ASX Appendix 4D

Half-Year Financial Report to 31 December 2019

1. Details of reporting period

Name of Entity	Cynata Therapeutics Limited ("the Company")
ABN	98 104 037 372
Reporting Period	**31 December 2019**
Previous Corresponding Period	31 December 2018

2. Results for announcement to the market

	31 Dec 2019 ($)	31 Dec 2018 ($)	Movement (%)	Movement ($)	Up/Down
Revenue and other income	4,525,649	1,438,054	214.71%	3,087,595	Up
Loss from ordinary activities after tax attributable to members	2,548,661	2,980,573	14.49%	(431,912)	Down
Comprehensive loss for the period attributable to members	2,548,661	2,980,573	14.49%	(431,912)	Down

Brief explanation of any of the figures reported above necessary to enable figures to be understood:

For further information, refer to the review of operations contained in the directors' report, which forms part of the attached consolidated financial statements.

3. Net tangible asset backing

	31 December 2019	31 December 2018
Net tangible asset backing per ordinary security	6.43 cents	11.82 cents

4. Details of entities over which control has been gained or lost during the period

N/A

5. Details of Dividends

No dividend has been paid or recommended to be paid for the half-year ended 31 December 2019.

6. Details of dividend reinvestment plans

N/A

7 Details of associate and joint venture entities

N/A

8. Foreign entities

N/A

9. Audit

This report has been based on accounts that have been subject to an audit review. There are no items of dispute with the auditor and the audit review is not subject to qualification.

Dr Ross Macdonald
Managing Director

20 February 2020

Cynata Therapeutics Limited

ABN 98 104 037 372

and its controlled entities

Half year report for the half-year ended

31 December 2019

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
Mr Peter Webse	Non-Executive Director
Dr Geoff Brooke	Non-Executive Director

Company Secretary
Mr Peter Webse

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ASX Code
CYP

Half year report for the half-year ended 31 December 2019

Contents

Directors' report

The directors of Cynata Therapeutics Limited ("Cynata" or "the Company") submit herewith the financial report of Cynata Therapeutics Limited and its subsidiaries ("the Group") for the half-year ended 31 December 2019. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

The names of the directors of the Company during or since the end of the half-year are:

Name
Dr Paul Wotton
Dr Ross Macdonald
Dr Stewart Washer
Mr Peter Webse
Dr Geoff Brooke

Review of operations

The loss of the Group for the half-year ended 31 December 2019, after providing for income tax, amounted to $2,548,661 compared to a loss of $2,980,573 for the half-year ended 31 December 2018.

Key Highlights

- FUJIFILM Corporation (Fujifilm) exercised the license option for CYP-001 in graft-versus-host disease (GvHD), validating Cynata's Cymerus™ platform and paying Cynata a US$3m milestone fee.
- Planning progressed for three Phase 2 clinical trials, expected to commence in 2020:
  - Osteoarthritis: Research Support Agreement signed with the University of Sydney, accelerating trial start-up activities, with trial design nearing completion.
  - Critical limb ischemia (CLI): Clinical trial application lodged and subsequently approved by UK healthcare regulatory authorities.
  - GvHD: Fujifilm advanced activities for the next clinical trial of CYP-001; all future development and commercialisation of CYP-001 will be funded entirely by Fujifilm.
- Key outcomes achieved for Cynata's broad preclinical pipeline:
  - Generated compelling efficacy data for Cymerus MSCs in a pre-clinical model of sepsis.
  - Received a A$50k Innovation Connections grant to support continued research at UNSW Sydney, exploring the potential of Cymerus MSCs in treating coronary artery disease.
  - Published in a leading medical journal, *Stem Cell Research & Therapy,* highlighting the efficacy of Cymerus MSC treatment in preventing organ transplant rejection in a pre-clinical model.
- Notice of Allowance received from the Canadian Intellectual Property Office (CIPO) for a patent application, furthering the protection of Cynata's Cymerus MSC technology.
- Withdrawal from acquisition discussions with Sumitomo Dainippon Pharma Co Ltd, following the non-binding indicative offer of $2 per share, as Cynata was unable to reach an agreement on terms to its satisfaction.

Operational update

Cynata continues to make excellent headway in building value in its proprietary Cymerus cell therapy platform, underpinned by Fujifilm's execution of its license option in GvHD, progress towards multiple Phase 2 clinical trials and activities related to its broad preclinical pipeline. Further compelling pre-clinical data has expanded the utility of its Cymerus MSCs as a potential treatment for a range of diseases.

Fujifilm exercised license option for GvHD, validating Cynata's Cymerus platform

Fujifilm's endorsement via exercising its license option for GvHD is a key milestone for Cynata, validating both its licensing strategy and Cymerus platform technology. Fujifilm is to bear the cost of all further development activities, regulatory submissions and commercialisation in relation to GvHD, with Cynata receiving a US$3m up-front license fee and a potentially lucrative revenue stream from future milestone payments and royalties. This validation supports a continued focus on the commercialisation of Cynata's proprietary Cymerus stem-cell technology in other therapeutic targets.

Progressed Phase 2 trial planning for GvHD, Osteoarthritis and CLI

Since executing its license option, Fujifilm has progressed the further development of CYP-001 for the treatment of GvHD, with a Phase 2 trial expected to commence this calendar year.

In October 2019, Cynata announced that an osteoarthritis Research Support Agreement was signed with the University of Sydney, accelerating trial planning and start-up activities. Trial design is now nearing completion and protocol development advancing, with the 448-patient Phase 2 clinical trial expected to commence in the near-term.

During the period, Cynata also lodged an application for the proposed Phase 2 clinical trial for the treatment of CLI, and subsequently received approval from the UK Medicines Healthcare Products Regulatory agency (MHRA). The Company now anticipates conducting trials across centers in the UK and Australia, with planning currently underway.

Generated further preclinical data and achieved further milestones

In December 2019, Cynata announced positive efficacy data from preclinical studies for the treatment of sepsis, a serious disease sometimes referred to as blood poisoning. In the rodent model, Cymerus MSC treatment was successful in increasing blood oxygen levels, lung compliance and decreasing inflammation.

The Company has now generated efficacy data in pre-clinical models of heart attack, brain cancer, diabetic wounds, coronary artery disease (CAD), pulmonary disease (such as asthma), cytokine release syndrome and most recently sepsis and transplantation rejection.

During the period, Cynata received a A$50k Innovation Connections grant to support continued research at UNSW Sydney, exploring the potential of Cymerus MSCs in treating CAD. Further, a scientific paper demonstrating the efficacy of Cymerus MSCs in a preclinical model of organ transplant rejection was published in a leading peer-reviewed journal, *Stem Cell Research & Therapy.*

Strengthened IP through new patent application

The Company made further progress in strengthening and protecting its proprietary Cymerus MSC technology with the receipt of a Notice of Allowance from the Canadian Intellectual Property Office (CIPO) for a patent application covering its Cymerus MSC technology. Cynata anticipates that the patent will be granted before 11 April 2020, with an expiration date of 16 March 2031. The patent will expand the already strong IP protection of the Cymerus platform and its unique ability to manufacture MSCs at scale, from a single donation, to create therapeutic stem cell products.

Continued focus on business development and corporate activities

Consistent with Cynata's business strategy to secure corporate partners to support the further development and commercialisation of the Cymerus technology, the Company has continued to actively seek partners and further ongoing discussions in multiple indications. This strategy was validated by Fujifilm's execution of the GvHD license agreement and by the acquisition bid received by the Company during the period.

As previously announced on 19 July 2019, Cynata received an indicative, non-binding and conditional proposal from Sumitomo regarding the possible acquisition of all shares in Cynata at $2.00 per share in cash by way of a scheme of arrangement. After engaging in discussions on a non-exclusive basis, Cynata was unable to reach agreement on terms to its satisfaction and accordingly withdrew from those discussions in October 2019.

In January 2020, the Company received a A$1,891,795 R&D Tax Incentive Refund for the 2018/2019 financial year from the Australian Government, as part of the program that encourages companies to engage in research and development.

Outlook

The progression into multiple Phase 2 clinical trials presents an exciting opportunity to provide treatment for patients with serious and debilitating diseases. For Cynata, this represents significant milestones and value catalysts, progressing the Company closer towards commercialisation.

The approval of the CLI trial allows the Company to move forward, with recruitment expected to commence in the near-term. CLI presents a significant opportunity, with the global treatment market forecasted to reach US$5.4 billion by 2025.

In parallel, Cynata continues to work closely with the University of Sydney on planning the trial in osteoarthritis and with Fujifilm on progressing the GvHD trial, with both Phase 2 trials expected to commence this year. Osteoarthritis is another significant opportunity, with the market forecast to grow to US$11.6 billion by 2025, and the Fujifilm license agreement in GvHD offers a potentially lucrative future revenue stream through milestone payments of up to US$43m and royalties.

Cynata's broad pre-clinical pipeline continues to expand, with work continuing on various studies and ongoing discussions for potential collaborations in several indications.

Cynata closed the December 2019 half year with A$5.9m in cash and in January 2020 received a further A$1.9m in cash by way of the R&D tax rebate to continue to support its product development activities.

The Board and Management of Cynata look forward to further demonstrating the broad applicability of our Cymerus platform and its proprietary MSC-based therapeutic products in 2020. The Company will continue to progress commercial interactions with potential strategic partners in multiple indications and geographies.

Subsequent events

On 7 January 2020, the Company received a $1,891,795 R&D Tax Incentive refund.

On 14 January 2020, the Company received approval from the UK Medicines and Healthcare products Regulatory Agency (MHRA) to proceed with its Phase 2 clinical trial of the Cymerus MSC product CYP-002 in patients with critical limb ischemia (CLI).

On 6 February 2020, the Company received a Notice of Allowance from the Israel Patent Office (ILPO) for a patent application covering its proprietary Cymerus MSC technology. The patent application entitled "Methods and materials for hematoendothelial differentiation of human pluripotent stem cells under defined conditions" is owned by the University of Wisconsin-Madison's Wisconsin Alumni Research Foundation (WARF) and is among the intellectual property licensed exclusively from WARF to Cynata.

Auditor’s independence declaration

The auditor’s independence declaration is included on page 5 of the half-year report.

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the *Corporations Act 2001*.

On behalf of the directors

Dr Ross Macdonald
Managing Director
20 February 2020

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20 February 2020

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 review of the financial statements of Cynata Therapeutics Limited for the half-year ended 31 December 2019, 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 review; and

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

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

Samir Tirodkar
Director

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Cynata Therapeutics Limited, which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the half-year ended on that date, condensed notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for Cynata Therapeutics Limited ("the consolidated entity"). The consolidated entity comprises both Cynata Therapeutics Limited ("the Company") and the entities it controlled during the half year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Cynata Therapeutics Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Whilst we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by the directors or management.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, has been provided to the directors of Cynata Therapeutics Limited on 20 February 2020.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Cynata Therapeutics Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

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

Stantons International Audit and Consulting Pty Ltd

Samir Tirodkar
Director

West Perth, Western Australia
20 February 2020

Directors’ declaration

The directors declare that:

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

(b) in the directors’ opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standard AASB 134 *‘Interim Financial Reporting’* and giving a true and fair view of the financial position and performance of the Group.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the directors

Dr Ross Macdonald
Managing Director
20 February 2020

Consolidated statement of profit or loss and other comprehensive income for the half-year ended 31 December 2019

	Note	Consolidated Half-year ended 31 Dec 2019 $	Consolidated Half-year ended 31 Dec 2018 $
Interest income	4	76,017	129,252
Other income	4	4,449,632	1,308,802
Total revenue and other income		**4,525,649**	**1,438,054**
Product development and marketing costs		(4,431,015)	(2,227,282)
Employee benefits expenses		(537,347)	(368,365)
Share based payments expenses	9	(274,354)	(698,651)
Amortisation expenses	7	(140,366)	(139,983)
Other operational expenses	5	(1,691,228)	(984,346)
Loss before income tax		**(2,548,661)**	**(2,980,573)**
Income tax expense		-	-
Loss for the period		**(2,548,661)**	**(2,980,573)**
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		-	-
Other comprehensive income/(loss) for the period, net of income tax		**-**	**-**
Total comprehensive loss for the period		**(2,548,661)**	**(2,980,573)**
Loss attributable to:			
Owners of Cynata Therapeutics Limited		**(2,548,661)**	**(2,980,573)**
Total comprehensive loss attributable to:			
Owners of Cynata Therapeutics Limited		**(2,548,661)**	**(2,980,573)**
Loss per share:			
Basic and diluted (cents per share)		(2.49)	(3.03)

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

Consolidated statement of financial position as at 31 December 2019

	Note	Consolidated 31 Dec 2019 $	Consolidated 30 Jun 2019 $
Current assets			
Cash and cash equivalents		5,918,214	6,977,390
Trade and other receivables	6	13,825	67,044
Prepayments		263,739	286,064
Total current assets		**6,195,778**	**7,330,498**
Non-current assets			
Intangibles	7	3,112,861	3,253,227
Loans receivable	8	1,520,943	1,666,019
Total non-current assets		**4,633,804**	**4,919,246**
Total assets		**10,829,582**	**12,249,744**
Current liabilities			
Trade and other payables		1,039,290	1,236,983
Provisions		54,998	41,295
Total current liabilities		**1,094,288**	1,278,278
Total liabilities		**1,094,288**	**1,278,278**
Net assets		**9,735,294**	**10,971,466**
Equity			
Issued capital	10	49,133,023	47,987,688
Option reserves	9	4,668,564	4,501,410
Foreign currency translation reserves		4,724	4,724
Accumulated losses		(44,071,017)	(41,522,356)
Total equity		**9,735,294**	**10,971,466**

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

Consolidated statement of changes in equity for the half-year ended 31 December 2019

Consolidated	**Issued Capital $**	**Option Reserve $**	**Foreign currency translation reserve $**	**Accumulated losses $**	**Total $**
Balance at 1 July 2018	**44,191,746**	**4,240,602**	**4,724**	**(33,050,210)**	**15,386,862**
Loss for the period	-	-	-	(2,980,573)	(2,980,573)
Other comprehensive income/(loss), net of tax	-	-	-	-	-
Total comprehensive loss for the period	**-**	**-**	**-**	**(2,980,573)**	**(2,980,573)**
Issue of ordinary shares	2,860,699	-	-	-	2,860,699
Share issue costs	(17,243)	-	-	-	(17,243)
Share based payments	-	55,152	-	-	55,152
Balance at 31 December 2018	**47,035,202**	**4,295,754**	**4,724**	**(36,030,783)**	**15,304,897**
Balance at 1 July 2019	**47,987,688**	**4,501,410**	**4,724**	**(41,522,356)**	**10,971,466**
Loss for the period	-	-	-	(2,548,661)	(2,548,661)
Other comprehensive income/(loss), net of tax	-	-	-	-	-
Total comprehensive loss for the period	**-**	**-**	**-**	**(2,548,661)**	**(2,548,661)**
Issue of ordinary shares (*refer to note 10)*	1,160,500	-	-	-	1,160,500
Share issue costs	(15,165)	-	-	-	(15,165)
Share based payments (*refer to note 9*)	-	167,154	-	-	167,154
Balance at 31 December 2019	**49,133,023**	**4,668,564**	**4,724**	**(44,071,017)**	**9,735,294**

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

Consolidated statement of cash flows for the half-year ended 31 December 2019

	Note	Consolidated Half-year ended 31 Dec 2019 $	31 Dec 2018 $
Cash flows from operating activities			
Other income		4,227,150	250
Payments to suppliers and employees		(2,205,575)	(1,399,146)
Interest received (excluding interest on loans receivable)		49,793	100,970
Research and development tax refund received		-	1,308,552
Product development costs paid		(4,353,441)	(2,176,775)
Net cash (used) in operating activities		(2,282,073)	(2,166,149)
Cash flows from financing activities			
Proceeds from equity instruments of the Company	10	1,053,300	417,200
Received from related parties on repayment of loans and interest	8	184,762	200,000
Payment for share issue costs		(15,165)	(17,243)
Net cash provided by financing activities		1,222,897	599,957
Net (decrease) in cash and cash equivalents		**(1,059,176)**	**(1,566,192)**
Cash and cash equivalents at the beginning of the period		6,977,390	12,206,040
Cash and cash equivalents at the end of the period		**5,918,214**	**10,639,848**

The above consolidated statement of cash flows should be read in conjunction with the accompanying condensed notes.

Condensed notes to the consolidated financial statements for the half-year ended 31 December 2019

1. Summary of significant accounting policies

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 '*Interim Financial Reporting*'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 '*Interim Financial Reporting*'. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with annual financial statements of the Company for the year ended 30 June 2019 together with any public announcements made during the following half-year.

The half-year financial report was authorised for issue by the directors on 20 February 2020.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2019 annual financial report for the financial year ended 30 June 2019, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Principles of consolidation

The consolidated financial statements incorporate all assets, liabilities and results of the parent and all of its subsidiaries. Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the consolidated entity from the date on which control is obtained by the Company. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Significant accounting judgements and key estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing these half-yearly statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial report for the year ended 30 June 2019.

Amendments to AASBs and new Interpretations that are mandatorily effective for the current reporting period

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 the current half-year.

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

- AASB 16 *Leases*
  AASB 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases with low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

- AASB 2018-3 *Amendments to Australian Accounting Standards – Reduced Disclosure Requirements*
  AASB 2018-3 establishes the disclosure requirements of AASB 16 *Leases* in financial statements prepared in accordance with Australian Accounting Standards – Reduced Disclosure Requirements (RDR).

- Interpretation 23 *Uncertainty over Income Tax Treatments* and AASB 2017-4 *Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments*
  Interpretation 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments.

The adoption of these Amendments/Interpretation has had no significant impact on the disclosures or the amounts recognised in the Group's condensed consolidated financial statements.

Changes in Accounting Policies

<u>**AASB 16 *Leases* – Accounting Policies applied from 1 July 2019**</u>

The Group as lessee

At inception of a contract, the Group assesses if the contract contains or is a lease. If there is a lease present, a right-of-use asset and a corresponding liability are recognised by the Group where the Group is a lessee. However, all contracts that are classified as short-term leases (i.e. leases with a remaining lease term of 12 months or less) and leases of low-value assets are recognised as an operating expense on a straight-line basis over the term of the lease.

Initially, the lease liability is measured at the present value of the lease payments still to be paid at the commencement date. The lease payments are discounted at the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses incremental borrowing rate.

Lease payments included in the measurement of the lease liability are as follows:

- fixed lease payments less any lease incentives;
- variable lease payments that depend on the index of the rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options;
- lease payments under extension profits, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of options to terminate the lease.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, any lease payments made at or before the commencement date and initial direct costs. The subsequent measurement of the right-of-use asset is at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the lease term or useful life of the underlying asset, whichever is the shortest.

Where a lease transfers ownership of the underlying asset or the costs of the right-of-use asset reflects that the Group anticipates exercising a purchase option, the specific asset is depreciated over the useful life of the underlying asset.

The Group does not currently have any leases that would require recognition of a right-of-use asset in the current reporting period.

2. 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 Company has therefore decided to aggregate all its reporting segments into one reportable operating segment.

The revenue and results of this segment are those of the Group as a whole and are set out in the condensed 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 condensed consolidated statement of financial position.

3. Dividends

No dividends were paid or declared for the half-year ended 31 December 2019 and the directors have not recommended the payment of a dividend.

4. Interest income and other income

	31 Dec 2019 $	31 Dec 2018 $
Interest income		
Interest income	36,331	104,491
Accrued interest on directors' loans	39,686	24,761
	76,017	129,252
Other income		
Other income/grants received (i)	4,449,632	250
R&D rebate received	-	1,308,552
	4,449,632	1,308,802

(i) This represents US$3million paid by FUJIFILM Corporation under the graft-versus-host-disease (GvHD) license agreement.

5. Other operational expenses

	31 Dec 2019 $	31 Dec 2018 $
Accounting and audit fees	49,805	46,976
Consultants and advisory fees	154,173	180,820
Company secretarial fees	49,000	24,000
Directors fees	137,500	125,000
Investor/public relations	260,331	267,637
Legal fees	488,381	214,698
Other general expenses	329,556	125,215
Foreign tax withheld (i)	222,482	-
	1,691,228	984,346

(i) This represents US$150,000 being the Japanese 5% withholding tax from the option fee received from FUJIFILM Corporation. The Group expensed the withholding tax as recoverability of this tax is not certain.

6. Trade and other receivables

	31 Dec 2019 $	30 Jun 2019 $
Deposits made	3,568	3,568
Other receivables	10,257	63,476
	13,825	67,044

None of the trade and other receivables are past due at the reporting date.

7. Intangibles

	31 Dec 2019 $	30 Jun 2019 $
Balance at the beginning of the period (i)	3,253,227	3,533,192
Amortisation (ii)	(140,366)	(279,965)
Balance at the end of the period	3,112,861	3,253,227

(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 $140,366 has been recognised in profit or loss for the half-year ended 31 December 2019 (31 December 2018: $139,983). For more information on the Group's accounting policy on intangibles and amortisation, refer to the 2019 annual financial report.

8. Loans receivable

	31 Dec 2019 $	30 Jun 2019 $
Balance at beginning of period	1,666,019	1,800,000
Interest accrued (ii)	39,686	66,019
Repayments by related parties (iii)	(184,762)	(200,000)
Balance at reporting period	1,520,943	1,666,019

(i) At a General Meeting of shareholders held on 12 September 2018, shareholders of Cynata approved the financial assistance and financial benefit provided to Dr Macdonald and Dr Washer or their nominees as constituted by the making of a director loan of $900,000 each to Dr Macdonald and Dr Washer solely for the purpose of funding the exercise of 2,500,000 unlisted options each at $0.40 having an expiry date of 27 September 2018. Each director has paid $100,000 in cash on exercise of these options. The loans provided are full recourse loans and unsecured. At 31 December 2019, neither of the loans were impaired.

(ii) The director loans carry a simple interest rate of 5.20% per annum and have a 3-year term. Interest is paid annually and accrued daily.

(iii) During the half-year ended 31 December 2019, Dr Ross Macdonald repaid $137,962 of his loan which included $37,962 accrued interest and Dr Stewart Washer repaid $46,800 of his loan which represents accrued interest. The accrued interest paid by Dr Macdonald and Dr Washer is the interest due and payable on the first anniversary of the loans.

9. Option reserves

Share-based payments	31 Dec 2019 $	30 Jun 2019 $
Balance at beginning of period	4,501,410	4,240,602
Recognition of share-based payments (i)	167,154	260,808
Balance at end of period	4,668,564	4,501,410

The equity-settled employee benefits reserve arises on the grant of share options to executives, employees, consultants and advisors.

(i) Total amount arising from share-based payment transactions as a result of the vesting of unlisted options recognised during the half-year ended 31 December 2019 was $167,154 (30 June 2019: $260,808).

(ii) Total amount of share-based payments recognised in the statement of profit or loss and other comprehensive income ($274,354) includes an amount of $107,200 representing the value assigned to the cashless exercise of 400,000 options; 100,000 by Dr Wotton, 200,000 by Dr Macdonald and 100,000 by Mr Webse in accordance with the terms and conditions using the cashless exercise mechanism. This was credited to issued capital.

10. Issued capital

	31 Dec 2019 $	30 Jun 2019 $
103,018,153 fully paid ordinary shares (30 June 2019: 101,885,053)	49,133,023	47,987,688

Fully paid ordinary shares	31 Dec 2019 No.	31 Dec 2019 $	30 Jun 2019 No.	30 Jun 2019 $
Balance at beginning of period	101,885,053	47,987,688	95,066,251	44,191,746
Exercise of share options (i)	50,000	51,100	-	-
Exercise of share options (ii)	200,000	200,000	-	-
Exercise of share options (iii)	700,000	700,000	-	-
Exercise of share options (iv)	100,000	102,200	-	-
Exercise of share options (v)	83,100	107,200	-	-
Exercise of share options (vi)	-	-	60,000	60,000
Exercise of share options (vii)	-	-	477,373	643,500
Exercise of share options (viii)	-	-	55,000	55,000
Exercise of share options (ix)	-	-	5,000,000	2,000,000
Exercise of share options (x)	-	-	100,000	102,200
Exercise of share options (xi)	-	-	336,429	336,429
Exercise of share options (xii)	-	-	100,000	102,200
Exercise of share options (xiii)	-	-	300,000	159,000
Exercise of share options (xiv)	-	-	340,000	340,000
Exercise of share options (xv)	-	-	50,000	51,100
Share issue costs	-	(15,165)	-	(53,487)
	103,018,153	49,133,023	101,885,053	47,987,688

(i) Exercise of unlisted 17 November 2019 options at $1.022 each on 2 August 2019.
(ii) Exercise of unlisted 17 July 2020 options at $1.00 each during the month of August 2019.
(iii) Exercise of unlisted 17 July 2020 options at $1.00 each during the month of September 2019.
(iv) Exercise of unlisted 17 November 2019 options at $1.022 each on 11 November 2019.
(v) Cashless exercise of 400,000 unlisted options on 11 November resulting in the issue of 83,100 fully paid ordinary shares at a calculated value of $107,200.
(vi) Exercise of unlisted 17 July 2020 options at $1.00 each on 6 July 2018.
(vii) Cashless exercise of 750,000 unlisted 16 December 2018 options on 11 July 2018 resulting in the issue of 477,373 ordinary shares at a calculated value of $643,499.
(viii) Exercise of unlisted 17 July 2020 options at $1.00 each on 16 July 2018.
(ix) Exercise of unlisted 27 September 2018 options at $0.40 each on 25 September 2018.
(x) Exercise of unlisted 17 November 2019 options at $1.022 each on 25 September 2018.
(xi) Exercise of unlisted 17 July 2020 options at $1.00 each in February 2019.
(xii) Exercise of unlisted 17 November 2019 options at $1.022 each on 11 February 2019.
(xiii) Exercise of unlisted 22 February 2019 options at $0.53 each on 22 February 2019.
(xiv) Exercise of unlisted 17 July 2020 options at $1.00 each in March 2019.
(xv) Exercise of unlisted 17 November 2019 options at $1.022 each on 7 May 2019.

11. Contingent liabilities and contingent assets

There has been no significant change in contingent liabilities and/or contingent assets since the last annual report.

12. Commitments

Research commitments

The Group has entered into a number of agreements related to research and development activities. As at 31 December 2019, under these agreements, the Company is committed to making payments over the future period, as follows:

	A$
- During the period 1 Jan 2020 – 30 June 2020	1,038,561
- During the period 1 July 2020 – 30 June 2021	1,203,799
- During the period 1 July 2021 – 30 June 2022	349,064

Where commitments are denominated in foreign currencies, the amounts have been converted to Australian dollars based on exchange rates prevailing as at 31 December 2019.

13. Key management personnel

Remuneration arrangements of key management personnel are disclosed in the annual financial report. Arrangements with related parties continue to be in place. For details of these arrangements, please refer to the 30 June 2019 annual financial report.

Key management personnel continue to receive compensation in the form of short-term employee benefits, bonuses, post-employment benefits and share-based payments.

14. Subsequent events

On 7 January 2020, the Company received a $1,891,795 R&D Tax Incentive refund.