomas Paterson <GTP Family A/C> | 300,000 | 2.70 |
| Paul Craig Starkie | 275,000 | 2.48 |
| Robert W Waterhouse | 268,099 | 2.42 |
| Plane Sailing Trails Pty Ltd <PST Super A/C> | 200,000 | 1.80 |
| Dead Knick Pty Ltd | 200,000 | 1.80 |
| Mr Howard Andrew Digby | 187,500 | 1.69 |
| Tisia Nominees Pty Ltd <Henderson Family A/C> | 170,059 | 1.53 |
| Fiona Mary Chirnside | 160,000 | 1.44 |
| John Dahlsen Superannuation Fund Pty Ltd | 160,000 | 1.44 |
| Denlin Nominees Pty Ltd | 150,000 | 1.35 |
| Tempo Capital Pty Ltd <Tempo Growth Fund A/C> | 150,000 | 1.35 |
| Rickenbacker Capital Investments Pty Ltd | 150,000 | 1.35 |
| First Investment Partners Pty Ltd | 150,000 | 1.35 |
| Neut Pty Ltd | 150,000 | 1.35 |
| | **7.787.399** | **70.15** |