Cynata Therapeutics Limited

ACN 104 037 372

and its controlled entities

Annual report for the financial year ended

30 June 2018

Corporate directory

Board of Directors

Dr Paul Wotton	Non-Executive Chairman
Dr Ross Macdonald	Managing Director/Chief Executive Officer
Dr Stewart Washer	Non-Executive Director
Dr John Chiplin	Non-Executive Director
Mr Peter Webse	Non-Executive Director

Company Secretary

Mr Peter Webse

Registered and Principal Office

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Website

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Auditors

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West Perth, Western Australia 6005

Share Registry

Automic Registry Services
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Perth, Western Australia 6000

ASX Code

CYP

Annual report for the financial year ended 30 June 2018

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Chairman's Letter

Dear Shareholder,

Welcome to this year's Annual Report for the financial year ending 30 June 2018. This has been a momentous year for the business, with so many milestones and achievements including the very positive results so far from our first phase I clinical trial. These results provided us with a spring board to target further clinical trials in additional indications and to further advance the development of our CYP-001 drug for the treatment of graft-versus-host-disease (GvHD). It is also notable to acknowledge Cynata's leadership in the field as the first company in the world to conduct a clinical trial with an iPSC-derived allogeneic cell therapy product.

The results to date from our clinical trial are very promising: no treatment-related adverse safety events have been identified, and there are clear efficacy signals. Pleasingly, we saw an Overall Response[1] in 100% of patients at day 100 in the first cohort of patients (Cohort A) and 86% at day 28 in the second cohort (Cohort B). Even more exciting was that a Complete Response[2] was demonstrated in 50% of patients in Cohort A at 100 days and 57% in Cohort B at 28 days.

Looking ahead

The 100-day readout for Cohort B will be reached by early September and will mark the completion of the trial. Assuming the results continue the favourable pattern seen so far, we will look to Fujifilm to exercise the license option to CYP-001 for the treatment of GvHD. Should Fujifilm do so, Cynata will receive an upfront fee of US$3m, along with future milestones and royalties, and all future development and commercialisation costs will be borne by Fujifilm.

Following the positive data from the phase I clinical trial in GvHD, particularly the positive safety profile that emerged, we have considered the next steps in the development of the Cymerus™ technology. Perhaps most importantly, the positive safety data collected from this trial enables us to progress the technology platform directly to phase II trials in other indications. Following a thorough review, we have selected critical limb ischemia (CLI) as the next indication that we will advance to a clinical trial. In preclinical studies in CLI, Cymerus™ MSCs demonstrated improved blood flow and faster blood flow recovery compared to a saline placebo. Planning for a Phase II clinical program has now commenced.

Regenerative medicine market

The world's population is ageing. There were 962m people over 60 in 2017 and this is expected to reach 2.1bn by 2050 and 3.1bn by 2100. This has inevitably increased the demand for regenerative therapies, particularly for chronic diseases of the aged. Regenerative therapies will not only help treat older patients but are expected to relieve the burden on healthcare systems by keeping older patients healthier for longer.

There are over 2,500 regenerative medicine trials in progress and over 850 trials using MSCs and it is estimated that over USD500bn has been invested into the sector[3]. This has inevitably created a significant opportunity for regenerative medicine companies to capitalise on with new therapies that can restore and even cure life-threatening diseases.

No other company has the technology that we have that enables the creation of an unlimited amount of uniform MSCs from a single donor, in a single blood donation. Our proprietary Cymerus platform makes this possible, using as starting material induced pluripotent stem cells (iPSCs) that can be developed into virtually any cell in the human body. Our product is truly scalable, meaning our technology is consistent with

[1] An improvement in the severity of GvHD by at least one grade compared to baseline
[2] GvHD signs/symptoms completely resolved
[3] Source: Frost and Sullivan

the requirements for industrialisation of drug product manufacture. Our ability to overcome the inherent challenges in the manufacture of MSC-based cell therapies has the ability to rapidly advance the therapies available.

Strong set of data – paving the way for future clinical trials

We have strong preclinical data in a diverse range of diseases that provides us with a robust base from which to expand our product portfolio. This year we made advancements in pre-clinical studies using Cymerus™ MSCs in heart attack, asthma and diabetic ulcers. The studies are demonstrating positive results and highlighting the effectiveness of our MSCs. Our MSCs have demonstrated the potential to restore cardiac function after a heart attack. In asthma, a second study confirmed Cymerus MSCs produced a significantly greater reduction of airway hyperresponsiveness compared to corticosteroid treatment and combination therapy involving Cymerus MSCs and corticosteroids resulted in a pronounced synergistic effect, producing marked anti-inflammatory effects in addition to the benefits seen with Cymerus™ MSC treatment alone.

We also added new indications to the target portfolio, including coronary artery disease (CAD), sepsis, diabetic wounds, and for Cymerus™ MSCs to be used as part of the cancer treatment, CAR-T therapy, to ameliorate the effects of cytokine release syndrome (CRS) and other related adverse reactions to CAR-T.

Well positioned to drive product development

Whilst we are focusing our efforts on advancing two key priority targets (GvHD and CLI) we will continue to build on the body of preclinical data we have to further strengthen our proposition and appeal to potential development and licencing partners.

We have a supportive and key partner in Fujifilm and look forward to collaborating with them further in the ongoing development of CYP-001 for the treatment of the devastating disease, GvHD. We have been fortunate to work alongside Fujifilm and value their expertise, support and commitment to the regenerative medicine sector and to developing game-changing therapies that could change the way we use stem cells as a treatment.

The completion of our phase I trial marks a crucial moment in our Company's history and I would like to take this opportunity to thank our shareholders and partners for their support this year. I look forward to sharing in another year of milestones and achievements.

Yours sincerely

Dr Paul Wotton
Chairman

CEO Letter

Dear Shareholders,

It is with great pleasure that I welcome you to Cynata Therapeutics' Annual Report for the financial year 2018. This year saw Cynata successfully achieve a number of key milestones, including completion of our first clinical trial in GvHD, which has yielded very positive results so far, as well as the addition of new target disease indications to our growing portfolio.

We also welcomed institutional shareholder, Fidelity International, to the register. Fidelity invested $5.2m through a placement in May, which in addition to their on-market purchases, took their holding to 10% and saw them become the largest shareholder of the Company. We also have significant strategic support from Fujifilm, following their $4m investment in 2017. Our licence option agreement with Fujifilm is also set to deliver USD$3m in an upfront payment together with a further AUD60m in milestone and royalty payments, if exercised.

Clinical trial successes

This year, we completed patient enrolment in our world first clinical trial using induced pluripotent stem cells (iPSCs) derived from a single blood donation and then manufactured into mesenchymal stem cells (MSCs) using our proprietary Cymerus™ platform.

The trial was split into two patient groups; Cohort A and Cohort B. Cohort A received two infusions of CYP-001 and Cohort B received two infusions at twice the dose of Cohort A. We have now received the six-month follow up data from Cohort A. This data was extremely positive, with an overall survival rate of 87.5% (7 of the 8 patients) and no treatment related serious adverse events or safety concerns. The Complete Response rate was 50%, while the Overall Response was 100%.

Patients in Cohort B have reached the 28-day analysis point, with the positive efficacy and safety data seen in Cohort A continuing to be evident. Six of the seven patients showed an Overall Response and the symptoms were completely resolved in four of the seven patients. It was also evident that Cohort B elicited a faster response compared to Cohort A, which potentially is a result of the higher dose.

Completion of the trial will occur when the final patient reaches the 100-day analysis point. This will be around early September and we will then work with the trial sites and investigators to deliver a full comprehensive report.

Well positioned to continue to advance development of stem cell therapies

We are well positioned to continue to develop and advance stem cell therapies in new target indications. We are working with a number of key partners including Monash University, Critical Care Research Group, University of Sydney, Department of Neurosurgery at Brigham and Women's Hospital - Harvard Medical School, the CRC for Cell Therapy Manufacturing, University of New South Wales and the Royal College of Surgeons Ireland developing and advancing preclinical studies to deliver additional data to support further clinical trials.

So far, we have received positive data in studies in critical limb ischemia (CLI), asthma, heart attack, brain cancer and diabetic wounds and continue to advance studies in ARDS and coronary artery disease. CLI will be our next target indication that we will advance to clinical trials. According to an analysis conducted by Clearview Healthcare Partners, CLI represents an estimated USD1.4bn global market opportunity and we have a strong pre-clinical data set that supports our efforts in this area.

Furthermore, this year we also strengthened our intellectual property portfolio with a number of new patents and applications. The protection of our technology is of the upmost importance to us as it is our unique technology that provides us with the ability to manufacture MSC products at scale without recourse to multiple donors, which is a capability that does not exist elsewhere.

FY19 Outlook

This financial year will see us complete the phase I clinical trial as the final cohort of patients reach the 100-day analysis point.

This year we anticipate being able to commence new clinical trials. Due to the positive safety and efficacy data achieved in the phase I clinical trial, we will be able to look to advance directly to phase II clinical trials which we have begun planning for our next priority target indication (CLI), along with GvHD, which we would look to advance to phase II clinical trials in partnership with Fujifilm.

We will continue to build and deliver shareholder value by focusing on advancing the product pipeline and commercialisation opportunities and we will add further target indications where there is an opportunity. The partnership with Fujifilm is a major advancement towards commercialisation of the platform. However, this is for one indication only. We therefore continue to seek further commercial opportunities in our other targeted indications. We truly have a unique platform that has the potential to bring a scalable stem cell therapy to the market that can be productised in a similar fashion to a mass manufactured medication.

I'd once again like to thank shareholders for their continued support. I look forward to FY19 and to sharing further progress reports on the development and commercialisation of our Cymerus™ MSC products.

Yours Sincerely,

Dr Ross Macdonald
Chief Executive Officer

Directors' report

The directors of Cynata Therapeutics 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 2018. 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 Paul Wotton *MBA, PhD*	Chairman, joined the Board in June 2016. Dr Wotton is the Founding President and CEO of Sigilon Inc. and Board Member. He was previously President and CEO of Ocata Therapeutics Inc. (NASDAQ: OCAT) taking the company through a take-over by Astellas Pharma Inc., in a US$379 million all cash transaction. Prior to Ocata, Dr Wotton had served as President and CEO of Anteres Pharma Inc. (NASDAQ: ATRS) since October 2008. Prior to joining Antares, Dr Wotton was the CEO of Topigen Pharmaceuticals and prior to Topigen, he was the Global Head of Business Development of SkyePharma PLC. Dr Wotton has held senior level positions at Eurand International BV, Penwest Pharmaceuticals, Abbott Laboratories and Merck, Sharp and Dohme. Dr Wotton is a member of the board of and Governance Committee of Vericel Corporation, a US company developing autologous cellular therapies, a member of the board at Veloxis Pharmaceuticals A/S where he is Chairman of the Compensation Committee and also past Chairman of the Emerging Companies Advisory Board of BIOTEC Canada. Dr Wotton received his PhD in pharmaceutical sciences from the University of Nottingham and an MBA from Kingston Business School. In 2014, he was named New Jersey EY Entrepreneur of the Year in Life Sciences.
Dr Ross Macdonald *PhD (Biochemistry), Grad Dip in Bus Admin*	Chief Executive Officer, joined the Board in August 2013. Dr Macdonald has over 31 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 (now Sinclair IS Pharma plc), 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. Dr Macdonald currently serves as a member of the Investment Committee of UniSeed Management Pty Ltd.
Dr John Chiplin *BPharm, PhD, MRPharmS*	Non-Executive Director, joined the Board in November 2014. Dr. Chiplin is Managing Director, Newstar Ventures Ltd and has significant international experience in the life science and technology industries. Recent transactions that Dr. Chiplin has been instrumental in include US stemcell company Medistem (acquired by Intrexon), Arana Therapeutics (acquired by Cephalon) and Domantis (acquired by GSK).

	Dr Chiplin is also a director of Adalta Limited (ASX: 1AD), Batu Biologics Inc., ScienceMedia Inc and Scancell Holdings plc (LON: SCLP, Chairman) and Sienna Cancer Diagnostics (ASX: SDX). Dr Chiplin's Pharmacy and Doctoral degrees are from the University of Nottingham, UK.
Dr Stewart Washer *BSc (Hons), PhD*	Non-Executive Director, joined the Board in August 2013 and was Executive Chairman until 28 February 2017. Dr Washer has over 25 years of CEO and board experience in medical technology and biotech companies. He is currently the Chairman of Emerald Clinics Ltd and Orthocell Ltd (ASX: OCC) and Director with Zelda Therapeutics Limited (ASX: ZLD). Dr Washer was previously a Director of AusBiotech and a Senator with Murdoch University.
Mr Peter Webse *B.Bus, FGIA, FCIS, FCPA, MAICD*	Non-Executive Director, joined the Board in May 2012. Mr Webse has over 26 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 is currently a non-executive director of Omni Market Tide Limited (ASX: OMT).

The above-named directors held office during the whole of the financial year and since the end of the financial year.

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
Paul Wotton	Ocata Therapeutics Inc.	2014-2016
	Vericel Corporation	Since 2015
	Veloxis Pharmaceuticals A/S	Since 2016
Stewart Washer	Orthocell Limited	Since 2014
	Zelda Therapeutics Limited	Since 2016
John Chiplin	Benitec Biopharma Limited	Since 2010
	Adalta Limited	Since May 2014
	Sienna Cancer Diagnostics Limited	Since Jan 2016
Peter Webse	Omni Market Tide Limited	Since Nov 2017
	Dimerix Limited	2012-2015
	4DS Memory Limited	May to Dec 2015

Directors' shareholdings

The following table sets out each director's relevant interest in shares, 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**
Paul Wotton	55,000	2,200,000
Ross Macdonald	28,500	2,700,000
Stewart Washer	224,856	2,500,000
John Chiplin	50,000	200,000
Peter Webse	220,000	200,000

Remuneration of key management personnel

Information about the remuneration of key management personnel is set out in the remuneration report section of this directors' report. 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.

Share options granted to directors and senior management

During and since the end of the financial year, an aggregate 2,000,000 share options were granted to the following key management personnel:

Key management personnel	Number of options granted	Issuing entity	Number of ordinary shares held under option
Paul Wotton	2,000,000	Cynata Therapeutics Ltd	2,000,000

Company Secretary

Peter Webse *B.Bus, FGIA, FCIS, FCPA, MAICD*

Mr Webse held the position of company secretary of Cynata Therapeutics Limited at the end of the financial year. He joined Cynata in April 2012. Mr Webse 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 biotech and technology 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]	27 Sept 2013	5,000,000	Ordinary	$0.40	27 Sept 2018
Cynata Therapeutics Limited[2]	17 July 2015	2,798,653	Ordinary	$1.00	17 Jul 2020
Cynata Therapeutics Limited[3]	17 July 2015	118,333	Ordinary	$1.00	17 Jul 2020
Cynata Therapeutics Limited[4]	22 Feb 2016	300,000	Ordinary	$0.53	22 Feb 2019
Cynata Therapeutics Limited[5]	16 Nov 2016	800,000	Ordinary	$1.022	17 Nov 2019
Cynata Therapeutics Limited[6]	7 Aug 2017	100,000	Ordinary	$0.88	4 Aug 2020
Cynata Therapeutics Limited[7]	17 Nov 2017	2,000,000	Ordinary	$1.50	17 Nov 2019

[1] 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.
[2] Unlisted options (3,333,336) issued to institutional investors pursuant to a private placement on 17 July 2015. A total of 534,683 options were exercised during the months of March and April 2018.
[3] Unlisted options (333,333) issued to placement agent pursuant to the mandate for the private placement on 17 July 2015. A total of 100,000 options were exercised in May 2018 and 115,000 in July 2018.
[4] Unlisted options (600,000) issued to external advisers on 22 February 2016 pursuant to an advisory services agreement. 300,000 options were exercised on 28 February 2018.
[5] Unlisted options issued to Dr Macdonald, Dr Wotton, Dr Chiplin and Mr Webse (200,000 each) pursuant to an Employee Option Acquisition Plan approved at the Company's Annual General Meeting on 16 November 2016.
[6] Unlisted options (300,000) issued to a third party on 7 August 2017 for the provision of corporate advisory services. 200,000 options lapsed on 23 January 2018.
[7] Unlisted incentive options issued to Dr Wotton on 17 November 2017 pursuant to the terms of his appointment as non-executive chairman and as approved at the 2017 Annual General Meeting.

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 (2017: nil):

Issuing entity	Number of shares issued	Class of shares	Amount paid for shares	Amount unpaid on shares
Cynata Therapeutics Limited	300,000	Ordinary	$0.53	$nil
Cynata Therapeutics Limited	749,683[i]	Ordinary	$1.00	$nil
Cynata Therapeutics Limited	477,373[ii]	Ordinary	-	-

[i] 534,683 options were exercised by overseas institutional investors during the months of Mar and Apr 2018, 100,000 options were exercised by the USA placement agent in May 2018 and 115,000 options were exercised by the USA placement agent in July 2018.
[ii] cashless exercise of 750,000 unlisted 16 Dec 2018 options by Dr Kelly in accordance with the terms and conditions using the cashless exercise mechanism.

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, 13 board meetings were held.

	Board of Directors	
Directors	**Held**	**Attended**
Paul Wotton	13	13
Ross Macdonald	13	13
Stewart Washer	13	13
Peter Webse	13	13
John Chiplin	13	13

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

Auditor's independence declaration

The auditor's independence declaration is included on page 23 of this annual report.

Operating and financial review

Principal activities

The Group's principal activities in the course 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 the development of therapeutic stem cell products 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 accounting for an R&D refund of $1,328,685 (2017: $1,748,874) and providing for income tax, amounted to $4,566,134 (2017: $4,553,536). Further discussion on the Group's operations is provided below:

Review of operations

Key Highlights

- Outstanding safety and efficacy results were reported from the Company's first clinical trial in patients with graft-versus-host disease (GvHD). Patient recruitment and treatment concluded in May 2018 and analysis of the final data is ongoing.
- Following the clinical study in GvHD, the Company has developed a clear path to the next clinical indication beyond GvHD with a focus on cardiovascular diseases and specifically on critical limb ischaemia (CLI). Plans are being developed to commence a clinical program in this disease.
- Global asset manager Fidelity International became the Company's largest shareholder with the acquisition of AUD$5.19m in Cynata's shares through a placement at a premium to the prevailing share price. Fidelity invests A$414.5 billion across the world so it was very encouraging to see their confidence in Cynata. With the placement and on-market purchases, Fidelity now owns around 10% of Cynata's shares.
- Following the Company's successful pre-IND meeting with the US FDA in July 2017, an application to the FDA for Orphan Drug Designation for CYP-001 for the treatment of GvHD was successful, meaning CYP-001 is eligible for important commercial incentives.
- A pre-clinical study of Cynata's Cymerus™ MSCs in a rodent model of diabetic wounds was very successful and the findings are being considered as a basis for undertaking a clinical trial in patients with diabetic foot ulcers.
- Patent portfolio strengthened with two US Patents granted to cover key aspects of the Cymerus™ stem cell technology and with the filing of further patent applications describing unique aspects of the Company's technology, including potential use in association with CAR-T treatment in cancer.

Key Milestones Achieved in World's First Clinical Trial

This year, Cynata completed patient enrolment and dosing in its phase I clinical trial for the treatment of acute steroid resistant GvHD, following the commencement of the trial in May 2017. The Phase 1 trial was designed to include two patient groups, Cohort A and Cohort B.

Cohort A – successful interim analysis and positive data from analysis points

Eight patients with steroid-resistant acute GvHD were enrolled into Cohort A and received two infusions of CYP-001 administered one week apart. Each dose consisted of 1 million cells per kilogram of body weight (cells/kg), up to a maximum dose of 100 million cells. Upon completion of patient dosing of this Cohort A in January, data from the 28-day point was reviewed by the independent Data Safety and Monitoring Board (DSMB). That review concluded that there were no treatment-related serious adverse events or safety concerns, enabling progress to the second cohort of patients (Cohort B) with no modifications to the trial required.

The overall survival rate in Cohort A at day 100 was 87.5 percent, while the Overall Response (an improvement in the severity of GvHD by at least one grade compared to baseline) and Complete Response (GvHD signs/symptoms completely resolved) rates by day 100 were 100 percent and 50 percent, respectively. One patient in Cohort A died after developing pneumonia, which is common in recipients of bone marrow transplants and similar procedures and this death was not considered to be treatment related.

Data from the 6-month follow up assessment of Cohort A also showed positive safety and sustained overall survival rates. The 6-month assessment found that the overall survival in Cohort A remained at seven out of eight patients (87.5%).

Cohort B - improved results from increased dose

The second cohort of patients (Cohort B) completed enrolment during the year and data from the 28-day analysis showed similarly positive safety and efficacy data to Cohort A. At day 28 the Overall Response rate was 86% (six out of seven patients) and the Complete Response rate was 57% (four out of seven patients).

Eight patients with steroid-resistant acute GvHD were enrolled into Cohort B, as originally planned. Seven out of the eight patients were dosed with two infusions of CYP-001 administered one week apart. Each dose was two million cells per kilogram of body weight (cells/kg), up to a maximum dose of 200 million cells, which was twice the dose level received by patients in Cohort A. It was evident that the higher dose of CYP-001 administered in Cohort B elicited a faster response than the lower dose in Cohort A, as by Day 28, Cohort B had a Complete Response rate of 57%, compared to 12.5% in Cohort A.

The clinical investigator determined that one patient in Cohort B was no longer a suitable candidate for treatment, due to a medical complication that occurred shortly after enrolment but *prior* to treatment with CYP-001. This decision was consistent with pre-specified criteria outlined in the trial protocol and the patient will be excluded from safety and efficacy analyses, as they did not receive CYP-001 treatment.

A summary of the trial data to date is provided in the table below.

	Cohort A (at 28 days)	Cohort A (at 100 days)	Cohort B (at 28 days)
Safety	✓No safety issues / adverse reactions observed		
Complete response *Absence of GvHD*	✓12.5%	✓50%	✓57%
Partial response *Improvement by at least 1 GvHD grade*	✓75%	✓100%	✓86%
Overall survival[1]	✓87.5%	✓87.5%	✓100%

The advancements in the clinical trial are significant progress towards commercialisation milestones. The strategic partnership and licence option agreement with FUJIFILM is worth over $60 million in milestone payments and, should the option be exercised, Cynata will receive an upfront payment of US$3 million. The option may be exercised at any time during or up until 90 days after study report of the trial has been completed; the report will be compiled following the 100-day analysis point of Cohort B.

Regulatory Advances

Written advice received from the United States Food and Drug Administration (FDA) confirmed that the scope and substance of Cynata's "Chemistry, Manufacturing and Controls" (CMC) dossier is commensurate with its expectations, which indicates that Cymerus™ MSC products are expected to be of suitable quality for clinical trial use in the US. Cynata received clarification on the design of preclinical studies required to support a US IND (Investigational New Drug) application.

The FDA also provided advice regarding the protocol for a planned GvHD clinical trial in the US. Additionally, the FDA clarified that Cynata may submit a request for "Regenerative Medicine Advanced Therapy" (RMAT) designation for its CYP-001 product to treat GvHD once preliminary results of the world first clinical trial are available, assuming those results support such a request. RMAT designation is an initiative that arose from the 21st Century Cures Act, which recently came into law in the US. The initiative allows companies with RMAT designated products to avail of additional and earlier interactions with the FDA and to seek priority review and accelerated approval.

The FDA has also granted Orphan Drug Designation to Cynata's Lead Cymerus™ MSC Product, CYP-001 for the treatment of acute graft versus host disease (GvHD). Orphan Drug Designation means CYP-001 is eligible for important incentives, including an extended period of marketing exclusivity, tax credits and FDA fee waivers. An Orphan Drug is a therapeutic agent used for the prevention, diagnosis or treatment of a rare disease, which is defined as a disease or condition that affects fewer than 200,000 people in the USA.

Furthermore, a successful meeting between Cynata and Health Canada to discuss development of Cymerus™ MSCs as a therapeutic product took place. Health Canada agreed in principle that the unique Cymerus™ process, including donor screening and testing, the induced pluripotent stem cell (iPSC) derivation process and the manufacture and testing of the final product, meets its expectations for a product entering clinical trials. Cynata also received clarification from Health Canada on the design of preclinical studies required to support a Clinical Trial Application in Canada.

Phase 2 Ready Asset: Next Steps

Following the excellent progress and highly promising results from the GvHD trial, the Company has considered the focus of further clinical trials. Assuming Fujifilm exercises its license option for GvHD, future clinical trials for GvHD will be led by Fujifilm at their cost, so this and the fact that MSCs are being investigated in a wide range of clinical indications, led the Company to explore the most suitable next steps. The Company engaged the services of Boston-based healthcare consultancy, ClearView Healthcare Partners, to analyse the many potential clinical opportunities for MSCs and to advise the Company on the most suitable clinical targets having regard to (i) the scientific rationale, (ii) the clinical development path, and (iii) the potential commercial opportunity. The results of ClearView Healthcare Partners' analysis led Cynata to select cardiovascular disease as its highest priority indication area, with critical limb ischaemia (CLI) being the initial focus. Cardiovascular disease is the leading cause of premature death worldwide. CLI is a manifestation of cardiovascular disease, where patients are at substantial risk of severe disease consequences, including limb amputation and higher mortality rates. As such, the global commercial opportunity for MSC therapies in CLI, as estimated by ClearView Healthcare Partners, has the potential to reach US$1.4 billion per year. Plans are being developed to commence a Phase 2 clinical program in this disease.

Progress of Other Indications in the Product Pipeline

Cynata continues to make excellent advances in pre-clinical studies, with positive results showing the effectiveness of Cynata's MSCs in asthma, heart attack and CLI. The Company also expanded its product pipeline with additional new indications, including the investigation of Cymerus™ MSCs in pre-clinical models of a range of diseases including coronary artery disease (CAD), acute respiratory distress syndrome (ARDS) and diabetic wounds.

A collaboration with an Australian research consortium, the Cooperative Research Centre for Cell Therapy Manufacturing (CRC-CTM) has produced positive data demonstrating the efficacy of Cymerus™ MSCs in a preclinical model of diabetic wounds (also known as diabetic ulcers). Specifically, Cymerus™ MSCs resulted in significantly faster wound healing than bone marrow-derived MSCs. Diabetic wounds are prevalent among the 400m+ diabetics globally and a significant opportunity exists to improve existing treatments and meet a growing unmet medical need. Discussions between Cynata and CTM CRC are underway regarding progressing Cymerus™ MSCs and CTM CRC's wound-dressing technology into a clinical trial in human patients with diabetic foot ulcers.

Very exciting results were reported during the year in the area of CAR-T therapy, a very promising new approach to treating certain types of cancer. Here Cynata's MSCs were shown in a pre-clinical model to reduce the often-fatal adverse effects of CAR-T therapy and therefore potentially make it a more widely available treatment for cancer patients.

Partnerships and Licensing Agreements

The Company has a strategic partnership with the Japanese industry titan, Fujifilm, one of the most active companies in the regenerative medicine space. Fujifilm owns around 8.5% of Cynata and has a license option to CYP-001 for GvHD in a deal potentially worth in excess of $60m, plus royalty payments. Cynata signed a memorandum of understanding (MoU) with leading US biotechnology company, Celularity Inc., for the evaluation of and identification of commercial opportunities for the Cymerus™ platform and Celularity's cell therapy assets. Discussions with Celularity are ongoing. The Company's collaboration with the German company apceth GmbH & Co. KG pursuant to a license option agreement executed in May 2016 has been discontinued. A major change in strategic focus at apceth away from oncology resulted in apceth deciding to focus its endeavours elsewhere.

Patents

During the year, Cynata significantly strengthened its intellectual property with a number of new patents granted and applied for covering aspects of Cynata's proprietary Cymerus™ MSC technology.

The patents include:

- Two patents were granted by the U.S. Patent and Trademark Office (USPTO) entitled "A method of making primate cells expressing apelin receptor that have mesangioblast potential" and "Methods and materials for hematoendothelial differentiation of human pluripotent stem cells under defined conditions", covering certain proprietary methods relating to the platform's ability to efficiently manufacture MSCs at scale for therapeutic use.
- Notice of Allowance from European Patent Office was received for a patent application entitled "Generation of clonal mesenchymal progenitors and mesenchymal stem cell lines".
- A patent application was filed describing the therapeutic use of the Cymerus™ technology in the treatment of adverse reactions associated with chimeric antigen receptor T-cell (CAR-T) immunotherapy.

Funding Position Strengthened

In May of 2018, Cynata received a $5.2m investment by way of a placement of shares at a premium to the prevailing share price to Fidelity International, a global investment powerhouse investing around A$414 billion across the world. The investment from Fidelity International took its holding in Cynata to 10%, making them the largest shareholder on the register. The funds raised have strengthened Cynata's balance sheet and are being deployed to support the Company's continuing product development activities.

Outlook

Cynata has determined that it will progress a phase II clinical trial in CLI that leverages initial positive pre-clinical results and the positive safety and efficacy data from the Phase I clinical trial in GvHD. The development timeline is expected to be relatively rapid, with trials to last from one to two years and likely requiring 50 – 100 revascularisation-ineligible patients (those not eligible for the existing surgery required to treat CLI by restoring blood flow). Planning for the phase II program will commence in the second half of calendar year 2018.

The 100-day analysis point for the second cohort of patients in the phase I GvHD clinical trial is expected to occur in September. This will mark the completion of the phase I clinical trial and a full report and analysis will be compiled. The report will be provided to FUJIFILM and will trigger a 90-day deadline on exercising the license option. The Company is therefore looking forward to the outcome of FUJIFILM's decision. If FUJIFILM do not exercise their option, Cynata intends to progress the drug's development to phase II in the treatment of GvHD and will either seek an alternative development partner or progress independently. Should FUJIFILM opt to exercise their licence option, both parties are expected to progress towards a phase II clinical trial and the exercise of the option will see Cynata receive an initial USD3m in licence fees from FUJIFILM.

Cynata's platform has broad therapeutic application across a range of diseases and the Company will continue to drive its investigative studies in existing and potential new target indications. It has a robust portfolio of potential disease target indications and will continue to investigate ways to leverage these strong assets through a vigorous program of potential partner engagement.

The Company received a A$1.33m Tax Incentive Refund for the 2017/2018 financial year and closed the half year period with $12.2m cash and has an operating runway into late 2019, based on current projections.

Financial position

The net assets of the Group have increased by $1,522,266 to $15,386,862 in 2018 (2017: $13,864,596). This increase is mainly due to an increase in cash and cash equivalents resulting from a capital raising of $5,194,758 (before costs) and numerous exercises of options totalling $793,683.

Changes in state of affairs

There was no significant change in the state of affairs of the Group during the financial year.

Subsequent events

On 2 July 2018, the Company announced that it had commenced a development partnership with Royal College of Surgeons in Ireland (RCSI) to focus on demonstrating the therapeutic potential of Cynata's Cymerus™ mesenchymal stem cells to treat sepsis.

On 6 July and 16 July 2018, the Company issued 60,000 and 55,000 fully paid ordinary shares respectively following the exercise of unlisted 17 July 2020 options.

On 11 July 2018, the Company issued 477,373 fully paid ordinary shares following a cashless exercise of 750,000 unlisted 16 December 2018 options at a calculated value of $643,499.

On 31 July 2018, Cynata announced positive efficacy data from a study of its Cymerus™ MSCs in a preclinical heart attack model. Cymerus™ MSC treatment improved recovery of cardiac function post heart attack compared to either placebo or bone marrow-derived MSCs (BM-MSCs). Cymerus™ MSC treatment also reduced left ventricular end-systollic diameter (LVESD) compared to either placebo or BM-MSCs. LVESD reduction is associated with lower risk of further cardiac events.

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

Cynata is well positioned in the regenerative medicine space, with its proprietary therapeutic stem cell platform technology Cymerus™ and is well diversified across a number of key target disease areas.

Strong progress has been delivered for the Company's lead therapeutic product candidate, CYP-001, which has recently completed patient recruitment and dosing in a Phase 1 clinical trial for GvHD. Initial data shows that CYP-001 was well tolerated and had a clear beneficial effect in this devastating disease.

Cynata continues to work closely with its strategic partner FUJIFILM and other leading investigative institutions for the ongoing development and research of its Cymerus™ technology. The quality of its partners has provided strong support and validation of its ability and potential in the regenerative medicine sector and the Company is well positioned as it advances its preclinical trials across other indications. The Company intends to continue its business development activities and has active engagement with entities that have a commercial interest in accessing Cynata's technologies.

Environmental regulations

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

Remuneration report (audited)

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of Cynata Therapeutics Limited's key management personnel for the financial year ended 30 June 2018. 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**
Dr Paul Wotton	Non-executive chairman
Dr Stewart Washer	Non-executive director
Mr Peter Webse	Non-executive director
Dr John Chiplin	Non-executive director

Executive director	**Position**
Dr Ross Macdonald	Managing Director, Chief Executive Officer

Other key management personnel	**Position**
Dr Kilian Kelly	Vice President, Product Development

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 one executive – the Chief Executive Officer, four non-executive directors and one Vice President, Product Development. As set out below, total remuneration costs for the 2018 financial year were $1,314,684 down from $1,534,156 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 development of a novel life sciences (i.e. therapeutic stem cell) manufacturing technology and the identification and execution of 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 (5) years to 30 June 2018:

	30 June 2018 $	30 June 2017 $	30 June 2016 $	30 June 2015 $	30 June 2014 $
Revenue	1,518,060	1,843,105	1,247,397	374,889	107,755
Net loss before tax	4,566,134	4,553,536	4,939,471	3,712,077	3,039,663
Net loss after tax	4,566,134	4,553,536	4,939,471	3,712,077	3,039,663
Share price at start of year	0.61	0.31	0.93	0.40	0.20
Share price at end of year	1.365	0.61	0.31	0.93	0.40
Basic/diluted loss per share (cents)	5.04	5.69	6.82	6.12	6.76

Remuneration of key management personnel

2018	Short-term employee benefits			Post-employment benefits	Share-based payment		Value of options as proportion of remuneration
	Salary & fees $	Cash bonus $	Other $	Superannuation $	Options $	Total $	
Directors							
P. Wotton	100,000	-	-	-	105,682	205,682	51.38%
R. Macdonald[1]	355,061	84,375	2,118	25,000	29,186	495,740	5.89%
S. Washer	45,662	-	-	4,338	-	50,000	-
J. Chiplin	50,000	-	-	-	29,186	79,186	36.86%
P. Webse[2]	50,000	-	48,000	-	29,186	127,186	22.95%
Other KMP							
K. Kelly[1]	258,676	45,320	14,780	24,574	13,540	356,890	3.79%
Total	**859,399**	**129,695**	**64,898**	**53,912**	**206,780**	**1,314,684**	**15.73%**

[1] The amount of $2,118 in 'Other' represent accrued annual leave in accordance with AASB 119 Employee Benefits. The amount of $84,375 in 'Cash bonus' represents bonus determined and accrued for the financial year 2018 for Dr Macdonald and $45,320 represents bonus determined and accrued for the financial year 2018 for Dr Kelly.

[2] The amount of $48,000 in 'Other' represents company secretarial fees of $4,000 per month paid to Mr Webse pursuant to a consultancy agreement with Platinum Corporate Secretariat Pty Ltd (Platinum). Mr Webse is the sole director of Platinum.

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company, the company secretary and all executive officers of the Company. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Remuneration of key management personnel (cont'd)

2017	Short-term employee benefits			Post-employment benefits	Share-based payment		Value of options as proportion of remuneration
	Salary & fees $	Cash bonus $	Other $	Superannuation $	Options $	Total $	
Directors							
S. Washer[1]	124,810	30,000	71,594	18,658	-	245,062	-
R. Macdonald[2]	319,635	167,100	(18,958)	25,304	48,010	541,091	8.87%
J. Chiplin	50,000	-	-	-	48,010	98,010	48.98%
P. Webse[3]	50,000	-	49,500	-	48,009	147,509	32.55%
P. Wotton[4]	66,667	-	-	-	48,009	114,676	41.86%
Other KMP							
K. Kelly[2]	245,434	56,906	5,443	23,316	56,709	387,808	14.62%
Total	**856,546**	**254,006**	**107,579**	**67,278**	**248,747**	**1,534,156**	**16.21%**

[1] The amount of $71,594 in 'Other' comprises of $41,096 as termination pay and $30,498 as annual leave payout. Dr Washer reverted to a non-executive director as from 28 February 2017.

[2] Amounts in 'Other' represent accrued annual leave in accordance with AASB 119 Employee Benefits. Amounts in 'Cash Bonus' represent $60,000 for the financial year 2016 determined and paid in financial year 2017 and $107,100 determined and accrued for the financial year 2017 ($20,000 was paid in the financial year 2017) for Dr Macdonald. It also represents $18,750 for the financial year 2016 for Dr Kelly determined and paid in financial year 2017 and $38,156 determined and accrued for the financial year 2017.

[3] The amount of $49,500 in 'Other' represents company secretarial fees of $4,000 per month and an amount of $1,500 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.

[4] Appointed non-executive Chairman on 28 February 2017.

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company, the company secretary and all executive officers of the Company. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

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

Bonuses

Cash bonuses of $87,100 to Dr Macdonald and $38,156 to Dr Kelly were paid during the financial year. These amounts were accrued in the 2017 accounts.

A performance bonus entitlement of $84,375 for Dr Macdonald and $45,320 for Dr Kelly were accrued in the 2018 accounts. These amounts are payable subsequent to 30 June 2018. No other cash bonuses were granted during 2018.

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

Option series	Number	Grant date	Expiry date	Exercise price	Grant date fair value	Vesting date
1*	5,000,000	27 Sept 2013	27 Sept 2018	$0.400	$0.2900	Vested
2**	750,000	16 Dec 2015	16 Dec 2018	$0.490	$0.2370	Vested
3***	800,000	16 Nov 2016	17 Nov 2019	$1.022	$0.3859	Vested
4****	2,000,000	17 Nov 2017	17 Nov 2019	$1.500	$0.7391	Various

* Unlisted options issued to Drs Stewart Washer and Ross Macdonald. In accordance with the terms of the share-based arrangement, 100% of the options have vested following achievements of vesting conditions.
** Unlisted options issued to Dr Kilian Kelly. In accordance with the share-based arrangement, 100% of the options have vested following achievement of vesting conditions. Subsequent to the financial year end, Dr Kelly exercised all of the options in accordance with the terms and conditions using the cashless exercise mechanism.
*** Unlisted options issued to Dr Macdonald, Dr Chiplin, Dr Wotton and Mr Webse (200,000 each) pursuant to an Employee Option Acquisition Plan approved at the Company's Annual General Meeting held on 16 Nov 2016.
**** Unlisted options issued to Dr Wotton pursuant to the terms of his appointment as non-executive chairman and approved at the Company's Annual General Meeting held on 17 Nov 2017. 1,000,000 options vest 12 months from date of grant and the remaining 1,000,000 options vest 18 months from date of grant.

There are no further services or performance criteria that need to be met in relation to options granted under series (1), (2) and (3) above, and as a consequence the beneficial interest has vested to the recipients. 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 to key management personnel during the current financial year:

		During the financial year			
Name	Option series	No. granted	No. vested	% of grant vested	% of grant forfeited
P. Wotton	Series 4	2,000,000	-	-	n/a

No share options were exercised by key management personnel during the year (2017: nil).

Each option converts into one ordinary share of Cynata Therapeutics Limited.

Key terms of employment contract
The key terms and conditions of the varied letter of appointment of Dr Paul Wotton are as follows:

- A fee of $100,000 per annum inclusive of statutory superannuation.
- The appointment letter and the varied appointment letter may be terminated immediately by the Company if Dr Wotton becomes disqualified or is prohibited by law from being or acting as director or from being involved in the management of a company.

The key terms and conditions of the renewed executive services agreement of Dr Ross Macdonald are as follows:

- Term of renewed agreement – ongoing until terminated by agreement with both parties (by giving 6 months' written notice) or terminated by the Company with reasons.
- Effective 1 July 2018, a salary of $386,250 per annum including superannuation. During the financial year 2018, Dr Macdonald was paid a salary of $375,000 per annum inclusive of statutory superannuation.
- The Company may (but it is not bound) pay additional performance-based remuneration.

The key terms and conditions of the appointment of Dr Stewart Washer as non-executive director are formalised in an appointment letter and are as follows:

- A fee of $50,000 per annum inclusive of statutory superannuation.
- The appointment may be terminated if Dr Washer gives notice of resignation and the appointment may be terminated immediately if Dr Washer becomes disqualified or prohibited by law from being or acting as a director or from being involved in the management of a company.

The key terms and conditions of appointment of Dr John Chiplin are formalised in an appointment letter and are as follows:

- A fee of $50,000 per annum (not subject to GST).
- The appointment letter may be terminated immediately by the Company if Dr Chiplin becomes disqualified or is prohibited by law from being or acting as a director or from being involved in the management of a company.

The key terms and conditions of appointment of Dr Kilian Kelly are formalised in an employment agreement and are as follows:

- Effective 1 July 2018, a salary of $300,000 per annum inclusive of statutory superannuation. During the financial year 2018, Dr Kelly was paid a salary of $283,250 per annum inclusive of statutory superannuation.
- The right to participate in the Company's equity-based incentive scheme and an incentive payment of up to 10% of the annual salary and based on attainment of agreed performance indicators.
- The Company may (but is not bound to) pay additional performance-based remuneration.
- The contract may be terminated by either party providing 3 months' notice.

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 $50,000 (exc. GST) per annum for the provision of Mr Webse's services as a non-executive director. 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) per month 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

2018	Balance at 1 July 2017 No.	Granted as compensation No.	Received on exercise of options No.	Net other change No.	Balance at 30 June 2018 No.
P Wotton	55,000	-	-	-	55,000
R Macdonald	28,500	-	-	-	28,500
S Washer	224,856	-	-	-	224,856
J Chiplin	50,000	-	-	-	50,000
P Webse	220,000	-	-	-	220,000
K Kelly	16,640	-	-	-	16,640

2017	Balance at 1 July 2016 No.	Granted as compensation No.	Received on exercise of options No.	Net other change[1] No.	Balance at 30 June 2017 No.
P Wotton	-	-	-	55,000	55,000
R Macdonald	8,500	-	-	20,000	28,500
S Washer	174,856	-	-	50,000	224,856
J Chiplin	10,000	-	-	40,000	50,000
P Webse	210,000	-	-	10,000	220,000
K Kelly	16,640	-	-	-	16,640

[1] Amounts in 'Net other change' represent on market acquisitions.

Key management personnel equity holdings (cont'd)

Share options of Cynata Therapeutics Limited

2018	Balance at 1 July 2017	Granted as compens-ation	Exerci-sed	Net other change	Balance at 30 June 2018	Balance vested at 30 June 2018	Vested and exercisable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.
P Wotton[1]	200,000	-	-	2,000,000	2,200,000	200,000	200,000	200,000
R Macdonald	2,700,000	-	-	-	2,700,000	2,700,000	2,700,000	200,000
S Washer	2,500,000	-	-	-	2,500,000	2,500,000	2,500,000	-
J Chiplin	200,000	-	-	-	200,000	200,000	200,000	200,000
P Webse	200,000	-	-	-	200,000	200,000	200,000	200,000
K Kelly	750,000	-	-	-	750,000	750,000	750,000	250,000

[1] Amounts in 'Net other change' represents unlisted options issued on 17 November 2017 pursuant to the terms of appointment as non-executive chairman.

2017	Balance at 1 July 2016	Granted as compens-ation	Exerci-sed	Net other change (1)	Balance at 30 June 2017	Balance vested at 30 June 2017	Vested and exercisable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.
P Wotton	-	-	-	200,000	200,000	-	-	-
R Macdonald	2,500,000	-	-	200,000	2,700,000	2,500,000	2,500,000	-
S Washer	2,500,000	-	-	-	2,500,000	2,500,000	2,500,000	-
J Chiplin	-	-	-	200,000	200,000	-	-	-
P Webse	-	-	-	200,000	200,000	-	-	-
K Kelly	750,000	-	-	-	750,000	500,000	500,000	250,000

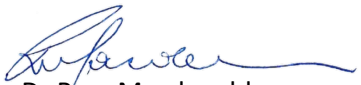
All share options issued to key management personnel were made in accordance with the provisions of the employee share option plan.

No share options were exercised by key management personnel during the financial year (2017: nil). Further details of the employee share option plan and share options are contained in note 17 to the financial statements.

This is the end of the audited remuneration report

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/Chief Executive Officer
Melbourne, 22 August 2018.

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22 August 2018

Board of Directors
Cynata Therapeutics Limited
Level 3, 62 Lygon Street
CARLTON, VICTORIA 3053

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 2018, 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)
(Authorised Audit Company)

Martin Michalik
Director

Stantons International Audit and Consulting Pty Ltd
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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
CYNATA THERAPEUTICS LIMITED

Report on the Audit of the Financial Report

Our Opinion

We have audited the financial report of Cynata Therapeutics Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion:

(a) the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the period then ended; and

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

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

Basis for Opinion

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

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

Key Audit Matters

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Key Audit Matters	How the matter was addressed in the audit
Carrying value of intangible assets, amortisation and impairment reviews At 30 June 2018, the Group has intangibles with a carrying value of $3,533,192. The intangible assets are considered a Key Audit Matter as they represent over 22% of the net assets of the Group. Cynata Therapeutics acquired intangible assets (patents) through the acquisition of a subsidiary. Under Australian Accounting Standards, the Group is required to assess whether there are any indicators of impairment, and if so, perform an impairment review of the intangible assets at least annually. The testing for impairment is complex due to the assessment process and judgments and assumptions involved, which are affected by expected future market and economic developments.	Our audit procedures included, inter alia, the following: i. A review of the ASX announcements to obtain an understanding of the significant activities undertaken by the Group during the year; ii. An audit of the Group's patent register to obtain reasonable assurance any patents that have expired are written off; iii. Appraising management's assessment of the carrying value of the patents and assessing the appropriateness and relevance of information provided to justify the carrying value of the patents; iv. Checking the amortisation charge to ensure that the patents are being amortised over the 20-year patents' life; and v. Assessing the adequacy of the disclosures (Note 11) to the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. 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 of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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 conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in Internal control that we identify during our audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 16 to 22 of the directors' report for the year ended 30 June 2018. 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.

Stantons International

Opinion on the Remuneration Report

In our opinion, the Remuneration Report of Cynata Therapeutics Limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

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

Stantons International Audit & Consulting Pty Ltd

Martin Michalik

Director
West Perth, Western Australia
22 August 2018

Directors' declaration

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Group 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/Chief Executive Officer
Melbourne, 22 August 2018

Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2018

	Note	Consolidated Year ended 30 June 2018 $	Consolidated Year ended 30 June 2017 $
Continuing operations			
Other income	6	1,518,060	1,843,105
Product development costs		(3,220,523)	(3,472,806)
Employee benefits expenses	7	(859,904)	(1,032,993)
Amortisation expenses	11	(279,965)	(279,965)
Share based payment expenses	7	(274,415)	(248,747)
Other expenses	7	(1,449,387)	(1,362,130)
Loss before income tax		**(4,566,134)**	**(4,553,536)**
Income tax expense	8	-	-
Loss for the year		**(4,566,134)**	**(4,553,536)**
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		-	248
Other comprehensive income for the year, net of income tax		**-**	**248**
Total comprehensive loss for the year		**(4,566,134)**	**(4,553,288)**
Loss for the year attributable to:			
Owners of Cynata Therapeutics Limited		**(4,566,134)**	**(4,553,536)**
Total comprehensive loss for the year attributable:			
Owners of Cynata Therapeutics Limited		**(4,566,134)**	**(4,553,288)**
Loss per share:			
Basic and diluted (cents per share)	9	(5.04)	(5.69)

Notes to the consolidated financial statements are included on pages 33 to 58.

Consolidated statement of financial position as at 30 June 2018

	Note	Consolidated 30 June 2018 $	Consolidated 30 June 2017 $
Current assets			
Cash and cash equivalents	20	12,206,040	10,349,764
Trade and other receivables	10	393,776	91,272
Total current assets		**12,599,816**	**10,441,036**
Non-current assets			
Intangibles	11	3,533,192	3,813,157
Total non-current assets		3,533,192	3,813,157
Total assets		**16,133,008**	**14,254,193**
Current liabilities			
Trade and other payables	12	725,395	385,744
Provisions	13	20,751	3,853
Total current liabilities		746,146	389,597
Total liabilities		**746,146**	**389,597**
Net assets		**15,386,862**	**13,864,596**
Equity			
Issued capital	14	44,191,746	38,377,761
Option reserves	15	4,240,602	3,966,187
Foreign currency translation reserve	15	4,724	4,724
Accumulated losses		(33,050,210)	(28,484,076)
Total equity		**15,386,862**	**13,864,596**

Notes to the consolidated financial statements are included on pages 33 to 58.

Consolidated statement of changes in equity for the year ended 30 June 2018

	Issued Capital $	Option Reserve $	Foreign currency translation reserve $	Accumulated losses $	Total $
Balance at 1 July 2016	**28,791,762**	**3,717,440**	**4,476**	**(23,930,540)**	**8,583,138**
Loss for the year	-	-	-	(4,553,536)	(4,553,536)
Other comprehensive income for the year, net of tax	-	-	248	-	248
Total comprehensive income/(loss) for the year	**-**	**-**	**248**	**(4,553,536)**	**(4,553,288)**
Issue of ordinary shares (*refer to note 14*)	9,972,458	-	-	-	9,972,458
Share issue costs	(386,459)	-	-	-	(386,459)
Share based payments	-	248,747	-	-	248,747
Balance at 30 June 2017	**38,377,761**	**3,966,187**	**4,724**	**(28,484,076)**	**13,864,596**
Balance at 1 July 2017	**38,377,761**	**3,966,187**	**4,724**	**(28,484,076)**	**13,864,596**
Loss for the year	-	-	-	(4,566,134)	(4,566,134)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income/(loss) for the year	**-**	**-**		**(4,566,134)**	**(4,566,134)**
Issue of ordinary shares (*refer to note 14*)	5,988,441	-	-	-	5,988,441
Share issue costs	(174,456)	-	-	-	(174,456)
Share based payments	-	274,415	-	-	274,415
Balance at 30 June 2018	**44,191,746**	**4,240,602**	**4,724**	**(33,050,210)**	**15,386,862**

Notes to the consolidated financial statements are included on pages 33 to 58.

Consolidated statement of cash flows for the year ended 30 June 2018

	Note	Consolidated Year ended 30 June 2018 $	Consolidated Year ended 30 June 2017 $
Cash flows from operating activities			
Grants and other income received		46,450	-
Payments to suppliers and employees		(2,583,941)	(2,507,972)
Interest received		161,343	67,765
Research and development tax refund received		1,328,685	1,748,874
Development costs paid		(3,014,453)	(3,356,857)
Net cash (used in) operating activities	20.1	(4,061,916)	(4,048,190)
Cash flows from investing activities			
Net cash used in investing activities		-	-
Cash flows from financing activities			
Proceeds from issue of equity instruments of the Company	14	5,988,441	9,972,458
Payment for share issue costs		(130,028)	(386,459)
Net cash provided by financing activities		5,858,413	9,585,999
Net increase in cash and cash equivalents		**1,796,497**	**5,537,809**
Cash and cash equivalents at the beginning of the year		10,349,764	4,879,173
Effects of exchange rate changes on the balance of cash held in foreign currencies		59,779	(67,218)
Cash and cash equivalents at the end of the year	20	**12,206,040**	**10,349,764**

Notes to the consolidated financial statements are included on pages 33 to 58.

Notes to the consolidated financial statements for the year ended 30 June 2018

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 Amendments to Accounting Standards and the new Interpretation that are mandatorily effective for the current year

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for an accounting period that begins on or after 1 July 2017.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

- AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses.*
- AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107.*

The application of these amendments does not have any material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

2.2 Standards and Interpretations in issue but not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations that were issued but not effective are listed below:

- AASB 9 *Financial Instruments and associated Amending Standards* (applicable for annual reporting commencing 1 January 2018).

  The Standard includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

  The directors anticipate that the adoption of AASB 9 will not have a material effect on the Group's financial statements.

- AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions* (applicable for annual reporting commencing on or after 1 January 2018).

  The AASB issued amendments to AASB 2 *Share-based Payment* that address three main areas:
  - the effect of vesting conditions on the measurement of a cash-settled share-based payment transaction;
  - the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and
  - accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

The directors anticipate that the adoption of this amendment will not have a material impact on the Group's financial statements.

2.2 Standards and Interpretations in issue but not yet adopted (cont'd)

- AASB 2016-6 *Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts* (applicable for annual reporting commencing 1 January 2018).

  The amendments address concerns arising from implementing the new financial instruments standard, AASB 9, before implementing AASB 17 *Insurance Contracts*, which replaces AASB 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying AASB 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies AASB 9 and apply that approach retrospectively to financial assets designated on transition to AASB 9. The entity restates comparative information when reflecting the overlay approach if, and only if, the entity restates comparative information when applying AASB 9. These amendments are not applicable to the Group.

- AASB 15 *Revenue from Contracts with Customers* (applicable to annual reporting periods commencing on or after 1 January 2018).

  When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Apart from a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges for goods and services. To achieve this objective, AASB 15 provides the following five-step process:

  - identify the contract(s) with a customer;
  - identify the performance obligations in the contract(s);
  - determine the transaction price;
  - allocate the transaction price to the performance obligations in the contract(s); and
  - recognise revenue when (or as) the performance obligations are satisfied.

  The transitional provisions of this standard permit an entity to either restate the contracts that existed in prior period presented per AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors,* or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements.

  The directors anticipate that the adoption of this amendment will not have a material impact on the Group's 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 22 August 2018.

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 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, such as net realisable value in *AASB 102 Inventories* or value in use in *AASB 136 Impairment of Assets*.

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 acquiree and the equity instruments issued by the Group in exchange for control of the acquiree. 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 fair value of the acquirer's previously held equity interest in the acquiree (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 Financial Instruments: Recognition and Measurement*, 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 acquiree 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 3.4 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 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.

3.6.1 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.

3.7 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.

3.8 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3.9 Employee benefits

Short-term and long-term employee benefits

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.

3.10 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 17.

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.

3.11 Taxation

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

3.11.1 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.

R&D rebates are accounted for on a cash basis and included under other income.

3.11.2 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.

3.11.3 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.

3.12 Intangible assets

3.12.1 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).

Intangibles have been identified as all granted patents and patent applications. They have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the assets, as follows:

- Patents 20 years

3.12.2 Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in profit or loss when the asset is derecognised.

3.13 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.

3.14 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.

3.15 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.

3.15.1 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.

3.15.1.1 Financial assets at FVTPL

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.

3.15.1.2 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.

3.15.1.3 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.

3.15.1.4 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.

3.15.2 Financial liabilities and equity instruments

3.15.2.1 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.

3.15.2.2 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.

3.15.2.3 Financial liabilities

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

3.15.2.4 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.

3.15.2.5 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.

3.15.2.6 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.

3.16 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.

3.17 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.

4.1 Key sources of estimation uncertainty

4.1.1 Recoverability of intangible assets acquired in a business combination

During the year, the directors reconsidered the recoverability of the Group's intangible assets arising from the acquisition of Cynata Incorporated, which is included in the consolidated statement of financial position at 30 June 2018 with a carrying value of $3,533,192 (2017: $3,813,157) after accounting for amortisation.

The directors have allocated the carrying value of the patents (before amortisation) to the different categories of the research based on their estimates. The resulting allocation has given rise to an amortisation expense of $279,965 for the year ended 30 June 2018 (2017: $279,965).

The directors performed an impairment testing and concluded that no further impairment of the intangible assets is required for the year (2017: nil).

5. Segment information

The Group operates in one business segment, namely the development and commercialisation of therapeutic products. *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 Group 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. Other income

Continuing operations	**2018** $	**2017** $
Interest revenue	142,925	94,231
Other income and grants	46,450	-
Research and development rebate	1,328,685	1,748,874
	1,518,060	1,843,105

7. Loss for the year

Loss for the year has been arrived at after charging the following items of expenses:	2018	2017
	$	$
Employee benefits expenses		
Wages and salaries	789,094	984,980
Superannuation expenses	53,912	67,279
Leave entitlements	16,898	(19,266)
Total employee benefits expenses [i]	859,904	1,032,993
Share-based payment expenses	274,415	248,747
Other expenses		
Share register fees	13,386	11,221
Director fees	200,000	166,667
Legal costs	162,923	103,676
Other administrative expenses	1,119,905	1,016,484
Effect of foreign exchange	(46,827)	64,082
Total other expenses	1,449,387	1,362,130

[i] *excludes amounts charged to product development costs.*

8. Income taxes relating to continuing operations

8.1 Income tax recognised in profit or loss

	2018	2017
	$	$
Current tax	-	-
Deferred tax	-	-
	-	-

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

	2018	2017
	$	$
Loss before tax from continuing operations	(4,566,134)	(4,553,536)
Income tax expense calculated at 27.5% (2017: 27.5%)	(1,255,687)	(1,252,222)
Tax effect of R&D rebate received	(365,388)	(480,940)
Effect of expenses that are not deductible in determining taxable income	1,166,940	1,025,518
Effect of unused tax losses not recognised as deferred tax assets	454,135	707,644
	-	-

The tax rate used for the 2018 reconciliations above is the corporate tax rate of 27.5% (2017: 27.5%) payable by Australian corporate entities on taxable profits under Australian tax law.

8.2 Income tax recognised directly in equity

	2018	2017
	$	$
Current tax		
Share issue costs	-	-
Deferred tax		
Arising on transactions with owners:		
Share issue costs deductible over 5 years	-	-
	-	-

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

8.3 Unrecognised deferred tax assets in relation to:

	2018 $	2017 $
Unused tax losses (revenue) for which no deferred tax assets have been recognised	4,975,545	4,521,410
Other	122,943	81,048
	5,098,488	4,602,458

8.4 Unrecognised deferred tax (liabilities) in relation to:

	2018 $	2017 $
Intangibles	(1,059,958)	(1,143,947)
Other	(5,043)	(10,108)
	(1,065,001)	(1,154,055)
Net deferred tax assets	4,033,487	3,448,403

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.

9. Loss per share

	2018 cents per share	2017 cents per share
Basic and diluted loss per share (cents per share)	(5.04)	(5.69)

9.1 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:

	2018 $	2017 $
Loss for the year attributable to owners of the Company	(4,566,134)	(4,553,536)

	2018 No.	2017 No.
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	90,608,951	80,061,243

10. Trade and other receivables

	2018 $	2017 $
Deposits made	3,568	3,568
Prepayments	337,520	54,506
Other receivables	52,688	33,198
	393,776	91,272

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

11. Intangibles

	2018 $	2017 $
Carrying value at beginning of year (i)	3,813,157	4,093,122
Amortisation (ii)	(279,965)	(279,965)
Net book value of research and development at end of year	3,533,192	3,813,157

(i) The carrying value at beginning of year represents 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 (1 December 2013), representing progress toward the eventual commercialisation of the relevant technology less accumulated amortisation.

(ii) An amortisation expense of $279,965 has been recognised in profit or loss (2017: $279,965). Refer to note 3.13 for more information on the Group's accounting policy on intangibles and amortisation.

Cost

	2018 $	2017 $
Balance at 1 July	4,821,799	4,821,799
Additions	-	-
Disposals	-	-
Balance at 30 June	4,821,799	4,821,799

Accumulated amortisation

	2018 $	2017 $
Balance at 1 July	1,008,642	728,677
Amortisation expense	279,965	279,965
Balance at 30 June	1,288,607	1,008,642

12. Trade and other payables

	2018 $	2017 $
Trade payables	299,080	94,877
Accrued expenses	426,315	290,867
	725,395	385,744

13. Provisions

	2018 $	2017 $
Provisions for employee entitlements	20,751	3,853

14. Issued capital

	2018 $	2017 $
95,066,251 fully paid ordinary shares (30 June 2017: 90,057,248)	44,191,746	38,377,761

Fully paid ordinary shares	30 June 2018		30 June 2017	
	No.	$	No.	$
Balance at beginning of year	90,057,248	38,377,761	72,738,075	28,791,762
Exercise of share options (i)	300,000	159,000	-	-
Exercise of share options (ii)	159,683	159,683	-	-
Exercise of share options (iii)	150,000	150,000	-	-
Exercise of share options (iv)	150,000	150,000	-	-
Exercise of share options (v)	75,000	75,000	-	-
Exercise of share options (vi)	50,000	50,000	-	-
Exercise of share options (vii)	50,000	50,000	-	-
Issue of shares (viii)	4,074,320	5,194,758	-	-
Issue of shares (ix)	-	-	8,088,403	3,972,457
Share Placement (x)	-	-	9,230,770	6,000,001
Share issue costs	-	(174,456)	-	(386,459)
	95,066,251	44,191,746	90,057,248	38,377,761

(i) Exercise of unlisted options at $0.53 each on 28 February 2018.
(ii) Exercise of unlisted options at $1.00 each on 13 March 2018.
(iii) Exercise of unlisted options at $1.00 each on 28 March 2018.
(iv) Exercise of unlisted options at $1.00 each on 4 April 2018.
(v) Exercise of unlisted options at $1.00 each on 24 April 2018.
(vi) Exercise of unlisted options at $1.00 each on 15 May 2018.
(vii) Exercise of unlisted options at $1.00 each on 22 May 2018.
(viii) Issue of fully paid ordinary shares at $1.275 each on 4 June 2018 to Fidelity International.
(ix) Issue of fully paid ordinary shares at $0.49113 each on 25 January 2017 to FUJIFILM Corporation of Japan.
(x) Issue of fully paid ordinary shares at $0.65 each on 30 January 2017 pursuant to a placement.

15. Reserves

15.1 *Share-based payments*	2018 $	2017 $
Balance at beginning of year	3,966,187	3,717,440
Recognition of share-based payments (i)	274,415	248,747
Balance at end of year	4,240,602	3,966,187

(i) Total expenses arising from share-based payment transactions recognised during the year ended 30 June 2018 was $274,415 (2017: $248,747).

Further information about share-based payments is set out in note 17.

15.2 *Foreign currency translation reserve*	2018 $	2017 $
Balance at beginning of year	4,724	4,476
Exchange differences arising on translating the foreign operations	-	248
Balance at end of year	4,724	4,724

Exchange differences relating to the translation of results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve.

16. Financial instruments

16.1 Capital management

The Group's 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 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 Group's approach to capital management during the year.

16.2 Categories of financial instruments

	2018 $	2017 $
Financial assets		
Cash and cash equivalents	12,206,040	10,349,764
Trade and other receivables	56,256	36,766
	12,262,296	10,386,530
Financial liabilities		
Trade and other payables	725,395	385,744
	725,395	385,744
Net financial assets	**11,536,901**	**10,000,786**

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

16.3 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.

16.4 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 16.5 below).

16. Financial instruments (cont'd)

16.5 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 2018 would decrease/increase by $122,060 (2017: $103,498)

16.6 Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. At 30 June 2018, the Company has cash denominated in US dollars (US$1,299,552 (2017: US$1,600,459)). The AUD equivalent at 30 June 2018 is $1,755,434 (2017: $2,088,279). A 5% movement in foreign exchange rates would increase or decrease the Group's loss before tax by approximately $87,772 (2017: $104,414).

16.7 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.

16.8 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**
	$	**$**	**$**	**$**	**$**	**$**
2018						
Trade and other payables	725,395	725,395	-	-	-	725,395
2017						
Trade and other payables	385,744	385,744	-	-	-	385,744

17. Share-based payments

17.1 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.

Each option converts into one ordinary share of Cynata Therapeutics Limited on exercise. The options carry neither right 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 options arrangements were in existence at the reporting date:

Option series	Number	Grant date	Grant date fair value $	Exercise price $	Expiry date	Vesting date
1	5,000,000[i]	27 Sept 2013	0.290	0.400	27 Sept 2018	Vested
2	750,000	16 Dec 2015	0.237	0.490	16 Dec 2018	Vested
3	233,333	17 July 2015	0.610	1.000	17 July 2020	Vested
4	300,000	22 Feb 2016	0.222	0.530	22 Feb 2019	Vested
5	800,000[ii]	16 Nov 2016	0.386	1.022	17 Nov 2019	Vested
6	100,000[iii]	7 Aug 2017	0.233	0.880	4 Aug 2020	Vested
7	2,000,000[iv]	17 Nov 2017	0.074	1.500	17 Nov 2019	Various

[i] This represents 100,000,000 unlisted options after a 1:20 consolidation issued to Drs Washer and Macdonald.

[ii] This represents unlisted options issued to Dr Macdonald, Dr Wotton, Dr Chiplin and Mr Webse (200,000 each) pursuant to an Employee Option Acquisition Plan.

[iii] This represents unlisted options issued to a third party for the provision of corporate advisory services. 300,000 unlisted options were issued on 7 Aug 2017 and 200,000 lapsed on 23 Jan 2018.

iv This represents unlisted incentive options issued to Dr Wotton pursuant to the terms of his appointment as non-executive chairman. 1,000,000 options vest in 12 months and the remainder in 18 months from date of grant.

There has been no alteration to the terms and conditions of the above options arrangements.

17.2 Fair value of share options granted in the year

Option were priced using the Black-Scholes pricing model. Expected volatility is based on the historical share price volatility over the past 12 months.

The weighted average exercise price of options granted during the year is $1.42 (2017: $1.02).

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.

Input	Series 6	Series 7
Grant date share price	$0.590	$0.605
Exercise price	$0.880	$1.500
Expected volatility	75%	65%
Option life	3 years	2 years
Dividend yield	n/a	n/a
Risk-free interest rate	1.92%	1.79%

17. Share-based payments (cont'd)

17.3 Movements in share options during the year

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

	2018		2017	
	Number of options No.	Weighted average exercise price $	Number of options No.	Weighted average exercise price $
Balance at beginning of the year	7,483,333	0.513	7,183,333	0.448
Granted during the year	2,300,000	1.419	800,000	1.022
Forfeited during the year	-	-	-	-
Exercised during the year	(400,000)	0.648	-	-
Expired during the year	(200,000)	0.880	(500,000)	0.400
Balance at end of year	**9,183,333**	**0.726**	**7,483,333**	**0.513**
Exercisable at end of year	**7,183,333**	**0.510**	**6,433,333**	**0.450**

17.4 Share options exercised during the year

The following share options were exercised during the year (2017: nil):

Option series	Number exercised	Exercise date	Share price at exercise date
(2) Granted 17 Jul 2015	50,000	15 May 2018	$1.390
(2) Granted 17 Jul 2015	50,000	22 May 2018	$1.270
(3) Granted 22 Feb 2016	300,000	28 Feb 2018	$1.155

17.5 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 $0.723 (2017: $0.513) and a weighted average remaining contractual life of 251 days (2017: 548 days).

18. Key management personnel

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

	2018 $	2017 $
Short-term employee benefits	1,053,992	1,218,131
Post-employment benefits	53,912	67,278
Share-based payments	206,780	248,747
	1,314,684	1,534,156

Short-term employee benefits
These amounts include fees paid to non-executive directors, accrued bonuses, salary and paid leave benefits awarded to executive directors and 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 key management personnel in equity -settled benefit schemes as measured by the fair value of the options granted on grant date.

Further information in relation to key management personnel remuneration can be found in the remuneration report contained in the directors' report.

19. Related party transactions

19.1 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 turns controls 100% of Cynata Australia Pty Ltd, the non-operating entity of Cynata Incorporated.

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

19.2 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 18.

19.3 Other related party transactions

Mr Webse's services are provided by Platinum Corporate Secretariat Pty Ltd ("Platinum Corporate"). Mr Webse is the sole director of Platinum Corporate. Company secretarial fees paid to Platinum Corporate are 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.

20. Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and in banks. 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:

	2018 $	2017 $
Cash and bank balances	12,206,040	10,349,764

20. Cash and cash equivalents (cont'd)

20.1 Reconciliation of loss for the year to net cash flows from operating activities

	2018 $	2017 $
Cash flow from operating activities		
Loss for the year	(4,566,134)	(4,553,536)
Adjustments for:		
Share-based payments	274,415	248,747
Amortisation expenses	279,965	279,965
Effects of exchange rate changes on the balance of cash held in foreign currencies	(59,781)	67,218
Movements in working capital		
(Increase) in trade and other receivables	(302,502)	(32,804)
Increase/(decrease) in trade and other payables	295,223	(8,018)
Increase/(decrease) in provisions – annual leave	16,898	(49,762)
Net cash outflows from operating activities	(4,061,916)	(4,048,190)

21. Contingent liabilities and contingent assets

The directors are not aware of any significant contingencies at balance date other than a requirement for the payment of royalties pursuant to certain licence agreements should future revenues exceed predetermined thresholds.

22. Commitments for expenditure

The Group has entered into a number of agreements related to research and development activities. As at 30 June 2018, under these agreements, the Company is committed to making payments over future periods, as follows:

	A$
- During the period 1 July 2018 – 30 June 2019	1,895,529
- During the period 1 July 2019 – 30 June 2020	659,979
- During the period 1 July 2021 – 30 June 2022	303,832

Where commitments are denominated in foreign currencies, the amounts have been converted to Australian dollars based on exchange rates prevailing as at 30 June 2018.

23. Remuneration of auditors

Auditor of the Group

	2018 $	2017 $
Audit and review of the financial statements	36,388	36,880

The auditor of the Group is Stantons International Audit and Consulting Pty Ltd.

24. 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

	2018 $	2017 $
Assets		
Current assets	12,599,817	10,441,036
Non-current assets	4,890,653	4,890,653
Total assets	17,490,470	15,331,689
Liabilities		
Current liabilities	725,395	385,744
Provisions	20,751	3,853
Total liabilities	746,146	389,597
Net assets	**16,744,324**	**14,942,092**
Equity		
Issued capital	44,191,746	38,377,761
Reserves	4,240,602	3,966,186
Accumulated losses	(31,688,024)	(27,401,855)
Total equity	**16,744,324**	**14,942,092**
Financial performance		
Loss for the year	(4,286,169)	(4,273,323)

Commitments and contingencies

There were no material commitments or contingencies at the reporting date for the parent company except for those mentioned in note 21 and note 22 above.

25. 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	
			2018	2017
Cynata Incorporated	Holds licences with WARF for core IPs	USA	100%	100%
Cynata Australia Pty Ltd (i)	Non-operating subsidiary from date of reconstruction	Australia	100%	100%

(i) Cynata Australia Pty Ltd is a wholly owned subsidiary of Cynata Incorporated.

26. Events after the reporting period

On 2 July 2018, the Company announced it had commenced a development partnership with Royal College of Surgeons in Ireland (RCSI) to focus on demonstrating the therapeutic potential of Cynata's Cymerus™ mesenchymal stem cells to treat sepsis.

On 6 July and 16 July 2018, the Company issued 60,000 and 55,000 fully paid ordinary shares respectively following the exercise of unlisted 17 July 2020 options.

On 11 July 2018, the Company issued 477,373 fully paid ordinary shares following a cashless exercise of 750,000 unlisted 16 December 2018 options at a calculated value of $643,499.

On 31 July 2018, Cynata announced positive efficacy data from a study of its Cymerus™ MSCs in a preclinical heart attack model. Cymerus™ MSC treatment improved recovery of cardiac function post heart attack compared to either placebo or bone marrow-derived MSCs (BM-MSCs). Cymerus™ MSC treatment also reduced left ventricular end-systollic diameter (LVESD) compared to either placebo or BM-MSCs. LVESD reduction is associated with lower risk of further cardiac events.

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

27. Approval of financial statements

The financial statements were approved by the board of directors and authorised for issue on 22 August 2018.

Corporate Governance Statement

This Corporate Governance Statement ("Statement") outlines the key aspects of Cynata Therapeutics Limited ('Cynata' or 'the Company') governance framework and main governance practices. The Company's charters, policies, and procedures are regularly reviewed and updated to comply with law and best practice. These charters and policies can be viewed on Cynata's website located at www.cynata.com.

This Statement is structured with reference to the Australian Securities Exchange Corporate Governance Council's ("the Council's") "Corporate Governance Principles and Recommendations 3rd Edition" ("the Recommendations").

The Board of Directors has adopted the Recommendations to the extent that is deemed appropriate considering current the size and operations of the Company. Therefore, considering the size and financial position of the Company, where the Board considers that the cost of implementing a recommendation outweighs any potential benefits, those recommendations have not been adopted.

This Statement was approved by the Board of Directors and is current as at 21 August 2018.

Principle 1: Lay solid foundations for management and oversight

Roles of the Board & Management

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

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

- Appointment, evaluation and, if necessary, removal of the Managing Director, any other executive directors, the Company Secretary and the Chief Financial Officer (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;
- Identifying areas of significant business risk and ensure that the Company is appropriately positioned to manage those risks;
- Overseeing the management of safety, occupational health and environmental issues;
- Satisfying itself that the financial statements of the Company fairly and accurately set out the financial position and financial performance of the Company for the period under review;
- Satisfying itself that there are appropriate reporting systems and controls in place to assure the Board that proper operational, financial, compliance, risk management and internal control processes are in place and functioning appropriately;
- Ensuring that appropriate internal and external audit arrangements are in place and operating effectively;
- Authorising the issue of any shares, options, equity instruments or other securities within the constraints of the Corporations Act and the ASX Listing Rules; and
- Ensuring that the Company acts legally and responsibly on all matters and assuring itself that the Company has adopted, and that its practice is consistent with, a number of guidelines including:
  - Code of Conduct;
  - Continuous Disclosure Policy;
  - Diversity Policy;
  - Performance Evaluation Policy;
  - Procedures for Selection and Appointment of Directors;
  - Remuneration Policy;
  - Risk Management and Internal Compliance and Control Policy;
  - Securities Trading Policy; and
  - Shareholder Communications Policy.

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

Further details of Board responsibilities, objectives and structure are set out in the Board Charter on the Cynata Website.

Board Committees

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

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

Board Appointments

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

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

The Company Secretary

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

Diversity

The Board has adopted a Diversity Policy which provides a framework for the Company to establish and achieve measurable diversity objectives, including in respect to gender, age, ethnicity and cultural diversity. The Diversity Policy allows the Board to set measurable gender diversity objectives (if considered appropriate) and to assess annually both the objectives (if any have been set) and the Company's progress towards achieving them.

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

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

- Women employees in the Company 0%
- Women in senior management positions 0%
- Women on the Board 0%

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

Board & Management Performance Review

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

The annual review includes consideration of the following measures:

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

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

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

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

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

Board and management performance reviews were conducted during the financial year in accordance with the above processes.

Independent Advice

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

Principle 2: Structure the board to add value

Board Composition

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

Dr Paul Wotton	Non-Executive Chairman (appointed 8 June 2016);
Dr Ross Macdonald	Managing Director (appointed 1 August 2013);
Dr Stewart Washer	Non-Executive Director (appointed 1 August 2013);
Mr Peter Webse	Non-Executive Director (appointed 18 May 2012);
Dr John Chiplin	Non-Executive Director (appointed 18 November 2014).

The Board currently consists of one Executive Director, being the Managing Director, and four Non-Executive Directors, one of whom is also the Company Secretary.

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

The Board does not consist of a majority of independent directors. Dr John Chiplin and Dr Paul Wotton are the only current directors considered to be independent. Dr Stewart Washer is not considered to be an independent director by virtue of the fact that he was a former executive of the Company. Mr Peter Webse is not considered to be an independent director by virtue of the fact the he has a contractual arrangement to provide company secretarial services to the Company.

Given the size of the Board and the nature and scale of the Company's current operations the Board believes the presence of two independent directors on the Board is sufficient.

Board Selection Process

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

The Board is responsible for the nomination and selection of directors. The Board reviews the size and composition of the Board regularly and at least once a year as part of the Board evaluation process. The Board has a skills matrix covering the competencies and experience of each member. When the need for a new director is identified, the required experience and competencies of the new director are defined in the context of this matrix and any gaps that may exist.

Generally, a list of potential candidates is identified based on these skills required and other issues such as geographic location and diversity criteria. Candidates are assessed against the required skills and on their qualifications, backgrounds and personal qualities. In addition, candidates are sought who have a proven track record in creating security holder value and the required time to commit to the position.

Induction of New Directors and Ongoing Development

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

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

Principle 3: Act ethically and responsibly

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

All employees and Directors are expected to:

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

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

Principle 4: Safeguard integrity in corporate reporting

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

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

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

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

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

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

CEO and CFO (Equivalent) Certifications

The Board has received certifications from the CEO and CFO (Equivalent) in connection with the financial statements for Cynata for the Reporting Period. The certifications state that the declaration provided in accordance with Section 295A of the Corporations Act as to the integrity of the financial statements is founded on a sound system of risk management and internal control which is operating effectively.

Principle 5: Make timely and balanced disclosure

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

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

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

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

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

Principle 6: Respect the rights of security holders

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

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

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

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

Shareholders may elect to, and are encouraged to, receive communications from Cynata and Cynata's securities registry electronically.

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

Principle 7: Recognise and manage risk

The Board is committed to the identification, assessment and management of risk throughout Cynata's business activities.

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

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

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

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

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

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

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

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

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

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

Principle 8: Remunerate fairly and responsibly

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

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

The key principles are to:

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

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

Cynata's executive remuneration policies and structures and details of remuneration paid to directors and senior managers are set out in the Remuneration Report.

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

The maximum aggregate remuneration approved by shareholders for Non-Executive Directors is $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 $250,000.

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

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

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

ASX Additional Information as at 2 October 2018

Substantial Shareholders

The names of the substantial shareholders disclosed to the Company as substantial shareholders as at 2 October 2018 are:

Name	Number of Shares Held	% of Issued Capital
FIL Investment Management (Hong Kong) Limited	9,506,625	10.00%
Fujifilm Corporation	8,088,403	8.98%

Distribution of Ordinary Shares

Category	Number of Holders	Ordinary Shares	% of Issued Capital
1 – 1,000	554	316,345	0.31
1,001 – 5,000	846	2,399,303	2.38
5,001 – 10,000	418	3,393,419	3.37
10,001 – 100,000	751	25,321,651	25.13
100,001 and over	132	69,327,906	68.81
	2,701	**95,658,624**	**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 unlisted options.

Number of Holders of Unlisted Options

700,000 unlisted $1.022 Options expiring 17/11/2019 held by 4 holders [(1)];
300,000 unlisted $0.53 Options expiring 22/02/2019 held by 1 holder [(2)];
2,916,986 unlisted $1.00 Options expiring 17/07/2020 held by 6 holders [(3)];
100,000 unlisted $0.88 Options expiring 4/8/2020 held by 1 holder [(4)]; and
2,000,000 unlisted $1.50 Options expiring 17/11/2019 held by 1 holder [(5)].

Unlisted Option Holders holding 20% or more:

[(1)] 200,000 Options held in the name of Dr John Chiplin (28.57%), 200,000 Options held in the name of Mrs Sharon Anne Macdonald (28.57%) and 200,000 Options held in the name of Mrs Kay Joan Webse (28.57%).

[(2)] 300,000 Options held in the name of Pegari Pty Ltd (100%).

[(3)] 1,666,668 Options held in the name of Merrill Lynch (Australia) Nominees Pty Limited (57.14%) and 1,111,112 Options held in the name of Citicorp Nominees Pty Limited (38.09%).

[(4)] 100,000 Options held in the name of Pegari Pty Ltd (100%).

[(5)] 2,000,000 Options held in the name of Dr Paul Wotton (100%).

Restricted Securities

There are no ASX restricted securities on issue.

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 148.

20 Largest Shareholders

Name	Number of Shares Held	% of Issued Capital
HSBC Custody Nominees (Australia) Limited	9,840,885	9.77
Fujifilm Corporation	8,088,403	8.03
Pershing Australia Nominees Pty Ltd <Phillip Capital A/C>	2,705,000	2.68
Dr Ross Alexander Macdonald	2,500,000	2.48
Mal Washer Nominees Pty Ltd <Mal Washer Family A/C>	2,500,000	2.48
John W King Nominees Pty Ltd	2,463,596	2.45
Professor Igor Slukvin	2,380,317	2.36
J P Morgan Nominees Australia Limited	2,105,107	2.09
Helium Management Pty Ltd <Helium S/F A/C>	1,394,366	1.38
BNP Paribas Nominees Pty Ltd <IB AU Noms Retailclient Drp>	1,356,158	1.35
Citicorp Nominees Pty Limited	1,244,315	1.23
Dr Maksym Vodyanyk	1,191,658	1.18
Tenbagga Resources Fund Pty Ltd <Tenbagga Family A/C>	1,155,447	1.15
Celtic Capital Pte Ltd <Investment 1 A/C>	1,140,000	1.13
Mr Jon Nicolai Herringstad Bjarnason	750,000	0.74
Tisia Nominees Pty Ltd <Henderson Family A/C>	747,430	0.74
Neweconomy Com AU Nominees Pty Limited <900 Account>	726,972	0.72
C M Cook Superannuation Pty Ltd <CM Cook Super Fund A/C>	700,000	0.69
BNP Paribas Noms Pty Ltd <Drp>	674,387	0.67
Mr George McDougall & Ms Geraldine Frances Elmes <GMD Super Fund A/C>	600,000	0.63
	44,264,041	**43.95**