



Cynata Therapeutics Limited

ABN 98 104 037 372

and its controlled entities

**Half year report for the half year ended
31 December 2013**

Corporate directory

Board of Directors

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

Company Secretary

Mr Peter Webse

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Website

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Auditors

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West Perth, Western Australia 6005

Share Registry

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Applecross, Western Australia 6153
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Perth, Western Australia 6000

ASX Code: CYP (effective 18 November 2013) (formerly ECQ)

Half year report for the half-year ended 31 December 2013

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Directors' report

The directors of Cynata Therapeutics Limited ("the Company") (formerly Eco Quest Limited) submit herewith the financial report of Cynata Therapeutics Limited and its subsidiaries ("the consolidated entity") for the half-year ended 31 December 2013. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

Names of Directors

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

Dr Stewart Washer
Dr Ross Macdonald
Mr Howard Digby
Mr Peter Webse

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

Dr Stewart Washer – appointed 1 August 2013
Dr Ross Macdonald – appointed 1 August 2013
Mr Darren Olney-Fraser – appointed 21 October 2011 and resigned 1 August 2013

Review of operations

The loss of the consolidated entity for the half-year ended 31 December 2013, after providing for income tax, amounted to \$1,727,561 compared to a loss of \$380,601 for the half-year ended 31 December 2012. The loss for the half-year ended 31 December 2013 includes a share-based payment expense of \$1,015,805 arising from the issue of 5,000,000 options (post consolidation) to Dr Washer and Dr Macdonald. (*Refer to note 9 for more information*).

The Company has historically conducted a business of development and commercialisation of biodegradable non woven hygiene products technology. Following an extensive review of the operations of this business the Company has sought to license its biodegradable technologies to third parties to manufacture, market and distribute consumer products (nappies and wipes) based on this intellectual property. Aside from activities associated with seeking suitable licensees, the Company does not propose to invest any further capital into this biodegradable products business.

As part of the aforementioned business review, the Company sought opportunities to acquire other intellectual property assets that could serve to broaden the Company's asset base and have the potential to deliver new revenue streams. These efforts led to the Company taking an equity interest in Cynata Incorporated ("Cynata Inc"). Cynata Inc is a California registered biotechnology company that conducts a business focused around its interest as licensee in proprietary stem cell technologies. The origin of the technology is the University of Wisconsin – Madison, an acknowledged world leader in stem cell and regenerative medicine technologies. Cynata Inc specialises in multi-purpose stem cell technology for potential regenerative medicine applications.

On 12 July 2013, the Company announced it had made a further investment into Cynata Inc, in the amount of US\$250,000 in consideration for the issue of 6,250,000 Cynata Inc shares. At the same time, the Company also entered into option agreements under which it acquired the right to acquire from the owners of Cynata Inc all Cynata Inc shares that the Company did not own, in consideration for, in aggregate, 200,000,000 shares on a pre-consolidation basis (which equates to 10,000,001 shares post consolidation). On 24 September 2013, the Company announced the exercise of its options to acquire Cynata Inc shares. Completion of the acquisition was subject to a range of conditions precedent, set out in detail in the prospectus filed by the Company on 14 October 2013. To provide sufficient capital to fund the operations of the Company (i.e. principally development of the stem cell technology in Cynata Inc), the Company undertook a capital raising of \$5,000,000, with an ability to take oversubscriptions of

up to a further \$1,000,000, by way of the aforementioned prospectus. As the exercise of the options to acquire Cynata Inc would result in a significant change in the nature and scale of the Company's activities, shareholder approval was required under Chapter 11 of the ASX Listing Rules. The Company held its Annual General Meeting on 29 October 2013 and obtained shareholders' approval for, among other things, the acquisition of Cynata Inc, the change in the nature and scale of the Company's activities, the prospectus capital raising, a 20 into 1 consolidation of capital and a change of Company name to Cynata Therapeutics Limited ("Cynata").

Having completed the steps required to re-list on the ASX and having raised \$5,000,000 through the aforementioned capital raising, the Company resumed trading on the Australian Securities Exchange (ASX) on 29 November 2013 as Cynata Therapeutics Limited. The focus of Cynata's business is the development and commercialisation of a proprietary mesenchymal stem cell (MSC) technology for potential human therapeutic use, which the Company has branded Cymerus™. Cynata's Cymerus™ technology represents an important breakthrough in stem cell product research that facilitates large-scale manufacture of MSCs from a single donor, comparing favourably to most other MSC technologies that require multiple donors. This has the potential to revolutionise commercial manufacture of MSC based therapeutic products.

Cynata intends to undertake a program of development during the 2014 and 2015 calendar years designed to add value to the Cymerus™ technology. This is expected to culminate in the conduct of a first-in-man (Phase 1) clinical trial. The pre-clinical product development program will consist of studies designed to further characterise the Cymerus™ product, to provide additional proof-of-concept (efficacy) in a suitable animal model(s) and to ensure product safety. Guiding this program will be advice sought from a regulatory consultant engaged by the Company to assist in charting the regulatory path to Phase 1 clinical studies and eventual product approval. The Company will also engage the services of a suitable cell product manufacturer to undertake, under contract, manufacturing process development, and MSC product manufacture. This activity will ensure suitable manufacturing process validation and controlled documentation is in place to support future commercialisation activities. It will also provide Cymerus™ product for the aforementioned pre-clinical and clinical studies. During the first half of calendar 2014 the Company intends to be in a position to update the market on the specific details of the development program, including the engagement of suitable resources to effectively and efficiently conduct it.

Cynata intends to create shareholder value by developing an "off the shelf", allogeneic (i.e. non donor-related), therapeutic stem cell platform, which will be further developed into specific cellular therapeutic products to treat a range of medically and economically important diseases. Until recently, the idea of using stem cells to "repair" the human body and modulate inflammatory processes seemed to be an optimistic expectation. However, the recent market approval of two stem cell based products and a range of stem cell products in mid- and late-stage clinical testing, has confirmed that regenerative medicine is becoming a reality. A number of important clinical successes, together with some inevitable disappointments, have helped further define and understand the parameters of stem cell therapy to ensure that it will become a new paradigm in human healthcare.

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

- (a) development of specific therapeutic products that incorporate the Cymerus™ technology; and
- (b) sub-licensing enabling technology to other parties

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

To that end, the Company will, at the appropriate time(s), seek to engage with potential commercial partners. Partnering business strategies are widely deployed by many innovation-based life sciences companies as a successful means to maximise value and reduce risk.

To assist the Company in managing the risks inherent in developing and commercialising a potential therapeutic product management seeks to identify specific risk elements and to quantify both the likelihood of their occurrence and the potential impact upon the Company's operations. By doing so, management is able to develop strategies and plans to mitigate these risks as much as reasonably possible. Management continually assesses the Company's risk profile and informs the Board on a regular basis to ensure appropriate mitigation measures are implemented.

Cynata Therapeutics Ltd is now well-placed financially and with an experienced management team in place to accelerate development of, and add substantial value to, the Cymerus™ technology.

Auditor's independence declaration

The auditor's independence declaration as required under s.307C of the *Corporations Act 2001* is included on page 4 and forms part of the directors' report for the half- year ended 31 December 2013.

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
25 February 2014
Perth, Western Australia

25 February 2014

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

Dear Directors

RE: CYNATA THERAPEUTICS LIMITED

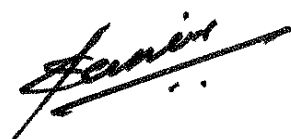
In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Cynata Therapeutics Limited.

As the Audit Director for the review of the financial statements of Cynata Therapeutics Limited for the half-year ended 31 December 2013, 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

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 2013, 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 2013 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 25 February 2014.

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 2013 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



Samir Tirodkar
Director

West Perth, Western Australia
25 February 2014

Directors' declaration

The directors declare that:

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

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

25 February 2014
Perth, Western Australia

Consolidated statement of profit or loss and other comprehensive income for the half-year ended 31 December 2013

	Note	Consolidated	Single entity
		Half-year ended	
		31 Dec 2013	31 Dec 2012
		\$	\$
Continuing operations			
Revenue		-	33,964
Other income	2	49,686	19,352
Cost of goods sold		-	(8,689)
Product development and marketing costs		(73,935)	(52,015)
Employee benefits expenses		(208,631)	(48,876)
Share based payments expenses	9	(1,015,805)	(37,262)
Depreciation and amortisation expenses		(30)	-
Other operational expenses		(478,846)	(287,075)
Loss before income tax		(1,727,561)	(380,601)
Income tax expense		-	-
Loss for the period		(1,727,561)	(380,601)
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		3,978	-
Other comprehensive income for the period, net of income tax		3,978	-
Total comprehensive loss for the period		(1,723,583)	(380,601)
Loss attributable to:			
Owners of Cynata Therapeutics Limited		(1,727,561)	(380,601)
Total comprehensive loss attributable to:			
Owners of Cynata Therapeutics Limited		(1,723,583)	(380,601)
Loss per share:			
Basic and diluted (cents per share)		0.42	1.80

Condensed notes to the consolidated financial statements are included on pages 12 to 20.

Consolidated statement of financial position as at 31 December 2013

		Consolidated	Single entity
	Note	31 Dec 2013	30 Jun 2013
		\$	\$
Current assets			
Cash and cash equivalents		6,200,228	1,116,587
Trade and other receivables		71,824	33,261
Total current assets		6,272,052	1,149,848
Non-current assets			
Investments in associates		-	642,695
Property, plant and equipment		713	-
Intangibles	6	4,821,799	-
Total non-current assets		4,822,512	642,695
Total assets		11,094,564	1,792,543
Current liabilities			
Trade and other payables		225,977	13,988
Provisions		-	135,712
Total current liabilities		225,977	149,700
Total liabilities		225,977	149,700
Net assets		10,868,587	1,642,843
Equity			
Issued capital	7	22,271,642	12,338,120
Option reserves	8	2,559,857	1,544,052
Foreign currency translation reserves		3,978	-
Accumulated losses		(13,966,890)	(12,239,329)
Total equity		10,868,587	1,642,843

Condensed notes to the consolidated financial statements are included on pages 12 to 20.

Consolidated statement of changes in equity for the half-year ended 31 December 2013

	Issued Capital \$	Option Reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total \$
<i>Single entity</i>					
Balance at 1 July 2012	10,913,811	1,263,570	-	(11,323,628)	853,753
Loss for the period	-	-	-	(380,601)	(380,601)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	(380,601)	(380,601)
Issue of ordinary shares	1,750,000	-	-	-	1,750,000
Share issue costs	(325,691)	-	-	-	(325,691)
Share based payments	-	248,542	-	-	248,542
Balance at 31 December 2012	12,338,120	1,512,112	-	(11,704,229)	2,146,003
<i>Consolidated</i>					
Balance at 1 July 2013	12,338,120	1,544,052	-	(12,239,329)	1,642,843
Loss for the period	-	-	-	(1,727,561)	(1,727,561)
Other comprehensive income	-	-	3,978	-	3,978
Total comprehensive loss for the period	-	-	3,978	(1,727,561)	(1,723,583)
Issue of ordinary shares	6,429,572	-	-	-	6,429,572
Issue of ordinary shares related to business combination	4,000,000	-	-	-	4,000,000
Share issue costs	(496,050)	-	-	-	(496,050)
Share based payments	-	1,015,805	-	-	1,015,805
Balance at 31 December 2013	22,271,642	2,559,857	3,978	(13,966,890)	10,868,587

Condensed notes to the consolidated financial statements are included on pages 12 to 20.

Consolidated statement of cash flows for the half-year ended 31 December 2013

	Note	Consolidated	Single entity
		Half-year ended	
		31 Dec 2013	31 Dec 2012
		\$	\$
Cash flows from operating activities			
Receipts from customers		-	44,964
Payments to suppliers and employees		(713,798)	(474,308)
Interest received		24,628	19,352
Research and development tax refund received		25,058	-
Development costs paid		(73,935)	-
Net cash used in operating activities		(738,047)	(409,992)
Cash flows from investing activities			
Cash acquired from acquisition of subsidiary		159,469	-
Payments for investments	5	(271,303)	(746,313)
Net cash used in investing activities		(111,834)	(746,313)
Cash flows from financing activities			
Proceeds from equity instruments of the Company		6,429,572	1,750,000
Payment for share issue costs		(496,050)	(114,411)
Net cash provided by financing activities		5,933,522	1,635,589
Net increase in cash and cash equivalents		5,083,641	479,284
Cash and cash equivalents at the beginning of the period		1,116,587	993,076
Cash and cash equivalents at the end of the period		6,200,228	1,472,360

Condensed notes to the consolidated financial statements are included on pages 12 to 20.

Condensed noted to the consolidated financial statements for the half-year ended 31 December 2013

1. 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 Standards IAS 34 *'Interim Financial Reporting'*. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with annual financial statements of the Company's for the year ended 30 June 2013 together with any public announcements made during the following half-year.

The half-year financial report was authorised for issue by the directors on 25 February 2014.

Basis of preparation

The 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 2013 annual financial report for the financial year ended 30 June 2013, 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.

The 2013 annual financial statements represented a single entity.

New and revised accounting requirements applicable to the current half-year reporting period

The consolidated entity 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 consolidated entity include:

- AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 11 'Joint Arrangements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'

- AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'
- AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'
- AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'

Impact of the application of AASB 10

AASB 10 replaces the parts of AASB 127 'Consolidated Separate Financial Statements' that deal with consolidated financial statements and Interpretation 112 'Consolidation – Special Purpose Entities'. AASB 10 changes the definition of control such that an investor controls an investee when a) it has power over an investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee, and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in AASB 10 to explain when an investor has control over an investee. Some guidance included in AASB 10 that deals with whether or not an investor that owns less than 50 per cent of the voting rights in an investee has control over the investee is relevant to the consolidated entity.

Impact of the application of AASB 13

The consolidated entity has applied AASB 13 for the first time in the current year. AASB 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of AASB 13 is broad; the fair value measurement requirements of AASB 13 apply to both financial instrument items and non-financial instrument items for which other AASBs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of AASB 2 'Share-based Payment', leasing transactions that are within the scope of AASB 117 'Leases', and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under AASB 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, AASB 13 includes extensive disclosure requirements.

AASB 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the consolidated entity has not made any new disclosures required by AASB 13 for the 2012 comparative period, the application of AASB 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Impact of the application of AASB 119

In the current year, the consolidated entity has applied AASB 119 (as revised in 2011) 'Employee Benefits' and the related consequential amendments for the first time.

AASB 119 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the

'corridor approach' permitted under the previous version of AASB 119 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of AASB 119 are replaced with a 'net interest' amount under AASB 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.

Impact of the application of AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'

The consolidated entity has applied the amendments to AASB 7 "Disclosures – Offsetting Financial Assets and Financial Liabilities' for the first time in the current year. The amendments to AASB 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments have been applied retrospectively. As the consolidated entity does not have any offsetting arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognised in the consolidated financial statements.

Principles of consolidation

The consolidated financial statements incorporate all assets, liabilities and results of the parent and all of the 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 consolidated entity.

Fair value of assets and liabilities

The consolidated entity measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the consolidated entity would receive to sell an asset or would have to pay to transfer a liability in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date. As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (i.e. market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (i.e. the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking account transactions costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the entity's own equity instruments (excluding those related to share-based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial instruments, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the consolidated financial statements.

Valuation techniques

In the absence of an active market for an identical asset or liability, the consolidated entity selects and uses one or more valuation techniques to measure the fair value of the asset or liability. The consolidated entity selects a valuation technique that is appropriate in the circumstances and for which sufficient and relevant data primarily depends on the specific characteristics of one asset or liability being measured. The valuation techniques selected by the Company are consistent with one or more of the following valuation approaches:

- Market approach: valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets and liabilities.
- Income approach: valuation techniques that convert estimated future cash flows or income and expenses into a single and discounted present value.
- Cost approach: valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the consolidated entity gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

Fair value hierarchy

AASB 13 requires the disclosure of fair value information by the level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

Level 1

Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 2

Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3

Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

The consolidation entity would change the categorisation within the fair value hierarchy only in the following circumstances:

- (i) if a market that was previously considered active (Level 1) became inactive (Level 2 or 3) or vice versa; or
- (ii) if significant inputs that were previously unobservable (Level 3) became observable (Level 2) or vice versa.

When a change in the categorisation occurs, the consolidated entity recognises transfers between levels of the fair value hierarchy (i.e. transfers into and out of each level of the fair value hierarchy) on the date the event or change in circumstances occurred.

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 2013.

2. Other income

	31 Dec 2013	31 Dec 2012
	\$	\$
Interest income	24,628	19,352
Research and development refund received	25,058	-
	49,686	19,352

3. Segment information

The consolidated entity operates in one business segment namely the development and commercialisation of therapeutic products.

4. Dividends

No dividends were paid or declared for the half-year ended 31 December 2013 and the directors have not recommended the payment of a dividend.

5. Investments in associates

On 12 July 2013, the Company made an additional investment of \$271,303 (31 Dec 2012: \$746,313) in Cynata Inc, a US based company engaged in the development of a therapeutic stem cell platform to be used in therapeutic products. Upon completion of this investment, the Company gained a combined interest of 33% in Cynata Inc. Subsequently, Eco Quest Limited exercised its right to acquire the remaining share capital of Cynata Inc. (*Refer to note 6 for more information*).

6. Acquisition of subsidiary (Business Combinations)

On 24 September 2013, the Company exercised its option to acquire all remaining shares in Cynata Inc, increasing its interest in Cynata Inc from 33% to 100%. The acquisition became effective as from 1 December 2013. The purchase of the remaining 67% of the share capital of Cynata Inc was satisfied by the issue of 10,000,001 shares at an issue price of \$0.40 each. No cash payment was made for the 67% interest.

Consideration transferred

	Fair value
	\$
Cash (i)	1,017,616
Non-cash – issue of shares (ii)	4,000,000
	5,017,616

(i) This represents a combined sum of US\$1,000,000 transferred via three (3) stages to acquire 33% of Cynata Inc. The payments made to acquire the 33% of Cynata Inc have been assessed to represent the fair value.

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

Assets acquired and liabilities assumed at the date of acquisition

	\$
Current assets	
Cash	159,469
Trade and other receivables	2,429
Non-current assets	
Plant and equipment	743
Current liabilities	
Trade and other payables	(93,787)
Net assets	68,854

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

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

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

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

7. Issued Capital

	31 Dec 2013	30 Jun 2013
	\$	\$
54,909,153 fully paid ordinary shares (30 June 2013: 505,223,461 before 1 for 20 consolidation)	22,271,642	12,338,120

Fully paid ordinary shares	31 Dec 2013		30 Jun 2013	
	No.	\$	No.	\$
Balance at beginning of period	505,223,461	12,338,120	405,223,461	10,913,811
Share placement (i)	30,000,000	300,000	-	-
Exercise of share options (ii)	55,000,000	550,000	-	-
Share placement (iii)	45,749,030	457,490	-	-
Exercise of share options (iv)	11,780,832	117,809	-	-
Shares issued (v)	378,310	3,783	-	-
Reduced after 1 for 20 share consolidation (vi)	(615,724,932)	-	-	-
Issue in business combination (vii)	10,000,001	4,000,000	-	-
Shares issued (viii)	12,500,000	5,000,000	-	-
Exercise of share options (ix)	2,451	490	-	-
Shares issued	-	-	100,000,000	1,750,000
Share issue costs	-	(496,050)	-	(325,691)
	54,909,153	22,271,642	505,223,461	12,338,120

(i) Share placement at \$0.01 per share on 7 August 2013.

(ii) Exercise of listed options at \$0.01 each during the month of August 2013.

(iii) Share placement at \$0.01 per share on 2 September 2013.

(iv) Exercise of listed options at \$0.01 each on 2 October 2013.

(v) Issue of 378,310 fully paid ordinary shares at \$0.01 per share on 2 October 2013. These shares were rejected in error pursuant to the share placement completed on 2 September 2013.

(vi) A 1 for 20 share consolidation was effected on 8 November 2013.

(vii) Shares issued for non-cash as consideration for the acquisition by the Company from the vendors of Cynata Inc. for the shares that the Company did not already own pursuant to the option agreement released to the ASX on 12 July 2013.

(viii) Issue of fully paid ordinary shares at \$0.40 per share in accordance with the Prospectus dated 14 October 2013.

(ix) Exercise of listed options at \$0.20 each on 17 December 2013.

8. Reserves

	31 Dec 2013	30 Jun 2013
	\$	\$
Balance at beginning of period	1,544,052	1,263,570
Recognition of share-based payments (i)	1,015,805	280,482
Balance at end of period	2,559,857	1,544,052

(i) Refer to note 9 for more information

9. Share based payments

During the half-year, the Company issued 100,000,000 unlisted options (on a pre-consolidation basis) to Dr Washer and Dr Macdonald, following shareholders' approval on 27 September 2013 with an exercise price of \$0.02 each and expiring on 27 September 2018. The options were authorised for issue by the shareholders on 27 September 2013 and were subsequently consolidated on a 1 for 20 basis.

Prior to the 1 for 20 share consolidation, the options vested as follows:

Tranche	Number of options	Vesting conditions
A	50,000,000	Upon grant
B	30,000,000	Vest if volume weighted average share price over a period of 10 consecutive days is at least \$0.04.
C	20,000,000	Vest if the volume weighted average share price over a period of 10 consecutive days is at least \$0.06.

The model inputs for options (on pre-consolidation basis) granted during the current period was as follows:

Input	27 September 2018
	100,000,000 options
Fair value at grant date	\$0.0182
Share price on grant date	\$0.0210
Exercise price	\$0.0200
Expected volatility	126%
Option life	5 years
Expected dividends	N/A
Risk-free interest rate	3.46%

On a post consolidation basis (1 for 20), the options vest as follows:

Tranche	Number of options	Vesting conditions
A	2,500,000	Upon grant
B	1,500,000	Vest if volume weighted average share price over a period of 10 consecutive days is at least \$0.80.
C	1,000,000	Vest if the volume weighted average share price over a period of 10 consecutive days is at least \$1.20.

No discount was applied to the 2,500,000 options (Tranche A) which vested upon grant. For the remaining 2,500,000 options (Tranches B and C), a discount of 40% was applied.

Expenses arising from share-based payment transactions

Total expenses arising from share-based payments transactions recognised during the half-year ended 31 December 2013 was \$1,015,805 (31 Dec 2012: \$248,542).

10. Contingent liabilities

As at the half-year ended 31 December 2013, the contingent liabilities as disclosed in the annual report for the year ended 30 June 2013 amounting to \$93,507 had been settled. There are no other contingent liabilities as at 31 December 2013.

11. Commitments

At the half-year ended 31 December 2013, the consolidated entity had no commitments other than Cynata Inc's obligations pursuant to the License Agreement with Wisconsin Alumni Research Foundation (WARF). In accordance with the License Agreement, Cynata Inc is required to pay WARF a license fee of:

- (a) US\$60,000 within one (1) year of 26 March 2013; and
- (b) US\$60,000 within two (2) years of 26 March 2013.

In addition to this, Cynata Inc agreed to pay WARF a royalty based on the selling price of products the subject of the licenses. Starting in calendar year 2014, Cynata Inc must pay to WARF a minimum annual royalty against which any earned royalty paid for the same calendar year will be

credited. The percentage of the royalty is doubled in certain circumstances where Cynata Inc or any sub-licensees contest the validity of the Cynata Technology IP. Further, Cynata Inc has agreed to reimburse WARF towards to the costs incurred by WARF in filing, prosecuting and maintaining some of the licensed patents and patent applications outlined in the License Agreement.

If Cynata Inc exercises its rights to sub-license certain rights under the License Agreement, it must pay US\$10,000 to WARF and also 30% of any fees received by Cynata Inc from such sub-licensees.

12. 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 2013 annual financial report.

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

13. Subsequent events

There has not been any matter or circumstance, other than that referred to below, that has arisen since the end of the half-year that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

- (i) On 10 February 2014, the Company announced that it has signed a manufacturing agreement with Waisman Biomanufacturing (“Waisman”) under which Waisman will undertake manufacturing process development, scale-up and clinical grade manufacture of Cynata’s proprietary Cymerus™ off-the-shelf stem cell product.