

patrys



ANNUAL
REPORT
2019



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Letter from the Chairman

Dear Shareholders,

Thank you for your continued support over the past year.

Patrys has made significant progress in the development of the Deoxymab platform during FY19. Deoxymab 3E10 has demonstrated potential to improve therapeutic outcomes across a range of different cancers. The Company has strategically identified metastatic triple negative breast cancer (MTNBC) and glioblastoma multiforme (GBM) as our initial target indications.

Both MTNBC and GBM are challenging cancers to treat, and prognosis for patients remains poor. The targeted indications may be ultimately eligible for FDA fast-track designations, which could accelerate the path to approval and commercialisation. Effective therapies for GBM and MTNBC represent significant market opportunities and the possibility to pair our technology with existing treatments further enhances the attractiveness of our approach to potential partners.

During FY19, the Company continued to produce successful data across a range of pre-clinical studies of PAT-DX1 (Deoxymab 3E10 lead candidate) and its nanoparticle-conjugated form, PAT-DX1-NP. Studies to date have supported the potential to increase tumour suppression and improve therapeutic outcomes, while simultaneously improving the side effect profiles of the current standards of care.

The ability to cross the blood brain barrier creates significant potential to treat a range of brain cancers and drastically improve the prognosis for patients. The pre-clinical data produced by the Company and its partners to date is significant and exciting.

The positive findings from our initial studies have generated interest from both academic and the broader community, providing assurance and validation for the development direction of the Company. Throughout the financial year, the Company has reported several new collaborations and strengthened its financial position through research grants. The Company was also very pleased to finally achieve a \$3 million negotiated settlement with its insurers for prior manufacturing issues.

We look forward to progressing the PAT-DX1 and PAT-DX1-NP development programs with the intention of working towards an IND filing.

Finally, I would like to take this opportunity to thank our shareholders for their continued support of Patrys and I look forward to continuing to share the journey going forward.



John Read

Chairman

“The ability to cross the blood brain barrier creates significant potential to treat a range of brain cancers and drastically improve the prognosis for patients.”



Patrys snapshot

Patrys aim and vision

Patrys believes that, despite recent advances, novel therapies are desperately needed to help fight a range of cancers. Patrys is committed to the development and commercialisation of novel antibody technologies and aims to revolutionise patient outcomes across a range of hard-to-treat cancers. The Company is initially focused on targeting underserved oncology indications, such as glioblastoma and metastatic triple-negative breast cancer, with the potential of expanding to other indications.

Introducing the Deoxymab 3E10 platform

Patrys is a drug development company focused on commercialising antibody therapies for oncology. Patrys has exclusive worldwide rights to develop and commercialise the Deoxymab platform technology developed at Yale University (PAT-DX1, PAT-DX1-NP and 5C6) to form a portfolio of novel anti-cancer and diagnostic agents.

The Company's lead candidate, PAT-DX1 and its nanoparticle conjugated form (PAT-DX1-NP) have demonstrated significant potential as novel cancer therapy that has the capacity to penetrate cancer cell nuclei, inhibit DNA repair and kill DNA repair-deficient cancer cells. These characteristics open up new avenues for researching treatment of BRCA2 and PTEN-related cancers including (but not limited to) breast cancer, brain gliomas, pancreatic cancer, ovarian cancer and prostate cancer.


Key investment highlights

| | |
|---|---|
|  <p>Patrys is operating in a favourable space</p> | <ul style="list-style-type: none">✓ Target indications addressable market worth ~US\$1bn p.a.✓ Active pre-clinical biological deals environment with large transactions at the pre-clinical stage✓ Target indications are traditionally hard-to-treat, streamlining development timelines and potential expansion to other indications |
|  <p>Potential game changer for cancer treatment</p> | <ul style="list-style-type: none">✓ PAT-DX1 inhibits key mechanisms of DNA repair in tumour cells✓ Crosses the blood brain barrier✓ Safe and potentially low-toxicity treatment option |
|  <p>Promising pre-clinical study results</p> | <ul style="list-style-type: none">✓ Suppresses tumour growth and increases survival rates in animal studies✓ Significantly reduces presence of brain metastases in animal studies✓ Shows efficacy as a single agent and in combination with radiotherapy |
|  <p>Multiple options for development</p> | <ul style="list-style-type: none">✓ Significant pre-clinical development pipeline for CY19/CY20✓ PAT-DX1 cell line development due to be completed in CY20✓ IND filing scheduled for the end of CY20 paving the path towards the clinic✓ Growing interest from industry players✓ Potential business development opportunities |

Target indications and addressable markets

The Deoxymab 3E10 (PAT-DX1 platform) has broad applicability across multiple indications. Informed by disease mechanism and market attractiveness, Patrys is currently prioritising glioblastoma (GBM) and metastatic triple-negative breast cancer (MTNBC) as target indications to progress towards the clinic.

As a single agent, PAT-DX1 is selectively toxic to cancer cells that have deficiencies in DNA repair, indicating there is a wide range of malignancies that Patrys could potentially target in the future including endometrial, pancreatic, colon, prostate, breast and ovarian cancers.



“GBMs constitute approximately 17% of all primary brain cancers, with ~12,000 new cases diagnosed in the U.S. annually”

Glioblastoma

GBM is a particularly aggressive, highly malignant form of brain cancer characterised by rapid cellular reproduction, nourished by ample and abnormal tumour vessel blood supply. GBM are generally found in the cerebral hemispheres of the brain but can develop anywhere in the brain. Common symptoms include seizures, headaches, nausea and vomiting, memory loss, changes in personality, mood or concentration and localised neurological problems.

GBMs constitute approximately 17% of all primary brain cancers, with ~12,000 new cases diagnosed in the U.S. annually. GBM can be difficult to treat as some cells may respond to certain therapies, while others may not be affected. As a result, treatment plans for GBM often combine several approaches. The current standard of care for GBM is surgical resection followed by radiation and chemotherapy (temozolomide, trade name TEMODAR®), with a median survival period of 15 months, depending on disease severity.

Metastatic triple-negative breast cancer

Breast cancer is a leading cause of cancer death in women, with ~1.67 million new cases diagnosed each year globally. Subtypes of breast cancer are stratified in accordance with their expression of estrogen, progesterone, and HER2 receptors. TNBC tumours lack all three receptors. This subtype makes up 15-20% of breast cancer cases globally and is the most aggressive and difficult to treat. The global market for TNBC was US\$296m in 2015 and is expected to increase to US\$1.59bn by 2025.

TNBC sufferers are also more likely to develop metastasis, a secondary cancer forming in other areas of the body. Metastatic TNBC (MTNBC) is a challenging disease, with up to 50% of patients developing brain metastases that have devastating effects on overall quality of life and survival. There remains a large unmet medical need for new therapeutic approaches to target and treat TNBC brain metastases. An inability to cross the blood brain barrier has created an obstacle for many potential therapeutics, creating a significant barrier to the development of more effective treatments.

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- 1 Alifieris, C; Trafalis, DT (August 2015). "Glioblastoma multiforme: Pathogenesis and treatment". *Pharmacology & Therapeutics*. 152: 63–82.
 - 2 American Association of Neurological Surgeons (AANS), Glioblastoma Multiforme
 - 3 Davis ME. Glioblastoma: Overview of Disease and Treatment. *Clin J Oncol Nurs*. 2016;20(5 Suppl):S2–S8. doi:10.1188/16.CJON.S1.2-8
 - 4 American Cancer Association. Global Cancer Facts and Figures. 3rd Edition
 - 5 GlobalData Her2-/Her2+ and Triple Negative Breast Cancer- GlobalDrug Forecast and Market Analysis to 2025

Introducing the Deoxymab 3E10 platform

Deoxymab 3E10 is one of the world’s first cell-penetrating anti-DNA antibodies for the treatment of cancer.

Deoxymab 3E10 is a lupus anti-DNA autoantibody which has been re-engineered as a humanised di-single chain fragment, called PAT-DX1, for use in our pre-clinical development program.

PAT-DX1 was selected from several variants due to its superior physiochemical attributes and ability to penetrate cell nucleus, selectively causing DNA damage and death in cells with DNA repair defects.

The platform technology’s unique mechanism of action opens new therapeutic windows for a range of underserved oncology and diagnostic applications.

The advantages of PAT-DX1

1. PAT-DX1 preferentially localises to tumours

Specifically attracted to extracellular DNA from dying cancer cells

2. Penetrates the cell membrane and nucleus

Intracellular delivery means PAT-DX1 is able to penetrate the cell membrane, then enter the nucleus

3. Kills cancer cells deficient in DNA repair

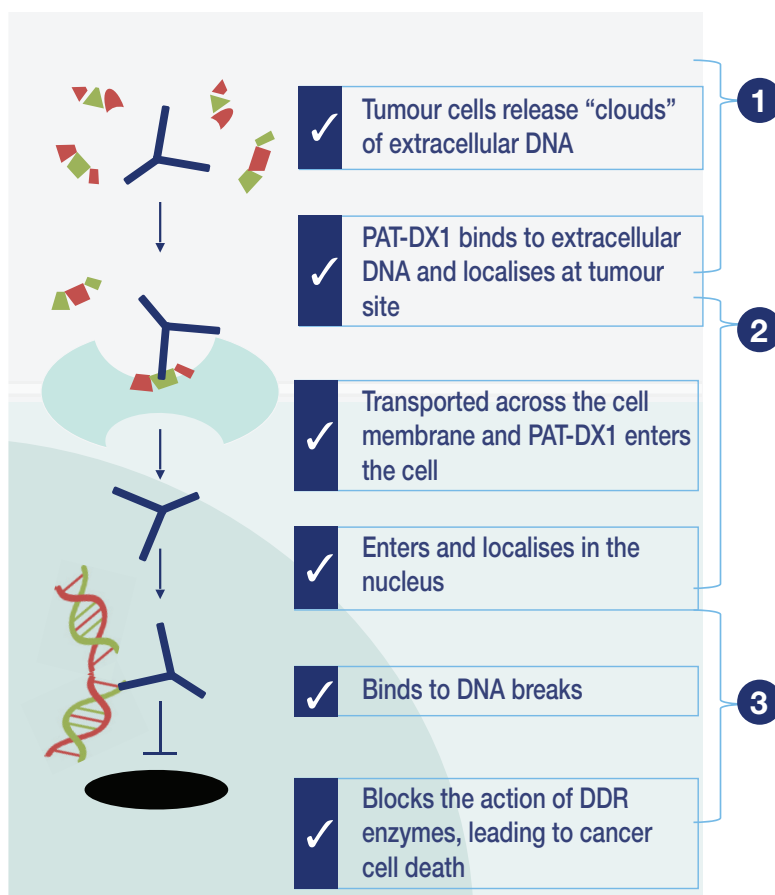
Diminishes cancer cells’ ability to repair themselves

Has high therapeutic value against a wide range of cancer repair pathways such as those with mutations in the BRCA1/2 and PTEN genes

Targets primary and secondary tumours

4. Crosses the blood brain barrier

Resolving one the greatest challenges in the development of therapeutics for brain diseases.



A novel mechanism of action

Multiple development approaches and pre-clinical data

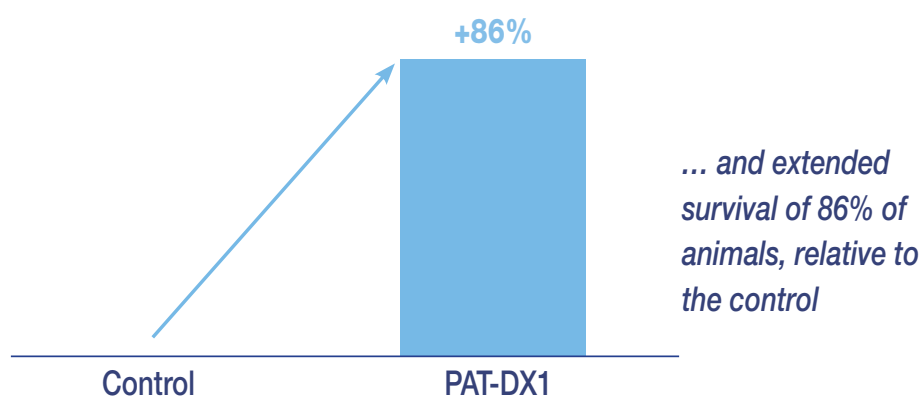
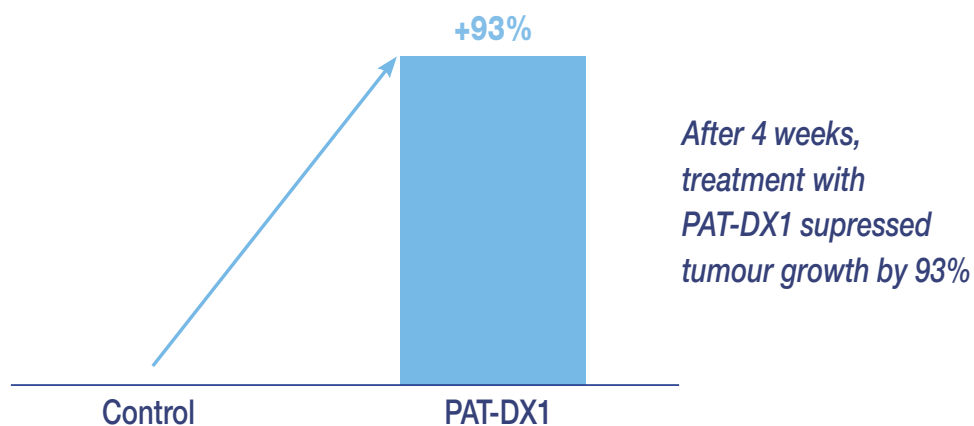
During the financial year, Patrys further explored the unique properties of PAT-DX1 and made significant discoveries in the treatment of GBM and MTNBC. Patrys continued to make good development progress, and the Company has released positive data from multiple pre-clinical studies throughout FY19.

Overall, animal models of TNBC brain metastasis and GBM brain tumours showed that PAT-DX1 crosses the blood brain barrier, suppresses tumour growth, increases survival and enhances radiation treatment. PAT-DX1 also has the potential to target not only primary tumours, but also secondary tumours, indicating that an eventual therapeutic could have broad utility. The fact that PAT-DX1 enhances the efficacy of low dose radiation is particularly exciting, as it could significantly improve treatment outcomes whilst reducing side effects.

As a single agent: PAT-DX1, suppresses TNBC brain metastases and increases survival in an orthotopic TNBC metastatic animal model

- After 4 weeks PAT-DX1 suppressed tumour growth by 93%
- 86% of mice treated with PAT-DX1 were alive after all mice in the control group had died

Refer to ASX announcement released on 20 December 2018



Combination approach: PAT-DX1 enhanced low dose radiation in an animal study of TNBC brain

- PAT-DX1 was able to cross the blood brain barrier and no toxicity was observed
- PAT-DX1 as a single agent caused similar tumour growth suppression to that of low dose radiation treatment
- Combination of PAT-DX1 and radiation treatment resulted in significantly greater tumour suppression than either treatment alone

Refer to ASX announcement released on 30 May 2019

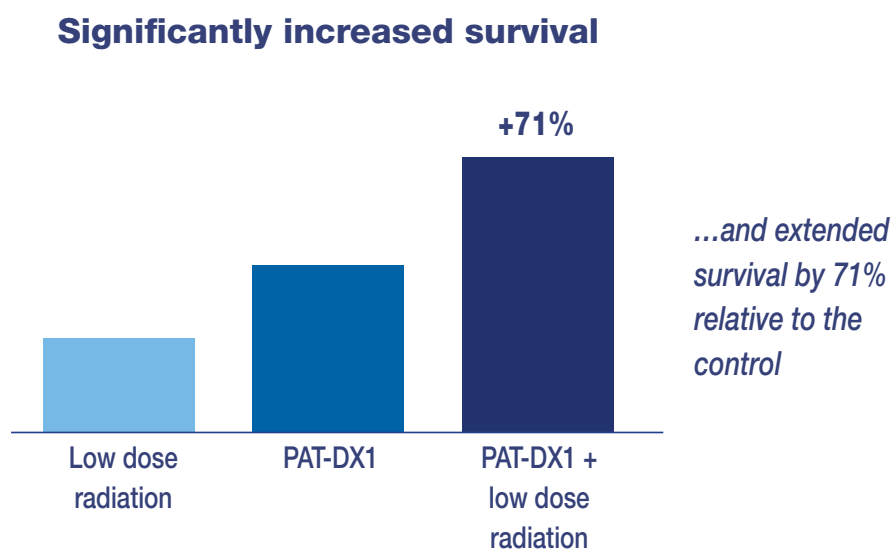
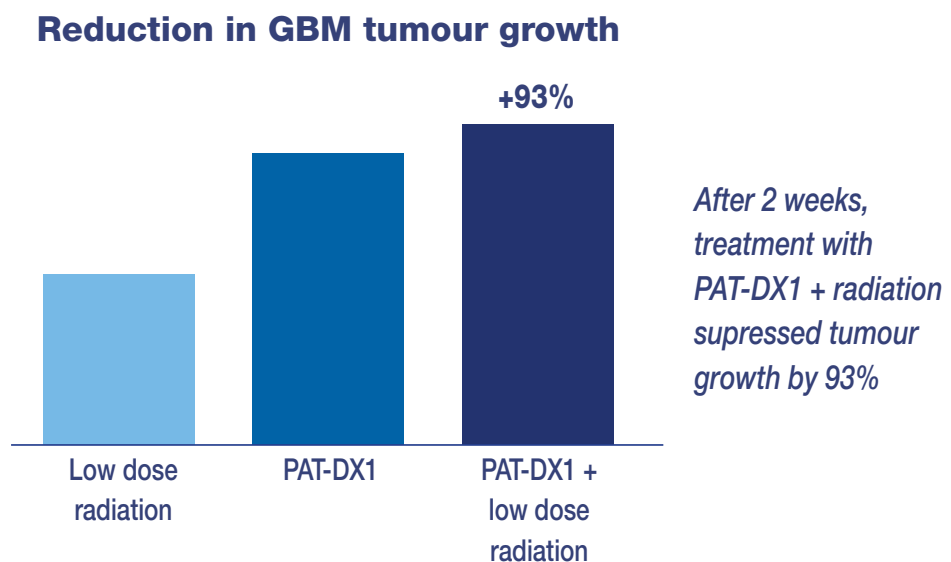


PAT-DX1 in GBM orthotopic animal model

Subsequent to the year end, Patrys released data from an orthotopic animal model of highly aggressive GBM brain tumours. PAT-DX1 in combination with low dose radiation treatment resulted in significantly more tumour suppression and prolonged survival compared to low dose radiation alone

- PAT-DX1 reduced tumour size by 87% as a single agent and 93% in combination with radiation
- PAT-DX1 extended survival by 41% as a single agent and 71% in combination with radiation

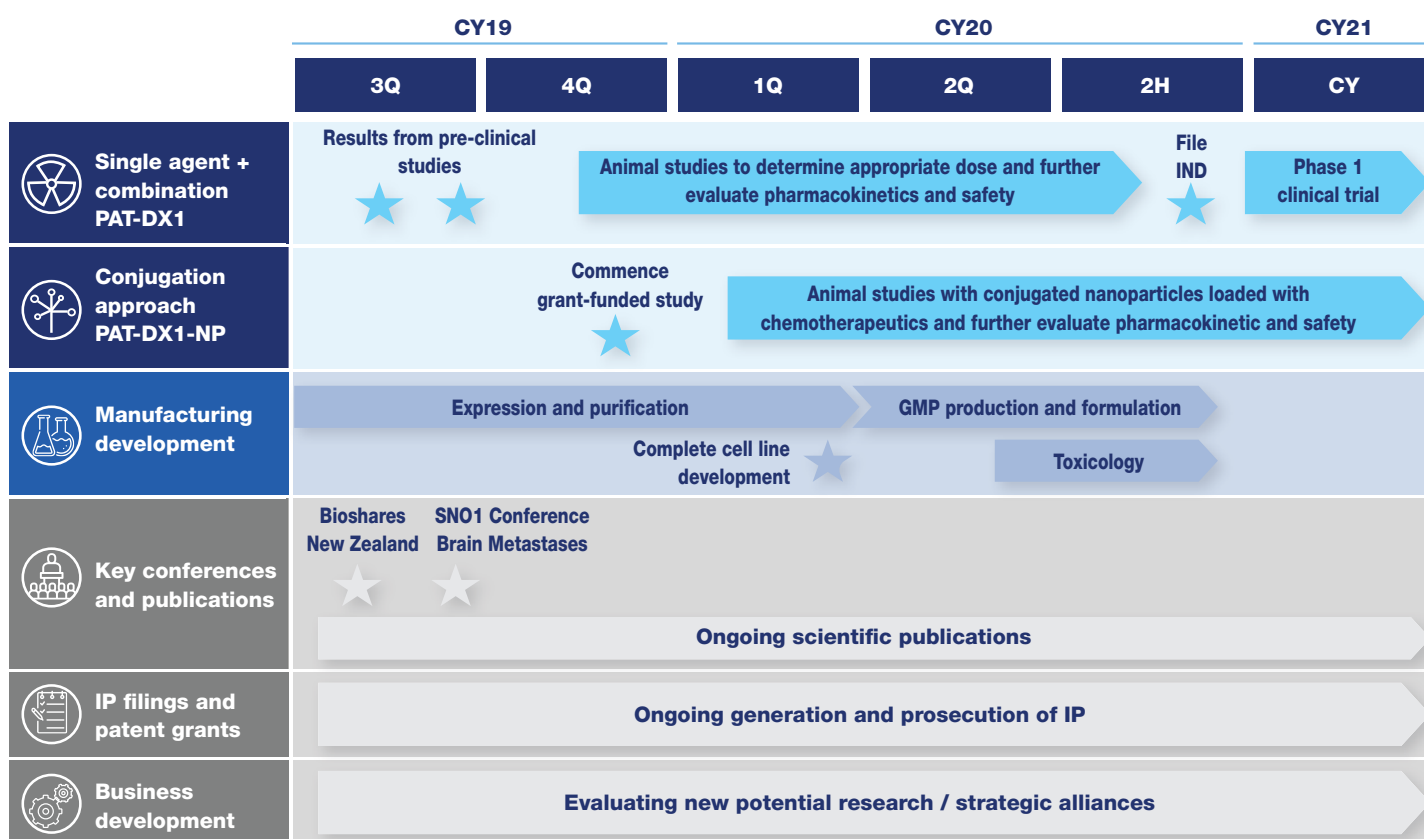
Refer to ASX announcement released on 22 July 2019



Pipeline and upcoming milestones

Patrys is focused on developing its Deoxymab platform and progressing lead candidates PAT-DX1 and PAT-DX1-NP in a consolidated pre-clinical program. In the coming financial year, Patrys will continue to strengthen and extend its compelling pre-clinical data package with planning currently underway for further pharmacokinetics, safety and toxicology studies.

During the financial year, Patrys' well-respected international service provider continued to progress the cell line development of PAT-DX1. The development of a stable cell line is an important milestone for the Company and development is anticipated to be complete in 1H CY20.





The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Patrys Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2019.

Directors

The following persons were Directors of Patrys Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mr. John Read (Non-Executive Chairman)
Dr. James Campbell (Managing Director & CEO)
Ms. Suzy Jones (Non-Executive Director)
Mr. Michael Stork (Non-Executive Director and Deputy Chairman)

Principal activities

Patrys is devoted to the development and commercialisation of novel antibody technologies to improve clinical outcomes for cancer patients. The Company's lead technology is Deoxymab 3E10, a DNA damage-repair (DDR) antibody which penetrates live cell nuclei and inhibits key mechanisms of DNA repair in target cancer cells.

The Company has developed a humanised form of Deoxymab 3E10, PAT-DX1, and is progressing this and a nanoparticle-conjugated form (PAT-DX1-NP) towards the clinic. Currently, the Company is focusing on PAT-DX1 as a treatment for metastatic triple negative breast cancer (MTNBC) and glioblastoma (GBM). Patrys continues to complete pre-clinical research in collaboration with leading universities and other research partners, with several grant funded studies planned.

The Deoxymab 3E10 technology is exclusively licensed from Yale University. Patrys' rights to Deoxymab 3E10 are part of a worldwide license to develop and commercialise a portfolio of anti-cancer and diagnostic agents (including anti-DNA antibodies, antibody fragments, variants and conjugates).

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

The loss for the Group after providing for income tax amounted to \$411,326 (30 June 2018: \$2,497,252).

In July 2018, the Company announced preliminary pharmacokinetic data for PAT-DX1, where preliminary analysis indicated that PAT-DX1 exhibited significant tumour penetration 8 hours after administration. Dr. James Hansen and Dr. Jiangbing Zhou of the Yale School of Medicine conducted the study and confirmed that as a single agent PAT-DX1 localises into xenograft triple negative breast cancer (TNBC) tumours.

In October 2018, Patrys announced that metastatic triple negative breast cancer (MTNBC) and glioblastoma (GBM) were the target indications for the clinical development of PAT-DX1. The Company's decision was informed by consideration of pre-clinical results and review of the market dynamics. The Company believes there is a significant unmet need for effective MTNBC and GBM treatments, which underpins the potential value upside.

In December 2018, Patrys released pre-clinical data from a MTNBC brain metastasis animal model. The study conducted by the Yale School of Medicine confirmed that PAT-DX1 suppresses TNBC brain metastases and increases survival. Reduction in TNBC brain metastasis was evident after just one week of PAT-DX1 treatment. After 4 weeks of treatment, treated mice showed 93% less brain metastasis than untreated mice. PAT-DX1 also significantly improved survival, with 86% of the mice treated with PAT-DX1 alive after all control mice had died. No toxicity associated with PAT-DX1 was observed.

In March 2019, Patrys received a Notice of Grant from the United States Patent Office for the Deoxymab 5C6 antibody licensed from Yale University. The patent further strengthens the Company's position in the field of cell penetrating antibodies for the treatment of cancer.

In March 2019, the Yale School of Medicine commenced further pre-clinical work that built upon and supported the previous MTNBC findings. The study was completed, and results were released in May 2019 and demonstrated that PAT-DX1 crosses the blood brain barrier and that PAT-DX1 significantly suppresses brain metastases with a shortened dosage regimen. This study also demonstrated that PAT-DX1 could enhance the anti-cancer effects of low dose radiation.

During the year, the Company continued to progress the cell line development of PAT-DX1 through a well-respected international service provider. The development of a stable cell line is an important milestone for the Company and development is anticipated to be complete in 1Q CY20.

Subsequent to the financial year end, Patrys released animal data from a study concerning the efficacy of PAT-DX1 for the treatment of GBM. Results from the study showed that in combination with low dose radiation, PAT-DX1 treatment resulted in significantly more tumour suppression and prolonged survival compared to low dose radiation alone. The study was conducted by the Yale School of Medicine and planning for additional studies is currently underway to further evaluate pharmacokinetics and safety.

Update on other assets

Patrys remains committed to assisting Hefei Co-source Biomedical with the development of PAT-SC1, providing support of our expertise and knowledge in the IgM space. Patrys is one of the few companies globally with experience in manufacturing commercial scale quantities of IgMs for clinical trials.

As communicated previously, in June 2015 Patrys put the development of its IgM assets on hold due to manufacturing issues. Following a comprehensive process to find a commercial partner, which yielded no suitable parties, the Company has made a strategic decision to focus on the Deoxymab 3E10 platform and cease any further investment in the IgM assets.

Historically, Patrys has prosecuted IP and licensed various technologies to support the development of IgM class human antibodies. Going forward, these patents and licenses will no longer be continued.

Corporate and business development

Throughout the financial year, the Patrys Board continued to assess a number of business development and collaboration opportunities. The Board evaluates these on a case-by-case basis and whilst the Company is in a strong financial position to progress its development program to date, it will consider appropriately valued co-development opportunities from reputable partner organisations.

In October 2018, Patrys negotiated a \$3m settlement with its insurers regarding the failed manufacturing runs for PAT-SM6 in 2014 and 2015. Funds were received within 30 days of settlement, bolstering the Company's cash balance. The Company also benefited from a number of non-dilutive grants to support its ongoing research and development. During FY19, the Company and its research partners received the following grants: CSIRO Kick Start Program (\$24k); Export Market Development Grant (\$11k) and Victorian Medical Research Acceleration Fund (\$100k).

In January 2019, Patrys presented at the Biotech Showcase™ Annual Conference in San Francisco, US, which coincided with the 37th Annual JP Morgan Healthcare Conference. The Conference provided an opportunity for the Company to provide an update on its development pipeline. The Company also met with investors and potential strategic partners during the conference.

Operating results

Patrys held cash and term deposits of \$6,473,840 at the reporting date. Patrys' policy is to hold its cash and cash equivalent deposits in 'A' rated or better deposits.

Patrys' strategy is to outsource product development expenses, including manufacturing, regulatory and clinical trial expenses, to specialist, best of breed partner organisations. As a consequence, Patrys has not incurred any major capital expenditure for the period and does not intend to incur substantial commitments for capital expenditure in the immediate future.

Consolidated revenue including other income during the period was \$3,844,365 (2018: \$520,525). This revenue includes interest of \$111,571 (2018: \$33,834), R&D tax incentive income of \$644,298 (2018: \$455,207), licencing income of \$27,500 (2018: \$27,500), and other income of \$3,000,000 (2018: \$Nil) related to insurance recoveries.

Total consolidated operating expenses for the period were \$4,255,691 (2018: \$3,017,777). Operating expenses include research and development costs of \$1,685,963 (2018: \$1,307,298) which have been expensed in the year they were incurred. The increase in R&D costs in 2019 is due to increased activity on the Deoxymab project with commencement of pre-clinical and manufacturing works in the financial year. Administration and management costs contributed a further \$2,569,733 (2018: \$1,710,479) to expenses from continuing operations. The increase during the financial year is due to a combination of items, including legal costs associated with the insurance settlements, employee wages, bonuses, share based payments and other general administrative costs.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

The Group will continue to pursue its objective of developing antibodies as therapies for a range of different cancers. Patrys has a pipeline of anti-cancer antibodies for both internal development and as partnering opportunities.

The Group's focus for the coming period will be to build further value into the Deoxymab platform through pre-clinical activities, to commence progression of the PAT-DX1 asset towards the clinic.

Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on Directors

Name: John Read
Title: Non-Executive Chairman
Qualifications: BSc (Hons), MBA, FAICD
Experience and expertise: Mr. Read is an experienced Chairman and Director in public, private and government organisations. Through his extensive career in venture capital, private equity and commercialisation he has gained a depth of experience in the formation and growth of emerging companies with an emphasis on commercial entities that provide broad societal benefits. He is currently the Chairman of CVC Limited (ASX: CVC) and previously Chairman of Eildon Capital Limited (ASX:EDC) from 2013 to 2016, Pro-Pac Packaging Limited (ASX:PPG) from 2005 to 2010, The Environmental Group Limited (ASX:EGL) from 2001 to 2012 and The Central Coast Water Corporation from 2011 to 2014.

Other current directorships: CVC Ltd (since 1989).
Former directorships (last 3 years): Eildon Capital Limited (ASX: EDC)
Special responsibilities: Chairman of Nomination and Remuneration Committee
Member of Audit and Risk Committee

Interests in shares: 7,721,911 ordinary shares
Interests in options: 6,000,000 options, exercisable at \$0.0350 per option, expiring 22/11/2023

Name: James Campbell
Title: Managing Director and Chief Executive Officer
Qualifications: Ph.D, MBA
Experience and expertise: Dr. Campbell has more than 20 years of international biotechnology research, management and leadership experience and has been involved in the creation and/or transformation of multiple successful Australian and international biotechnology companies. Dr. Campbell was previously the CFO and COO of ChemGenex Pharmaceuticals Limited (ASX:CXS), where, as a member of the executive team he helped transform a research-based company with a market capitalization of \$10M to a company with completed clinical trials and regulatory dossiers submitted to the FDA and EMA. In 2011 ChemGenex was sold to Cephalon for \$230M. Dr. Campbell was a foundation executive of Evolve Biosystems, and has assisted private biotechnology companies in Australia, New Zealand and the USA with successful capital raising and partnering negotiations. Dr. Campbell sits on the Advisory Board of Deakin University's Centre for Innovation in Mental and Physical Health and Clinical Treatment (IMPACT). Dr. Campbell is a Non-Executive Director of both Invion Limited (ASX:IVX) and Prescient Therapeutics Limited (ASX:PTX).

Other current directorships: Non-Executive Director of Invion Limited (ASX:IVX) and Prescient Therapeutics Limited (ASX:PTX).

Former directorships (last 3 years): Non-Executive Director of Medibio Limited (ASX:MEB) (resigned 30/9/2016)

Interests in shares: 29,546 fully paid ordinary shares
Interests in options: 25,000,000 unlisted options - 15,000,000 exercisable at \$0.0072 per option, expiring 24/11/2021 and 10,000,000 exercisable at \$0.0350 per option, expiring 22/11/2023

Name: Michael Stork
Title: Non-Executive Director and Deputy Chairman
Qualifications: BBA
Experience and expertise: Mr. Stork is the Managing Director of Stork Holdings Ltd, an Investment Holding company active in the Canadian technology startup sector. Mr. Stork was, until early this year, active on the Board of Governors of the University of Waterloo and is the Chairman of the Waterloo Accelerator Centre, a technology company incubator affiliated with the University. He is currently the Chairman of Spartan Biosciences Inc., an Ottawa based DNA analytics company, the Chairman of Dejero Labs Inc., a Waterloo based broadcast technology company, and active on the Boards of a number of other leading Canadian technology start-up companies.

Other current directorships: None.
Former directorships (last 3 years): None.
Special responsibilities: Member of Nomination and Remuneration Committee
Chairman of Audit and Risk Committee

Interests in shares: 98,773,814 fully paid ordinary shares (These shares are held by Stork Holdings 2010 Ltd. The director has the ability to influence the voting and disposal of the shares of this company).

Interests in options: 4,000,000 options, exercisable at \$0.0350 per option, expiring 22/11/2023

Name: Suzy Jones
Title: Non-Executive Director
Experience and expertise: Ms. Jones is Founder and Managing Partner of DNA Ink LLC, a life sciences advisory and business development firm with clients in the United States, Germany, Israel and France. DNA Ink provides corporate strategic guidance to its clients that support corporate growth. Prior to starting her own firm, Ms. Jones spent 20 years at Genentech where she served in many roles including Interim Head of Partnering, Head of Business Development, Senior Project Manager and Research Associate. She managed several product teams during this time including Rituxan, the first monoclonal antibody launched to treat cancer. Ms. Jones has very extensive networks within the pharmaceutical and biotech companies and VC community in North America. Ms. Jones is a Non-Executive Director of Calithera Biosciences, Inc. (Nasdaq:CALA), a clinical-stage pharmaceutical company focused on discovering and developing novel small molecule drugs directed against tumor metabolism and tumor immunology targets for the treatment of cancer.

Other current directorships: Nil.
Former directorships (last 3 years): None.
Special responsibilities: Member of Nomination and Remuneration Committee
Member of Audit and Risk Committee

Interests in shares: 3,000,000 fully paid ordinary shares.
Interests in options: 4,000,000 options, exercisable at \$0.0350 per option, expiring 22/11/2023

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretary

Ms Melanie Leydin, CA

Ms Leydin has 25 years' experience in the accounting profession including 13 years in the Corporate Secretarial profession and is a company secretary and finance officer for a number of entities listed on the Australian Securities Exchange. She is a Chartered Accountant and a Registered Company Auditor. Since February 2000, she has been the principal of Leydin Freyer, specialising in outsourced company secretarial and financial duties.

Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2019, and the number of meetings attended by each Director were:

| | Full Board | | Nomination and Remuneration Committee | | Audit and Risk Committee | |
|----------------|------------|------|---------------------------------------|------|--------------------------|------|
| | Attended | Held | Attended | Held | Attended | Held |
| John Read | 5 | 6 | 2 | 2 | 2 | 2 |
| James Campbell | 6 | 6 | - | - | - | - |
| Suzy Jones | 6 | 6 | 2 | 2 | 1 | 2 |
| Michael Stork | 5 | 6 | 2 | 2 | 2 | 2 |

Held: represents the number of meetings held during the time the Director held office or was a member of the relevant committee.

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

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

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

The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves, the Non-Executive Chairman and the Senior Management team. The Board has established a Nomination and Remuneration Committee, comprising of three Directors, the majority of which are Non-Executive Directors. This Committee is primarily responsible for making recommendations to the Board on:

- The over-arching executive remuneration framework
- The operation of the incentive plans, including key performance indicators and performance hurdles
- Remuneration levels of executive directors and other key management personnel; and
- Non-executive director fees

The objective of the Committee is to ensure that remuneration policies and structures are fair and competitive and aligned with the long term interests of the Company. The Corporate Governance Statement provides further information on the role of this committee, and is available on the Company's website at www.patrys.com/patrys-corporate-governance/

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

The Company's remuneration framework seeks alignment with shareholders' interests and is in particular aligned to the rapid commercialisation of the Company's intellectual property and in achieving its milestones in a highly ethical and professional manner.

The executive remuneration framework provides a mix of fixed and variable pay and performance incentive rewards. Presently, the Company's policy in relation to performance incentive rewards is to issue a mix of equity and cash bonuses to executives. The Company does not have a policy or practice of cancelling or clawing-back performance-based remuneration of its executives other than in accordance with the relevant plan rules.

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Non-executive directors remuneration

Directors' fees are determined by reference to industry standards and were last reviewed effective 22 November 2018. Components of the remuneration package include a cash element together with equity instruments.

Directors' fees are currently set at \$95,000 for the Chairman and \$60,000 per Non-Executive Director (note Ms. Jones receives US\$60,000) and reflect the demands which are made on and the responsibilities of the Directors. However, one Non-Executive Director, Mr. Michael Stork, did not receive monetary Director fees during the year.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 22 November 2018, where the shareholders approved a maximum annual aggregate remuneration of \$400,000.

Executive remuneration

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

The executive remuneration and reward framework has four components:

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

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

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, is reviewed annually by the Nomination and Remuneration Committee based on individual and business unit performance, the overall performance of the Group and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive.

Incentives are payable to executives based upon the attainment of agreed corporate and individual milestones and are reviewed and approved by the Board of Directors. The Board of Directors approved a short term incentive of \$80,000 for Mr James Campbell for the year ended 30 June 2019 which was paid in July 2019.

Executives and Directors are issued with equity instruments as LTIs (Long Term Incentives) in a manner that aligns this element of remuneration with the creation of shareholder wealth. LTI grants are made to executives and Directors who are able to influence the generation of shareholder wealth and thus have a direct impact on the creation of shareholder wealth.

Consolidated entity performance and link to remuneration

Equity instruments may be issued to new employees, and upon performance review based on performance of the individual and the Company both in absolute terms and relative to competitors in the biotechnology sector. Equity instruments that are issued for performance are subject to performance targets set and approved by the Nomination and Remuneration Committee.

The Company's remuneration policy seeks to reward staff members for their contribution to achieving significant operational, strategic, partnering, preclinical, clinical and regulatory milestones. These milestones build sustainable and long term shareholder value.

Voting and comments made at the company's 22 November 2018 Annual General Meeting ('AGM')

At the 22 November 2018 AGM, 99.01% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2018. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables. Unless otherwise noted, the named persons were key management personnel for the whole of the period ended 30 June 2019.

The Key Management Personnel of the consolidated entity consisted of the following directors of Patrys Limited:

- John Read (Chairman)
- James Campbell (Managing Director and Chief Executive Officer)
- Michael Stock (Non-Executive Director)
- Suzy Jones (Non-Executive Director)

| | Short-term benefits | Short-term benefits | Short-term benefits | Post-employment benefits | Long-term benefits | Share-based payments | |
|--|----------------------|---------------------|---------------------|--------------------------|--------------------|------------------------|----------------|
| | Cash salary and fees | Short-term benefits | Annual leave | Super-annuation | Long service leave | Equity-settled options | Total |
| 2019 | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Non-Executive Directors:</i> | | | | | | | |
| John Read | 95,000 | - | - | - | - | 72,518 | 167,518 |
| Suzy Jones* | 83,922 | - | - | - | - | 58,159 | 142,081 |
| Michael Stork | - | - | - | - | - | 58,159 | 58,159 |
| <i>Executive Directors:</i> | | | | | | | |
| James Campbell** | 305,022 | 80,000 | 12,158 | 25,000 | 7,125 | 74,369 | 503,674 |
| <i>Other Key Management Personnel:</i> | | | | | | | |
| Melanie Leydin*** | 104,000 | - | - | - | - | - | 104,000 |
| | <u>587,944</u> | <u>80,000</u> | <u>12,158</u> | <u>25,000</u> | <u>7,125</u> | <u>263,205</u> | <u>975,432</u> |

* Ms Jones was paid \$60,000 USD at an average exchange rate of \$0.715 USD to \$1 AUD.

** Bonus of \$80,000 paid to Mr Campbell in July 2019.

*** Fees shown for Ms Leydin were paid to Leydin Freyer Corporate Pty Ltd for the provision of company secretarial and accounting services.

| 2018 | Short-term benefits | Short-term benefits | | Post-employment benefits | Long-term benefits | Share-based payments | Total |
|--|----------------------|---------------------|--------------|--------------------------|--------------------|------------------------|---------|
| | Cash salary and fees | Short-term benefits | Annual Leave | Super-annuation | Long service leave | Equity-settled options | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Non-Executive Directors:</i> | | | | | | | |
| John Read | 95,000 | - | - | - | - | - | 95,000 |
| Suzy Jones* | 77,216 | - | - | - | - | - | 77,216 |
| <i>Executive Directors:</i> | | | | | | | |
| James Campbell** | 279,951 | 70,000 | 7,894 | 20,052 | 4,270 | 16,667 | 398,834 |
| <i>Other Key Management Personnel:</i> | | | | | | | |
| Melanie Leydin*** | 96,000 | - | - | - | - | - | 96,000 |
| | 548,167 | 70,000 | 7,894 | 20,052 | 4,270 | 16,667 | 667,050 |

* Ms Jones was paid \$60,000 USD at an average exchange rate of \$0.777 USD to \$1 AUD.

** Bonus of \$70,000 paid to Mr Campbell in July 2018

*** Fees shown for Ms Leydin were paid to Leydin Freyer Corporate Pty Ltd for the provision of company secretarial and accounting services.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

| Name | Fixed remuneration | | At risk - STI | | At risk - LTI | |
|--|--------------------|------|---------------|------|---------------|------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| <i>Non-Executive Directors:</i> | | | | | | |
| John Read | 57% | 100% | - | - | 43% | - |
| Suzy Jones | 59% | 100% | - | - | 41% | - |
| Michael Stork | - | - | - | - | 100% | - |
| <i>Executive Directors:</i> | | | | | | |
| James Campbell | 83% | 78% | 2% | 18% | 15% | 4% |
| <i>Other Key Management Personnel:</i> | | | | | | |
| Melanie Leydin | 100% | 100% | - | - | - | - |

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

| | |
|----------------------|---|
| Name: | James Campbell |
| Title: | Managing Director and Chief Executive Officer |
| Agreement commenced: | 12 November 2014 as Non-Executive Director and 13 April 2015 as Managing Director |
| Term of agreement: | No fixed term for an ongoing term subject to termination by the Company with 6 months' notice and termination by the employee with 6 months' notice of the employee to the Company, or 12 months notice in the event of a successful takeover. |
| Details: | Dr Campbell will be entitled to an annual salary (inclusive of superannuation) of \$338,580 effective from 1 July 2019. The Remuneration Package is inclusive of any fringe benefits tax for which the Company is liable in respect of the employee's total remuneration and any superannuation contributions. The employee's performance will be reviewed annually or more frequently if required. |

Name: John Read
Title: Non-Executive Chairman
Agreement commenced: 29 May 2007. A new agreement became effective 1 December 2009
Term of agreement: No fixed term.
Details: \$95,000 per annum to be reviewed independently and annually by the Board of Directors.

Name: Suzy Jones
Title: Non-Executive Director
Agreement commenced: 15 December 2011
Term of agreement: No fixed term.
Details: \$US60,000 per annum to be reviewed independently and annually by the Board of Directors.

Name: Melanie Leydin
Title: Company Secretary
Agreement commenced: 1 October 2015
Term of agreement: No fixed term, with 1 months' notice.
Details: \$10,000 per month for company secretarial and accounting services effective from 1 March 2019

Key Management Personnel have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Issue of shares

There were no shares issued to Directors and other Key Management Personnel as part of compensation during the year ended 30 June 2019.

Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of Directors and other key management personnel in this financial year or future reporting years are as follows:

| Name | Number of options granted | Grant date | Vesting date and exercisable date | Expiry date | Exercise price | Fair value per option at grant date |
|----------------|---------------------------|------------|-----------------------------------|-------------|----------------|-------------------------------------|
| James Campbell | 5,000,000 | 22/11/2018 | 22/11/2019** | 22/11/2023 | \$0.0350 | \$0.01330 |
| James Campbell | 5,000,000 | 22/11/2018 | 22/11/2020*** | 22/11/2023 | \$0.0350 | \$0.01650 |
| John Read | 2,000,000 | 22/11/2018 | 22/11/2018* | 22/11/2023 | \$0.0350 | \$0.02190 |
| John Read | 2,000,000 | 22/11/2018 | 22/11/2019** | 22/11/2023 | \$0.0350 | \$0.01330 |
| John Read | 2,000,000 | 22/11/2018 | 22/11/2020*** | 22/11/2023 | \$0.0350 | \$0.01650 |
| Suzy Jones | 2,000,000 | 22/11/2018 | 22/11/2018* | 22/11/2023 | \$0.0350 | \$0.02190 |
| Suzy Jones | 1,000,000 | 22/11/2018 | 22/11/2019** | 22/11/2023 | \$0.0350 | \$0.01330 |
| Suzy Jones | 1,000,000 | 22/11/2018 | 22/11/2020*** | 22/11/2023 | \$0.0350 | \$0.01650 |
| Michael Stork | 2,000,000 | 22/11/2018 | 22/11/2018* | 22/11/2023 | \$0.0350 | \$0.02190 |
| Michael Stork | 1,000,000 | 22/11/2018 | 22/11/2019** | 22/11/2023 | \$0.0350 | \$0.01330 |
| Michael Stork | 1,000,000 | 22/11/2018 | 22/11/2020*** | 22/11/2023 | \$0.0350 | \$0.01650 |

* Vesting immediately

** The share price is equal to or greater than a 20-day VWAP of \$0.05 (5.0 cents); exercisable thereafter

*** The share price is equal to or greater than a 20-day VWAP of \$0.07 (7.0 cents); exercisable thereafter

Options granted carry no dividend or voting rights.

The number of options over ordinary shares granted to and vested by Directors and other Key Management Personnel as part of compensation during the year ended 30 June 2019 are set out below:

| Name | Number of options granted during the year 2019 | Number of options granted during the year 2018 | Number of options vested during the year 2019 | Number of options vested during the year 2018 |
|----------------|--|--|---|---|
| James Campbell | 10,000,000 | - | 5,000,000 | 5,000,000 |
| John Read | 6,000,000 | - | 2,000,000 | - |
| Suzy Jones | 4,000,000 | - | 2,000,000 | - |
| Michael Stork | 4,000,000 | - | 2,000,000 | - |

Details of options over ordinary shares granted, vested and lapsed for Directors and other Key Management Personnel as part of compensation during the year ended 30 June 2019 are set out below:

| Name | Grant date | Vesting date | Number of options granted | Value of options granted \$ | Value of options vested \$ | Number of options lapsed | Value of options lapsed \$ |
|----------------|------------|--------------|---------------------------|-----------------------------|----------------------------|--------------------------|----------------------------|
| James Campbell | 24/11/2016 | 24/11/2018 | - | - | 15,440 | - | - |
| James Campbell | 22/11/2018 | 22/11/2019 | 5,000,000 | 66,500 | - | - | - |
| James Campbell | 22/11/2018 | 22/11/2020 | 5,000,000 | 82,500 | - | - | - |
| John Read | 22/11/2018 | 22/11/2018 | 2,000,000 | 43,800 | 43,800 | - | - |
| John Read | 22/11/2018 | 22/11/2019 | 2,000,000 | 26,600 | - | - | - |
| John Read | 22/11/2018 | 22/11/2020 | 2,000,000 | 33,000 | - | - | - |
| Suzy Jones | 22/11/2018 | 22/11/2018 | 2,000,000 | 43,800 | 43,800 | - | - |
| Suzy Jones | 22/11/2018 | 22/11/2019 | 1,000,000 | 13,300 | - | - | - |
| Suzy Jones | 22/11/2018 | 22/11/2020 | 1,000,000 | 16,500 | - | - | - |
| Michael Stork | 22/11/2018 | 22/11/2018 | 2,000,000 | 43,800 | 43,800 | - | - |
| Michael Stork | 22/11/2018 | 22/11/2019 | 1,000,000 | 13,300 | - | - | - |
| Michael Stork | 22/11/2018 | 22/11/2020 | 1,000,000 | 16,500 | - | - | - |

Additional information

The earnings of the Group for the five years to 30 June 2019 are summarised below:

| | 2019 \$ | 2018 \$ | 2017 \$ | 2016 \$ | 2015 \$ |
|------------------------------|------------|-------------|-------------|-------------|-------------|
| Revenue and other income | 3,844,365 | 520,525 | 531,729 | 867,653 | 2,224,481 |
| Net profit/(loss) before tax | (411,326) | (2,497,252) | (1,057,876) | (1,080,784) | (8,463,492) |
| Net profit/(loss) after tax | (411,326) | (2,497,252) | (1,057,876) | (1,080,784) | (8,470,382) |

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|----------|----------|----------|----------|----------|
| Share price at financial year start (\$) | 0.0580 | 0.0100 | 0.0100 | 0.0100 | 0.0300 |
| Share price at financial year end (\$) | 0.0300 | 0.0580 | 0.0100 | 0.0100 | 0.0100 |
| Basic earnings per share (cents per share) | (0.0384) | (0.2653) | (0.1420) | (0.1500) | (1.2200) |

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the Company held during the financial year by each Director and other members of Key Management Personnel of the Group, including their related parties, is set out below:

| | Balance at the start of the year | Received as part of remuneration | Additions | Disposals/ other | Balance at the end of the year |
|------------------------|----------------------------------|----------------------------------|-----------|------------------|--------------------------------|
| <i>Ordinary shares</i> | | | | | |
| James Campbell | 29,546 | - | - | - | 29,546 |
| John Read | 7,721,911 | - | - | - | 7,721,911 |
| Suzy Jones | 3,000,000 | - | - | - | 3,000,000 |
| Michael Stork | 98,773,814 | - | - | - | 98,773,814 |
| | <u>109,525,271</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>109,525,271</u> |

Option holding

The number of options over ordinary shares in the Company held during the financial year by each Director and other members of key management personnel of the Group, including their personally related parties, is set out below:

| | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|-------------------------------------|----------------------------------|-------------------|-----------|---------------------------|--------------------------------|
| <i>Options over ordinary shares</i> | | | | | |
| James Campbell | 15,000,000 | 10,000,000 | - | - | 25,000,000 |
| John Read | - | 6,000,000 | - | - | 6,000,000 |
| Suzy Jones | - | 4,000,000 | - | - | 4,000,000 |
| Michael Stork | - | 4,000,000 | - | - | 4,000,000 |
| | <u>15,000,000</u> | <u>24,000,000</u> | <u>-</u> | <u>-</u> | <u>39,000,000</u> |

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of Patrys Limited under option at the date of this report are as follows:

| Grant date | Expiry date | Exercise price | Number under option |
|------------------|------------------|----------------|---------------------|
| 24 November 2016 | 24 November 2021 | \$0.0072 | 24,000,000 |
| 19 April 2017 | 1 July 2021 | \$0.0072 | 2,500,000 |
| 19 April 2017 | 19 April 2022 | \$0.0072 | 250,000 |
| 15 March 2018 | 1 July 2022 | \$0.0613 | 2,500,000 |
| 15 March 2018 | 15 March 2023 | \$0.0613 | 500,000 |
| 1 June 2018 | 18 April 2023 | \$0.0200 | 2,500,000 |
| 22 November 2018 | 22 November 2023 | \$0.0350 | 32,000,000 |
| 15 March 2019 | 15 March 2024 | \$0.0290 | 3,000,000 |
| | | | <u>67,250,000</u> |

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of options

During the financial year 250,000 options were exercised at \$0.0072 on 3 September 2018.

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability 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.

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amount paid or payable to the auditor (BDO East Coast Partnership) for audit and non-audit services provided during the year are set out in Note 20.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit and Risk Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor.
- None of the services undermine the general principles relating to auditor independence as set out in Professional Statement APES 110, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

Officers of the Company who are former partners of BDO East Coast Partnership

There are no officers of the Company who are former partners of BDO East Coast Partnership.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this Directors' report.

Auditor

BDO East Coast Partnership continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the Directors

A handwritten signature in blue ink, consisting of several overlapping strokes.

Mr. John Read
Chairman

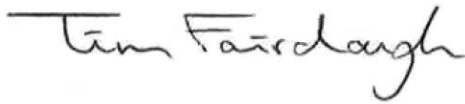
22 August 2019

DECLARATION OF INDEPENDENCE BY TIM FAIRCLOUGH TO THE DIRECTORS OF PATRYS LIMITED

As lead auditor of Patrys Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Patrys Limited and the entities it controlled during the period.



Tim Fairclough
Partner

BDO East Coast Partnership

Melbourne, 22 August 2019

Patrys Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2019



| | Note | Consolidated | |
|--|------|-------------------------|---------------------------|
| | | 2019 \$ | 2018 \$ |
| Revenue | 5 | 844,365 | 520,525 |
| Other income | 6 | 3,000,000 | - |
| Expenses | | | |
| Research & development expenses | | (1,685,963) | (1,307,298) |
| Administration & management expenses | | <u>(2,569,728)</u> | <u>(1,710,479)</u> |
| Loss before income tax expense | | (411,326) | (2,497,252) |
| Income tax expense | 8 | <u>-</u> | <u>-</u> |
| Loss after income tax expense for the year attributable to the Owners of Patrys Limited | | (411,326) | (2,497,252) |
| Other comprehensive income | | | |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | | |
| Exchange differences on translating foreign operations | | <u>909</u> | <u>(5,977)</u> |
| Other comprehensive income for the year, net of tax | | <u>909</u> | <u>(5,977)</u> |
| Total comprehensive income for the year attributable to the Owners of Patrys Limited | | <u><u>(410,417)</u></u> | <u><u>(2,503,229)</u></u> |
| | | Cents | Cents |
| Basic earnings per share | 27 | (0.0384) | (0.2653) |
| Diluted earnings per share | 27 | (0.0384) | (0.2653) |

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

Patrys Limited
Statement of financial position
As at 30 June 2019



| | Note | Consolidated | |
|--------------------------------|------|------------------|------------------|
| | | 2019 | 2018 |
| | | \$ | \$ |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 9 | 6,473,840 | 4,605,459 |
| Trade and other receivables | 10 | 740,548 | 643,725 |
| Other financial assets | 11 | 139,356 | 2,099,680 |
| Total current assets | | <u>7,353,744</u> | <u>7,348,864</u> |
| Non-current assets | | | |
| Property, plant and equipment | | 6,384 | 5,633 |
| Intangibles | 12 | 573,750 | 618,750 |
| Total non-current assets | | <u>580,134</u> | <u>624,383</u> |
| Total assets | | <u>7,933,878</u> | <u>7,973,247</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 13 | 479,266 | 574,564 |
| Employee benefits | | 141,810 | 86,006 |
| Total current liabilities | | <u>621,076</u> | <u>660,570</u> |
| Non-current liabilities | | | |
| Employee benefits | | 16,348 | 21,202 |
| Total non-current liabilities | | <u>16,348</u> | <u>21,202</u> |
| Total liabilities | | <u>637,424</u> | <u>681,772</u> |
| Net assets | | <u>7,296,454</u> | <u>7,291,475</u> |
| Equity | | | |
| Issued capital | 14 | 67,066,992 | 67,039,044 |
| Reserves | 15 | 953,741 | 588,561 |
| Accumulated losses | | (60,724,279) | (60,336,130) |
| Total equity | | <u>7,296,454</u> | <u>7,291,475</u> |

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

Patrys Limited
Statement of changes in equity
For the year ended 30 June 2019



| | Issued capital | Foreign currency translation reserve | Share option reserve | Share loan plan reserve | Other reserve | Accumulated losses | Total equity |
|--|-------------------|--------------------------------------|-----------------------|-------------------------|----------------|---------------------|------------------|
| Consolidated | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance at 1 July 2017 | 60,035,971 | (13,726) | 80,910 | 90,971 | 360,000 | (57,891,029) | 2,663,097 |
| Loss after income tax expense for the year | - | - | - | - | - | (2,497,252) | (2,497,252) |
| Other comprehensive income for the year, net of tax | - | (5,977) | - | - | - | - | (5,977) |
| Total comprehensive income for the year | - | (5,977) | - | - | - | (2,497,252) | (2,503,229) |
| Reallocation of value of expired and cancelled equity | - | - | - | (48,025) | - | 48,025 | - |
| Vested & lapsed options | - | - | (4,126) | - | - | 4,126 | - |
| Share issue | 7,363,641 | - | - | - | - | - | 7,363,641 |
| Share issue costs | (540,568) | - | - | - | - | - | (540,568) |
| Issue of shares in consideration for Nucleus | 180,000 | - | - | - | (180,000) | - | - |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | | | |
| Share-based payments (note 28) | - | - | 308,534 | - | - | - | 308,534 |
| Balance at 30 June 2018 | <u>67,039,044</u> | <u>(19,703)</u> | <u>385,318</u> | <u>42,946</u> | <u>180,000</u> | <u>(60,336,130)</u> | <u>7,291,475</u> |
| | Issued capital | Foreign currency translation reserve | Share option reserves | Share loan plan reserve | Other reserve | Accumulated losses | Total equity |
| Consolidated | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance at 1 July 2018 | 67,039,044 | (19,703) | 385,318 | 42,946 | 180,000 | (60,336,130) | 7,291,475 |
| Loss after income tax expense for the year | - | - | - | - | - | (411,326) | (411,326) |
| Other comprehensive income for the year, net of tax | - | 909 | - | - | - | - | 909 |
| Total comprehensive income for the year | - | 909 | - | - | - | (411,326) | (410,417) |
| Reallocation of value of expired and cancelled equity | - | - | - | (23,177) | - | 23,177 | - |
| Share issue | 1,800 | - | - | - | - | - | 1,800 |
| Share issue costs/adjustment | 26,148 | - | - | - | - | - | 26,148 |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | | | |
| Share based payments (note 28) | - | - | 387,448 | - | - | - | 387,448 |
| Balance at 30 June 2019 | <u>67,066,992</u> | <u>(18,794)</u> | <u>772,766</u> | <u>19,769</u> | <u>180,000</u> | <u>(60,724,279)</u> | <u>7,296,454</u> |

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

| | Note | Consolidated | |
|--|------|-------------------------|-------------------------|
| | | 2019 \$ | 2018 \$ |
| Cash flows from operating activities | | | |
| Payments to suppliers and employees (inclusive of GST) | | (3,875,262) | (2,450,880) |
| Receipts from interest and other income | | 101,452 | 31,447 |
| Receipts from R&D tax incentive | | 556,129 | 292,776 |
| Receipts from government grants | | 60,996 | 12,435 |
| Receipts from insurance Recoveries | | 3,000,000 | - |
| Receipts from licensing income | | 27,500 | 27,500 |
| Net cash used in operating activities | 26 | <u>(129,185)</u> | <u>(2,086,722)</u> |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | (4,062) | (4,125) |
| Payments for term deposit | | - | (2,000,000) |
| Receipts from term deposit | | 2,000,000 | - |
| Net cash from/(used in) investing activities | | <u>1,995,938</u> | <u>(2,004,125)</u> |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | 14 | - | 7,015,265 |
| Proceeds from exercise of options | 14 | 1,800 | - |
| Share issue transaction costs | | - | (199,015) |
| Net cash from financing activities | | <u>1,800</u> | <u>6,816,250</u> |
| Net increase in cash and cash equivalents | | 1,868,553 | 2,725,403 |
| Cash and cash equivalents at the beginning of the financial year | | 4,605,459 | 1,910,952 |
| Effects of exchange rate changes on cash and cash equivalents | | (172) | (30,896) |
| Cash and cash equivalents at the end of the financial year | 9 | <u><u>6,473,840</u></u> | <u><u>4,605,459</u></u> |

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

Note 1. General information

The financial statements cover Patrys Limited as a Group consisting of Patrys Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Patrys Limited's functional and presentation currency.

Patrys Limited is a listed public company limited by shares, incorporated and domiciled in Australia.

A description of the nature of the Group's operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 22 August 2019. The Directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Going concern

It is noted that for 2019 financial year, the Group incurred a loss from continuing operations after income tax of \$411,326 (2018: \$2,497,252) and had consolidated net operating cash outflows of \$129,185 (2018: \$2,086,722).

The financial statements have been prepared on the basis that the Group is a going concern, which contemplates normal business activity, realisation of assets and the settlement of liabilities in the normal course of business for the following reasons:

- At 30 June 2019, the Group had net current assets of \$6,732,668 (2018: \$6,688,294);
- Cash flow forecasts prepared by management demonstrate that the Group has sufficient funds to meet commitments over the next twelve months;
- At 30 June 2019, the Group recognised a receivable of \$644,298 from the R&D tax incentive, which is expected to be received in the first half of the 2020 financial year.

Basis of preparation

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

Historical cost convention

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

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Note 2. Significant accounting policies (continued)

Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 23.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Patrys Limited ('Company' or 'parent entity') as at 30 June 2019 and the results of all subsidiaries for the year then ended. Patrys Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Patrys Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Current and non-current classification

Assets and liabilities are presented in the Statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Note 2. Significant accounting policies (continued)

Deferred tax assets and liabilities are always classified as non-current.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the Statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Note 2. Significant accounting policies (continued)

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2019. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the Statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group will adopt this standard from 1 July 2019 but there is no material effect on Patrys recognition or measurement as Patrys is not involved in any lease agreements.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Fair value measurement hierarchy

The Group is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Income tax

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Employee benefits provision

As discussed in note 2, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Note 4. Operating segments

Identification of reportable operating segments

A segment is a component of the consolidated entity that engages in business activities to provide products or services within a particular economic environment. The consolidated entity operates in one business segment, being the conduct of research and development activities in the biopharmaceutical sector. The Board of Directors assess the operating performance of the group based on management reports that are prepared on this basis. The group has established activities in more than one geographical area, however these activities support the research and development conducted by the consolidated entity and are considered immaterial for the purposes of segment reporting. The group invests excess funds in short term deposits but this is not regarded as being a separate segment.

Accounting policy for operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Note 5. Revenue

| | Consolidated | |
|--------------------------|----------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Licensing income | 27,500 | 27,500 |
| R&D tax incentive income | 644,298 | 455,207 |
| Interest income | 111,571 | 33,834 |
| Government grants | 60,996 | 3,984 |
| | <u>844,365</u> | <u>520,525</u> |
| Revenue | <u>844,365</u> | <u>520,525</u> |

Note 5. Revenue (continued)

Accounting policy for revenue recognition

The Group recognises revenue as follows:

Licensing income

Licensing income is recognised over the period to which the license pertains.

R&D tax incentive income

Research and development tax incentive income is recognised in the period which the expenditure, giving rise to the tax benefit, was incurred.

Interest

Interest revenue is recognised as interest accrues.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Note 6. Other income

| | Consolidated | |
|----------------------|--------------|------|
| | 2019 | 2018 |
| | \$ | \$ |
| Insurance recoveries | 3,000,000 | - |

In relation to insurance settlement for the failed manufacturing runs for PAT-SM6 in 2014 and 2015.

Note 7. Expenses

| | Consolidated | |
|--|--------------|-----------|
| | 2019 | 2018 |
| | \$ | \$ |
| Loss before income tax includes the following specific expenses: | | |
| <i>Depreciation</i> | | |
| Plant and equipment | 3,311 | 2,833 |
| <i>Amortisation</i> | | |
| License and registered patents | 45,000 | 45,000 |
| Total depreciation and amortisation | 48,311 | 47,833 |
| <i>Operating expenses</i> | | |
| Research and development expenses | 2,144,349 | 1,307,298 |
| <i>Employee salary and benefit expense</i> | | |
| Defined contribution superannuation expense | 51,464 | 41,773 |
| Salary and employee benefit expenses | 919,078 | 781,280 |
| Total employment expenses | 970,542 | 823,053 |
| <i>Share based payments expense</i> | | |
| Share based payments expense | 387,449 | 308,534 |

Note 8. Income tax expense

| | Consolidated | |
|--|--------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Numerical reconciliation of income tax expense and tax at the statutory rate</i> | | |
| Loss before income tax expense | (411,326) | (2,497,252) |
| Tax at the statutory tax rate of 30% | (123,398) | (749,176) |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Effect of revenue that is not assessable in determining taxable loss | (212,728) | 145,818 |
| Effect of expenses that are not deductible in determining taxable loss | 561,156 | 403,748 |
| Deferred tax assets not brought to account | (225,030) | 199,610 |
| Income tax expense | <u>-</u> | <u>-</u> |

| | Consolidated | |
|---|-------------------|-------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Deferred tax assets not recognised</i> | | |
| Deferred tax assets not recognised comprises temporary differences attributable to: | | |
| Tax losses - revenue | 15,207,273 | 15,273,221 |
| Deductible temporary differences | 363,540 | 342,964 |
| Total deferred tax assets not recognised | <u>15,570,813</u> | <u>15,616,185</u> |

The benefit of these deferred tax assets (not recognised) will only be obtained if:

(i) the entities derive future assessable income of a nature and of an amount sufficient to enable the benefits from the deduction for losses to be realised;

(ii) the entities continue to comply with the conditions for deductibility imposed by the law; and no changes in tax legislation adversely affect the entities in realising the relevant benefits from deduction for the losses; and

(iii) no changes in tax legislation adversely affect the entities in realising the relevant benefits from deduction for the losses.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Note 8. Income tax expense (continued)

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Note 9. Current assets - cash and cash equivalents

| | Consolidated | |
|--------------|--------------|-----------|
| | 2019 | 2018 |
| | \$ | \$ |
| Cash at bank | 6,473,840 | 4,605,459 |

The Group's exposure to interest rate and foreign currency risk is discussed in Note 17.

Accounting policy for cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

As at 30 June 2019 the Company held a total of \$4 million in cash deposits with a maturity date of 90 days.

Note 10. Current assets - trade and other receivables

| | Consolidated | |
|---|----------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Accrued revenue | 25,208 | 25,208 |
| Research & Development incentive receivable | 681,605 | 593,436 |
| Other receivables | 33,735 | 25,081 |
| | <u>740,548</u> | <u>643,725</u> |

During the period, the Group recognised an accrual for the Research & Development (R&D) tax incentive receivable. Under this regime, as Patrys has an aggregated annual turnover of under \$20 million, it is entitled to a refundable R&D credit of 43.5% (2018: 43.5%) on the eligible R&D expenditure incurred on eligible R&D activities.

The 43.5% (2018: 43.5%) refundable R&D tax offset is accounted for under AASB 120 Accounting for Government Grants and Disclosure of Government Assistance and is recorded as income in the Statement of profit or loss & other comprehensive income.

Accounting policy for other receivables

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Note 11. Current assets - other financial assets

| | Consolidated | |
|--------------|----------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Prepayments | 139,356 | 99,680 |
| Term deposit | - | 2,000,000 |
| | <u>139,356</u> | <u>2,099,680</u> |

Note 12. Non-current assets - intangibles

| | Consolidated | |
|---------------------------------|----------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Intellectual property - at cost | 720,000 | 720,000 |
| Less: Accumulated amortisation | (146,250) | (101,250) |
| | <u>573,750</u> | <u>618,750</u> |

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | Intellectual property \$ |
|-------------------------|-----------------------------|
| Balance at 1 July 2017 | 663,750 |
| Amortisation expense | <u>(45,000)</u> |
| Balance at 30 June 2018 | 618,750 |
| Amortisation expense | <u>(45,000)</u> |
| Balance at 30 June 2019 | <u>573,750</u> |

In 2016 the Group acquired Nucleus intellectual property. The acquisition provides Patrys with licence rights to a portfolio of novel anti-DNA antibodies that penetrate cell nuclei. This novel pre-clinical oncology asset and platform has multiple potential applications to treat a range of cancers.

Intangible assets comprise licences, intellectual property, trademarks and registered patents and have a finite useful life. Amortisation has been historically calculated using straight line method over the estimated useful life, which ranges from 5 to 20 years. The Group amortises the Nucleus intellectual property based on an estimated useful life of 16 years.

Amortisation and impairment expense is included in the line item 'research and development' in the Statement of profit or loss and other comprehensive income.

Intellectual property which includes platform technology and product related intellectual property is reviewed on a regular basis and where a decision has been made not to pursue a product, the remaining value recorded as an asset is impaired. At balance date, the directors also review the intellectual property portfolio to determine whether there are any indicators of impairment related to intellectual property.

Note 12. Non-current assets - intangibles (continued)

Accounting policy for intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Intellectual property

Significant costs associated with intellectual property are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 16 years.

Note 13. Current liabilities - trade and other payables

| | Consolidated | |
|------------------------------|----------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Trade payables | 198,994 | 220,383 |
| Other creditors and accruals | 280,272 | 354,181 |
| | <u>479,266</u> | <u>574,564</u> |

Refer to note 17 for further information on financial instruments.

Accounting policy for trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Note 14. Equity - issued capital

| | Consolidated | | | |
|------------------------------|---------------|---------------|------------|------------|
| | 2019 | 2018 | 2019 | 2018 |
| | Shares | Shares | \$ | \$ |
| Ordinary shares - fully paid | 1,069,757,969 | 1,070,225,902 | 67,066,992 | 67,039,044 |

Note 14. Equity - issued capital (continued)

Movements in ordinary share capital

| Details | Date | Shares | Issue price | \$ |
|---|------------------|----------------------|-------------|-------------------|
| Balance | 1 July 2017 | 744,432,206 | | 60,035,971 |
| Tranche 2 consideration shares issued to shareholders of Nucleus Therapeutics Pty Ltd | 31 July 2017 | 34,789,333 | \$0.0051 | 180,000 |
| Rights issue | 16 February 2018 | 142,074,313 | \$0.0170 | 2,415,265 |
| Share issue costs | | - | \$0.0000 | (99,398) |
| Share issue | 23 May 2018 | 8,139,744 | \$0.0170 | 138,376 |
| Share issue | 23 May 2018 | 135,294,117 | \$0.0340 | 4,600,000 |
| Share issue | 23 May 2018 | 6,176,470 | \$0.0340 | 210,000 |
| Share issue costs | | - | \$0.0000 | (441,170) |
| Expiration of shares from share loan plan | 27 June 2018 | (642,781) | \$0.0000 | - |
| Expiration of shares from share loan plan | 30 June 2018 | <u>(37,500)</u> | \$0.0000 | <u>-</u> |
| Balance | 30 June 2018 | 1,070,225,902 | | 67,039,044 |
| Share issue | 3 September 2018 | 250,000 | \$0.0072 | 1,800 |
| Share issue costs* | | - | \$0.0000 | 26,148 |
| Expiration of shares from share loan plan | 30 June 2019 | <u>(717,933)</u> | \$0.0000 | <u>-</u> |
| Balance | 30 June 2019 | <u>1,069,757,969</u> | | <u>67,066,992</u> |

*Share issue cost include an adjustment related to GST incurred in prior period.

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

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

Capital risk management

The Group's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the consolidated Statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment. The Group is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The capital risk management policy remains unchanged from the 30 June 2018 Annual Report.

Accounting policy for issued capital

Ordinary shares are classified as equity.

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

Note 15. Equity - reserves

| | Consolidated | |
|--------------------------|--------------|----------|
| | 2019 | 2018 |
| | \$ | \$ |
| Foreign currency reserve | (18,794) | (19,703) |
| Share options reserve | 772,766 | 385,318 |
| Share loan plan reserve | 19,769 | 42,946 |
| Other reserves | 180,000 | 180,000 |
| | 953,741 | 588,561 |

Foreign currency reserve

Exchange differences relating to translation from functional currencies of the Group's foreign controlled entities into Australian Dollars are brought to account by entries made directly to the foreign currency translation reserve.

Share loan plan reserve

The share loan plan reserve arise on issue of equity under the Loan Share Plan or the Executive Share Option Plan to executives and senior employees. Amounts are transferred out of the reserves and into issued capital when the loans are repaid or the options are exercised. Amounts are transferred to accumulated losses when the shares or options are cancelled. Further information about share based payments to Directors and key management personnel is made at Note 28 of the financial statements.

Share based payment reserve

The equity settled share based payment reserves arise on issue of options under the Employee Share Based Payment plan to executives and senior employees. Amounts are transferred out of the reserves and into issued capital when the options are converted to shares. Amounts are transferred to accumulated losses when the shares or options are cancelled. Further information about share based payments to Directors and key management personnel is provided at Note 28 of the financial statements.

Other reserves

The other reserve consists of Tranche 3 shares for the acquisition of Nucleus Intellectual Property. When the Group meets the relevant milestone and the shares are issued, the amount is transferred out of the reserve and into issued capital.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out in the Statement of changes in equity

Note 16. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Note 17. Financial instruments

Financial risk management objectives

The Group's treasury function monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. There have been no changes to these risks since the previous financial year.

The Board of Directors ensures that the Group maintains a competent management structure capable of defining, analysing, measuring and reporting on the effective control of risk inherent in the Group's underlying financial activities and the instruments used to manage risk. Key financial risks including interest rate risk and foreign currency risk are reviewed by management on a regular basis and are communicated to the Board so that it can evaluate and impose its oversight responsibility. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The Company and the Group have a policy regarding foreign exchange risk management. This and other financial risks are managed prudently by the Board and the Audit and Risk Committee.

Note 17. Financial instruments (continued)

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising and optimisation of the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Notes 14, and 15, respectively. The Group operates globally, primarily through subsidiary companies established in the markets in which the Group trades. None of the Group's entities are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand the Group's assets.

Market risk

Foreign currency risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency rates. The Group's exposure to foreign currency is predominately in US dollars, Pound Sterling and Euros. The Group has maintained cash in US dollars, Pound Sterling and Euros to cover a portion of its anticipated US dollar and Euro expenditures.

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuation arise. Exchange rate exposures are managed within approved policy parameters. The Group manages the currency risk by monitoring the trend of the US dollar, Pound Sterling and Euro. The Group maintains US dollar, Pound Sterling and Euro bank accounts to cover a portion of its anticipated expenditures in the respective foreign currencies.

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

| | Assets | | Liabilities | |
|----------------|----------------|----------------|----------------|----------------|
| | 2019 | 2018 | 2019 | 2018 |
| Consolidated | \$ | \$ | \$ | \$ |
| US dollars | 28,090 | 27,337 | 13,429 | 16,924 |
| Euros | 169,557 | 166,316 | 164,219 | 161,970 |
| Pound Sterling | 14,337 | 15,162 | - | 10,968 |
| | <u>211,984</u> | <u>208,815</u> | <u>177,648</u> | <u>189,862</u> |

| Consolidated - 2019 | % change | AUD strengthened | | % change | AUD weakened | |
|---------------------|----------|---------------------------|------------------|----------|---------------------------|------------------|
| | | Effect on loss before tax | Effect on equity | | Effect on loss before tax | Effect on equity |
| US Dollars | 10% | (1,332) | (1,332) | (10%) | 1,630 | 1,630 |
| Euros | 10% | (486) | (486) | (10%) | 593 | 593 |
| Pound Sterling | 10% | (1,303) | (1,303) | (10%) | 1,593 | 1,593 |
| | | <u>(3,121)</u> | <u>(3,121)</u> | | <u>3,816</u> | <u>3,816</u> |

| Consolidated - 2018 | % change | AUD strengthened | | % change | AUD weakened | |
|---------------------|----------|---------------------------|------------------|----------|---------------------------|------------------|
| | | Effect on loss before tax | Effect on equity | | Effect on loss before tax | Effect on equity |
| US Dollars | 10% | (946) | (946) | (10%) | 1,158 | 1,158 |
| Euros | 10% | (395) | (395) | (10%) | 483 | 483 |
| Pound Sterling | 10% | (382) | (382) | (10%) | 465 | 465 |
| | | <u>(1,723)</u> | <u>(1,723)</u> | | <u>2,106</u> | <u>2,106</u> |

Note 17. Financial instruments (continued)

Price risk

Price risk is the risk that future cashflows derived from financial instruments will be changed as a result of a market price movement, other than foreign currency rates and interest rates. The Group is not exposed to any material commodity price risks.

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's short term deposits held and deposits at call. The variance in market interest rates on interest income is not material.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate as a means of mitigating the risk of financial loss from defaults.

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. There are no significant concentrations of credit risk within the Group and financial instruments are spread amongst a number of financial institutions to minimise the risk of default of counterparties.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to pay its debts as and when they fall due. The Group has no borrowings at reporting date and the Directors ensure that the cash on hand is sufficient to meet the commitments of the Group at all times during the research and development phase.

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate cash and where necessary unutilised borrowing facilities are maintained.

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the Statement of financial position.

| Consolidated - 2019 | Weighted average interest rate % | 1 year or less \$ | Between 1 and 2 years \$ | Between 2 and 5 years \$ | Over 5 years \$ | Remaining contractual maturities \$ |
|-----------------------------|---|----------------------|--------------------------------|--------------------------------|--------------------|--|
| Non-derivatives | | | | | | |
| <i>Non-interest bearing</i> | | | | | | |
| Trade payables | - | 479,266 | - | - | - | 479,266 |
| Total non-derivatives | | 479,266 | - | - | - | 479,266 |

Note 17. Financial instruments (continued)

| Consolidated - 2018 | Weighted average interest rate % | 1 year or less \$ | Between 1 and 2 years \$ | Between 2 and 5 years \$ | Over 5 years \$ | Remaining contractual maturities \$ |
|-----------------------------|---|----------------------|--------------------------------|--------------------------------|--------------------|--|
| Non-derivatives | | | | | | |
| <i>Non-interest bearing</i> | | | | | | |
| Trade payables | - | 574,564 | - | - | - | 574,564 |
| Total non-derivatives | | 574,564 | - | - | - | 574,564 |

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 18. Fair value measurement

Accounting policy for fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on 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; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Note 19. Key management personnel disclosures

Directors

The following persons were Directors of Patrys Limited during the financial year:

Mr. John Read
Mr Michael Stork
Dr. James Campbell
Ms. Suzy Jones

Other key management personnel

The following person also had the authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, during the financial year:

Ms. Melanie Leydin

Note 19. Key management personnel disclosures (continued)

Compensation

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

| | Consolidated | |
|------------------------------|----------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Short-term employee benefits | 680,102 | 626,061 |
| Post-employment benefits | 25,000 | 20,052 |
| Long-term benefits | 270,330 | 20,937 |
| | <u>975,432</u> | <u>667,050</u> |

Note 20. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by, the auditor of the Company:

| | Consolidated | |
|---|---------------|---------------|
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Audit services -</i> | | |
| Audit or review of the financial statements | <u>55,705</u> | <u>55,804</u> |
| <i>Other services -</i> | | |
| Review and Lodgement of corporate tax returns | <u>18,589</u> | <u>20,906</u> |
| | <u>74,294</u> | <u>76,710</u> |

Note 21. Commitments

Patrys has entered into several agreements whereby Patrys is obliged to make royalty payments on future sales and make future cash milestone payments if certain events occur. These agreements include:

- Vollmers Acquisition Agreement: milestone payments and royalty payments;
- OncoMab Acquisition Agreement: royalty payments;
- Würzburg Cooperation Agreements: royalty payments; and
- Confirmation Assignment Agreement: Patrys, University of Würzburg and Acceptys, Inc.: royalty payments.

Vollmers Acquisition Agreement

Patrys is committed to making certain milestone payments if certain hurdles are achieved as follows:

- Milestone payments for products derived from the Vollmers Hybridomas and Residual Hybridomas, payable only once for each product, in the amount of \$250,000 upon attaining the first Phase II clinical trials and a payment upon attaining regulatory approval in any of the following markets: US, Japan, UK, France, Germany, Italy or Spain;
- Milestone payments for products derived from the PAT-SM6 LDL Rights in the amount of \$250,000 upon attaining Phase 2 clinical trials, \$400,000 for attaining Phase 3 clinical trials and a payment for regulatory approval in a major market; and
- Certain later stage milestone payments (at regulatory approval) and royalties on sales of products derived from the assigned assets are also payable in amounts and at rates that are typical in the industry for transactions of this nature and for such products.

Note 21. Commitments (continued)

OncoMab Acquisition Agreement

Patrys must pay to OncoMab certain royalties on sales of products derived from the assigned assets in amounts and at rates that are typical in the industry for transactions of this nature and for such products.

University of Würzburg Cooperation Agreement

The University of Würzburg assigned to Patrys all of its rights, title and interest in a library of hybridomas in consideration for payment of a lump sum of US\$75,000 and royalties payable on the sale of products that derive from the New IPR. These payments and royalty rates are typical in the industry for transactions of such nature.

Confirmation Assignment Agreement

The University of Würzburg assigned to Patrys all of its rights, title and interest in a library of hybridomas in consideration for payment of a lump sum of US\$75,000 and royalties payable on the sale of products that derive from the New IPR. These payments and royalty rates are typical in the industry for transactions of such nature.

Capital expenditure commitments

There was no capital expenditure contracted for at reporting date but not provided for in the accounts.

Operating and finance lease commitments

There are no operating or finance lease commitments in place at 30 June 2019.

Licence agreement

Patrys has entered into a number of licence agreements in respect of technologies and assets as outlined below:

Patrys - Crucell 2009 Research Licence Agreement

In July of 2009, Patrys entered into a research licence agreement with Crucell Holland B.V., covering the use of Crucell's PER.C6® human antibody production technologies for potential use for 5 Patrys' products, including PAT-SM6 and PAT-LM1. Patrys is committed to make an annual license fee of €50,000. If Patrys wishes to commercialise any of the products developed under the research licence agreement it has the right to enter into a commercial license with Crucell which would incur annual payments and royalties payable on the sale of products that derive from the licensed PER.C6® cell line. These payments and royalty rates are typical in the industry for transactions of such nature.

Patrys - Debiovision - Option License and Assignment Agreement

In August of 2009, Patrys acquired the rights to product SC-1 (renamed PAT-SC1) from Debiovision Inc. Once developed, Patrys royalties will be payable to Debiovision on the sale of products that derive from PAT-SC1. These royalty rates are typical in the industry for transactions of this nature.

Nucleus Therapeutics – Yale University – License, Commercialisation and Development Agreement

In March of 2016, Patrys acquired the private company Nucleus Therapeutics Pty Ltd, in order to obtain the global license for the development as anti-cancer agents the antibodies 3E10 and 5C6 from Yale University. Once developed, certain milestone payments and royalties will be payable to Yale University regarding products that derive from 3E10 and/or 5C6. These milestones and royalties are typical in the industry for transactions of this nature.

Payload Therapeutics – Yale University – License, Commercialisation and Development Agreement

In June of 2017, Payload Therapeutics (a wholly-owned subsidiary of Patrys) obtained the global license for the development as anti-cancer agents the antibodies 3E10 nanoparticles from Yale University. Once developed, certain milestone payments and royalties will be payable to Yale University regarding products that derive from 3E10 nanoparticles. These milestones and royalties are typical in the industry for transactions of this nature.

Note 22. Related party transactions

Parent entity

Patrys Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 24.

Note 22. Related party transactions (continued)

Key management personnel

Disclosures relating to key management personnel are set out in note 19 and the remuneration report included in the Directors' report.

Transactions with related parties

There were no transactions with related parties during the current and previous financial year.

Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

| | Consolidated | |
|--|--------------|--------|
| | 2019 | 2018 |
| | \$ | \$ |
| Current payables: | | |
| Trade payables to director related entity of Mr. John Read for directors' fees for his services* | 23,750 | 23,750 |

* The fees outstanding for 2019 were paid to Mr. Read on 15 July 2019.

Loans to/from related parties

Transactions with controlled entities

The parent entity has signed a Services Agreement with Patrys GmbH (a wholly owned subsidiary) to reimburse the subsidiary its expenses plus 5%. The amount expensed for the period to 30 June 2019 was \$nil (2018: \$1,520). At 30 June 2019 there was an inter-company loan balance owed to Patrys GmbH of \$440,344 (2018: \$440,568). This loan is non-interest bearing and unsecured.

The parent entity also has intercompany loans with Nucleus Therapeutics and Payload Therapeutics (both wholly owned subsidiaries). At 30 June 2019, the parent entity has receivables of \$4,564,208 and \$155,060 for each subsidiary respectively. The loans are non-interest bearing and unsecured.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 23. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

| | Parent | |
|--------------------------------|-----------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Profit/(loss) after income tax | 1,615,575 | (1,357,926) |
| Total comprehensive income | 1,615,575 | (1,357,926) |

Note 23. Parent entity information (continued)

Statement of financial position

| | Parent | |
|---------------------------|-------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Total current assets | 11,291,603 | 7,194,868 |
| Total assets | 11,871,736 | 10,229,490 |
| Total current liabilities | 605,948 | 646,358 |
| Total liabilities | 622,296 | 1,108,128 |
| Equity | | |
| Issued capital | 67,066,992 | 67,039,044 |
| Share options reserve | 952,767 | 565,318 |
| Share loan plan reserve | 19,769 | 42,946 |
| Accumulated losses | (56,790,088) | (58,525,946) |
| Total equity | <u>11,249,440</u> | <u>9,121,362</u> |

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2019.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2019.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

Note 24. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

| Name | Principal place of business / Country of incorporation | Ownership interest | |
|--|---|--------------------|-----------|
| | | 2019 % | 2018 % |
| Patrys GmbH | Germany | 100.00% | 100.00% |
| Nucleus Therapeutics Pty Ltd | Australia | 100.00% | 100.00% |
| Payload Therapeutics Pty Ltd (incorporated on 27 May 2017) | Australia | 100.00% | 100.00% |

Note 25. Events after the reporting period

No matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Note 26. Reconciliation of loss after income tax to net cash used in operating activities

| | Consolidated | |
|---|------------------|--------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Loss after income tax expense for the year | (411,326) | (2,497,252) |
| Adjustments for: | | |
| Depreciation and amortisation | 48,311 | 47,833 |
| Unrealised foreign exchange losses | 1,085 | 31,744 |
| Share based payments | 387,448 | 308,534 |
| Change in operating assets and liabilities: | | |
| Increase in trade and other receivables | (96,823) | (142,996) |
| Increase in prepayments | (39,676) | (20,820) |
| Increase/(decrease) in trade and other payables | (95,298) | 159,441 |
| Increase in other provisions | 77,094 | 26,794 |
| Net cash used in operating activities | <u>(129,185)</u> | <u>(2,086,722)</u> |

Note 27. Earnings per share

| | Consolidated | |
|---|----------------------|--------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Loss after income tax attributable to the Owners of Patrys Limited | <u>(411,326)</u> | <u>(2,497,252)</u> |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic earnings per share | <u>1,070,431,381</u> | <u>941,191,556</u> |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | <u>1,070,431,381</u> | <u>941,191,556</u> |
| | Cents | Cents |
| Basic earnings per share | (0.0384) | (0.2653) |
| Diluted earnings per share | (0.0384) | (0.2653) |

Accounting policy for earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the loss attributable to the Owners of Patrys Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 28. Share based payments

The following share-based payment arrangements were in existence during the current and/or prior reporting period:

Note 28. Share based payments (continued)

Employee equity

The Company issues equity to Patrys (including subsidiaries Patrys GmbH, Nucleus Therapeutics and Payload Therapeutics) directors, employees and key consultants under either the Loan Share Plan (LSP) or the Executive Share Option Plan (ESOP). Under the plans, participants are issued with equity to foster an ownership culture within the Company to motivate them to achieve performance targets of the Group. Participation in the plans is at the Board's discretion and no individual has a contractual right to participate in the plans or to receive any guaranteed benefits.

The Company introduced the LSP in December 2009, following approval of the plan at the 2009 Annual General Meeting. Only Australian residents are eligible to participate in the plan. The plan allows non-recourse, interest free loans to be provided to eligible participants to acquire shares under the plan. When an issue is made it is treated as an in-substance grant of options and expensed over the vesting period because of the limited recourse nature of the loans. Generally shares issued under the plan vest over a three year period. The shares are acquired in the name of the participant and each participant authorises and appoints the Company Secretary to act on their behalf. Any dividends paid on the shares are used to repay the loan. If the participant leaves the Company, any shares that have not vested are bought back by the Company and cancelled along with the loan. In respect of shares that have vested, generally, the loan balance must be paid in full within six months of termination of appointment or the shares are sold and the proceeds applied to settle the loan balance. The issue price of the shares in the Company held under the LSP is not included in equity until the loan has been repaid.

Options are granted under the ESOP. Under the ESOP each option granted converts into one ordinary share of Patrys Limited. Options are granted under the plan for no consideration and carry no dividend or voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. The options are typically issued in two or three equal tranches which vest over a three year period, each tranche having an expiry date of five years after vesting date. The exercise period in relation to an option, means the period in which the option may be exercised, and is specified by the Board. If a participant ceases to be appointed as a Director or employed by any member of the group (other than due to his/her death) then, generally, options that have vested at the date of cessation of appointment/employment will lapse if not exercised within six months of the cessation date unless an extension is granted by the Board. In the case of death of the participant then the exercise period is extended to twelve months. All unvested options will generally lapse on cessation.

The valuations of shares issued under the LSP and options issued under the ESOP are determined by using an industry standard option pricing model taking into account the terms and conditions upon which the instruments were issued.

The Board aims to ensure that the aggregate number of shares or options which may be issued pursuant to the LSP and ESOP shall not at any time exceed 5% of the total number of issued shares of the Company. All issues of shares or options under the plans are subject to approval by the Nomination & Remuneration Committee. In accordance with the rules of both the LSP and ESOP the Board has the ability to vary the terms in respect of issues in circumstances it considers appropriate.

Set out below are summaries of options granted under the Executive Share Option Plan:

| 2019 | | | | | | | |
|---------------------------------|-------------|----------------|----------------------------------|-------------------|------------------|---------------------------|--------------------------------|
| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
| 24/11/2016 | 24/11/2021 | \$0.0072 | 7,999,999 | - | - | - | 7,999,999 |
| 24/11/2016 | 24/11/2021 | \$0.0072 | 8,000,000 | - | - | - | 8,000,000 |
| 24/11/2016 | 24/11/2021 | \$0.0072 | 8,000,001 | - | - | - | 8,000,001 |
| 19/04/2017 | 19/04/2022 | \$0.0072 | 500,000 | - | - | - | 500,000 |
| 19/04/2017 | 01/07/2021 | \$0.0072 | 2,500,000 | - | - | - | 2,500,000 |
| 15/03/2018 | 15/03/2023 | \$0.0613 | 500,000 | - | - | - | 500,000 |
| 15/03/2018 | 01/07/2022 | \$0.0613 | 2,500,000 | - | - | - | 2,500,000 |
| 01/06/2018 | 18/04/2023 | \$0.0200 | 2,500,000 | - | - | - | 2,500,000 |
| 03/09/2018 | 19/04/2022 | \$0.0072 | - | - | (250,000) | - | (250,000) |
| 22/11/2018 | 22/11/2023 | \$0.0350 | - | 32,000,000 | - | - | 32,000,000 |
| 15/03/2019 | 15/03/2024 | \$0.0290 | - | 3,000,000 | - | - | 3,000,000 |
| | | | <u>32,500,000</u> | <u>35,000,000</u> | <u>(250,000)</u> | <u>-</u> | <u>67,250,000</u> |
| Weighted average exercise price | | | \$0.0132 | \$0.0345 | \$0.0072 | \$0.0000 | \$0.0242 |

Note 28. Share based payments (continued)

| 2018 | | | | | | | |
|---------------------------------|-------------|----------------|----------------------------------|-----------|-----------|---------------------------|--------------------------------|
| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
| 02/12/2009 | 27/11/2017 | \$0.1440 | 5,952 | - | - | (5,952) | - |
| 01/07/2010 | 01/07/2017 | \$0.1060 | 3,600 | - | - | (3,600) | - |
| 01/07/2010 | 01/07/2018 | \$0.1060 | 3,600 | - | - | (3,600) | - |
| 08/12/2011 | 08/12/2017 | \$0.0390 | 7,334 | - | - | (7,334) | - |
| 08/12/2011 | 08/12/2018 | \$0.0390 | 7,333 | - | - | (7,333) | - |
| 08/12/2011 | 08/12/2019 | \$0.0390 | 7,333 | - | - | (7,333) | - |
| 21/08/2012 | 21/08/2018 | \$0.0220 | 10,000 | - | - | (10,000) | - |
| 21/08/2012 | 21/08/2019 | \$0.0220 | 10,000 | - | - | (10,000) | - |
| 21/08/2012 | 21/08/2020 | \$0.0220 | 10,000 | - | - | (10,000) | - |
| 20/05/2014 | 20/05/2020 | \$0.0500 | 25,000 | - | - | (25,000) | - |
| 20/05/2014 | 20/05/2021 | \$0.0500 | 25,000 | - | - | (25,000) | - |
| 20/05/2014 | 20/05/2022 | \$0.0500 | 25,000 | - | - | (25,000) | - |
| 24/11/2016 | 24/11/2021 | \$0.0072 | 7,999,999 | - | - | - | 7,999,999 |
| 24/11/2016 | 24/11/2021 | \$0.0072 | 8,000,000 | - | - | - | 8,000,000 |
| 24/11/2016 | 24/11/2021 | \$0.0072 | 8,000,001 | - | - | - | 8,000,001 |
| 19/04/2017 | 19/04/2022 | \$0.0072 | 500,000 | - | - | - | 500,000 |
| 19/04/2017 | 01/07/2021 | \$0.0072 | 2,500,000 | - | - | - | 2,500,000 |
| 15/03/2018 | 15/03/2023 | \$0.0613 | - | 500,000 | - | - | 500,000 |
| 15/03/2018 | 01/07/2022 | \$0.0613 | - | 2,500,000 | - | - | 2,500,000 |
| 01/06/2018 | 18/04/2023 | \$0.0200 | - | 2,500,000 | - | - | 2,500,000 |
| | | | 27,140,152 | 5,500,000 | - | (140,152) | 32,500,000 |
| Weighted average exercise price | | | \$0.0074 | \$0.0425 | \$0.0000 | \$0.0491 | \$0.0132 |

Set out below are the options exercisable at the end of the financial year:

| Grant date | Expiry date | 2019 Number | 2018 Number |
|------------|-------------|-------------------|-------------------|
| 24/11/2016 | 24/11/2021 | 7,999,999 | 7,999,999 |
| 24/11/2016 | 24/11/2021 | 8,000,000 | 8,000,000 |
| 19/04/2017 | 19/04/2022 | 250,000 | 500,000 |
| 19/04/2017 | 01/07/2021 | 2,500,000 | 2,500,000 |
| 15/03/2018 | 15/03/2023 | 500,000 | 500,000 |
| 15/03/2018 | 01/07/2022 | 1,250,000 | 1,250,000 |
| 01/06/2018 | 18/04/2023 | 2,500,000 | 2,500,000 |
| 22/11/2018 | 22/11/2023 | 32,000,000 | - |
| 15/03/2019 | 15/03/2024 | 3,000,000 | - |
| | | <u>57,999,999</u> | <u>23,249,999</u> |

The weighted average remaining contractual life of options outstanding at the end of the financial year was 3.525 years (2018: 3.555 years).

Note 28. Share based payments (continued)

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

| Grant date | Expiry date | Share price at grant date | Exercise price | Expected volatility | Dividend yield | Risk-free interest rate | Fair value at grant date |
|------------|-------------|---------------------------|----------------|---------------------|----------------|-------------------------|--------------------------|
| 22/11/2018 | 22/11/2023 | \$0.0260 | \$0.0350 | 130.00% | - | 2.38% | \$0.02190 |
| 22/11/2018 | 22/11/2023 | \$0.0260 | \$0.0350 | 130.00% | - | 2.38% | \$0.01330 |
| 22/11/2018 | 22/11/2023 | \$0.0260 | \$0.0350 | 130.00% | - | 2.38% | \$0.01650 |
| 15/03/2019 | 15/03/2024 | \$0.0220 | \$0.0290 | 100.00% | - | 1.69% | \$0.01565 |

Set out below are summaries of shares issued under the Loan Share Plan:

2019

| Loan Share Plan - Series | Issue price \$ | Balance at start of year | Adjustments | Loans repaid during year | Loans cancelled during year | Balance at end of year |
|--------------------------|----------------|--------------------------|-------------|--------------------------|-----------------------------|------------------------|
| Employee LSP Tranche 6 | \$0.106 | 147,101 | - | - | (147,101) | - |
| Employee LSP Tranche 10 | \$0.039 | 204,999 | - | - | (204,999) | - |
| Employee LSP Tranche 11 | \$0.039 | 204,999 | - | - | (13,333) | 191,666 |
| Employee LSP Tranche 12 | \$0.022 | 255,000 | - | - | (255,000) | - |
| Employee LSP Tranche 13 | \$0.022 | 255,000 | - | - | (60,000) | 195,000 |
| Employee LSP Tranche 14 | \$0.022 | 255,000 | - | - | - | 255,000 |
| Employee LSP Tranche 16 | \$0.038 | 37,500 | - | - | (37,500) | - |
| Employee LSP Tranche 17 | \$0.050 | 100,000 | - | - | - | 100,000 |
| Employee LSP Tranche 18 | \$0.050 | 100,000 | - | - | - | 100,000 |
| Employee LSP Tranche 19 | \$0.050 | 100,000 | - | - | - | 100,000 |
| | | <u>1,659,599</u> | <u>-</u> | <u>-</u> | <u>(717,933)</u> | <u>941,666</u> |

2018:

| Loan Share Plan - Series | Issue price \$ | Balance at start of year | Adjustments | Loans repaid during year | Loans cancelled during year | Balance at end of year |
|--------------------------|----------------|--------------------------|----------------|--------------------------|-----------------------------|------------------------|
| Director LSP Tranche 3 | \$0.144 | 184,641 | - | - | (184,641) | - |
| Employee LSP Tranche 3 | \$0.144 | 106,037 | - | - | (106,037) | - |
| Employee LSP Tranche 4 | \$0.106 | 50,248 | - | - | (50,248) | - |
| Employee LSP Tranche 5 | \$0.106 | 96,853 | - | - | (96,853) | - |
| Employee LSP Tranche 6 | \$0.106 | 147,101 | - | - | - | 147,101 |
| Employee LSP Tranche 9 | \$0.039 | 255,002 | - | - | (255,002) | - |
| Employee LSP Tranche 10 | \$0.039 | 254,999 | - | - | (50,000) | 204,999 |
| Employee LSP Tranche 11 | \$0.039 | 254,999 | - | - | (50,000) | 204,999 |
| Employee LSP Tranche 12 | \$0.022 | 205,000 | 50,000 | - | - | 255,000 |
| Employee LSP Tranche 13 | \$0.022 | 205,000 | 50,000 | - | - | 255,000 |
| Employee LSP Tranche 14 | \$0.022 | 205,000 | 50,000 | - | - | 255,000 |
| Employee LSP Tranche 15 | \$0.038 | 37,500 | - | - | (37,500) | - |
| Employee LSP Tranche 16 | \$0.038 | 37,500 | - | - | - | 37,500 |
| Employee LSP Tranche 17 | \$0.050 | 100,000 | - | - | - | 100,000 |
| Employee LSP Tranche 18 | \$0.050 | 100,000 | - | - | - | 100,000 |
| Employee LSP Tranche 19 | \$0.050 | 100,000 | - | - | - | 100,000 |
| | | <u>2,339,880</u> | <u>150,000</u> | <u>-</u> | <u>(830,281)</u> | <u>1,659,599</u> |

Accounting policy for share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Note 28. Share based payments (continued)

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

In the Directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the Directors



Mr. John Read
Chairman

22 August 2019

INDEPENDENT AUDITOR'S REPORT

To the members of Patrys Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Patrys Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, 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 report, including a summary of significant accounting policies and the directors' declaration.

In our opinion 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 2019 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

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

Key audit matters

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

| <i>Recoverability of Nucleus Intellectual Property</i> | <i>How the matter was addressed in our audit</i> |
|--|--|
|--|--|

Refer to Note 12 of the accompanying financial statements.

At 30 June 2019 the statement of financial position includes an intangible asset with a carrying value of \$573,750 in relation to the Nucleus Intellectual Property acquired in 2016.

As an intangible asset with a finite life, management must perform an annual review to test for any indicators of impairment. Considerable judgement is required with respect to a number of assumptions relating to the asset's development potential including future market and economic conditions.

In assessing intellectual property for any indicators of impairment we have performed the following audit procedures:

- Obtained a copy of management's impairment assessment and challenged the key assumptions and adherence to AASB 136 Impairment of Assets and AASB 138 Intangible assets.
- Reviewed expenditure incurred in relation to the intangible asset to confirm ongoing development of the assets.
- Considered whether there were any subsequent events that may impact the intangible asset impairment assessment.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and the auditor's report thereon.

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

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

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

Responsibilities of the directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the 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.

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

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 18 to 24 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Patrys Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

BDO East Coast Partnership

A handwritten signature in black ink. The signature consists of the letters 'BDO' in a large, bold, sans-serif font, followed by the name 'Tim Fairclough' in a cursive script.

Tim Fairclough
Partner

Melbourne, 22 August 2019

The shareholder information set out below was applicable as at 15 August 2019.

Distribution of equitable securities

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

| | Number of holders of ordinary shares | Number of units |
|---------------------------------------|--------------------------------------|----------------------|
| 1 to 1,000 | 109 | 9,949 |
| 1,001 to 5,000 | 58 | 228,496 |
| 5,001 to 10,000 | 125 | 1,078,806 |
| 10,001 to 100,000 | 1,058 | 47,872,370 |
| 100,001 and over | 876 | 1,023,400,704 |
| | <u>2,226</u> | <u>1,072,590,325</u> |
| Holding less than a marketable parcel | <u>597</u> | <u>6,312,299</u> |

Equity security holders

Twenty largest quoted equity security holders

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

| | Ordinary shares Number held | % of total shares issued |
|---|--------------------------------|--------------------------|
| STORK HOLDINGS 2010 LTD | 98,773,814 | 9.23 |
| DR DAX MARCUS CALDER | 85,000,000 | 7.95 |
| NATIONAL NOMINEES LIMITED | 71,185,619 | 6.65 |
| KEMAST INVESTMENTS PTY LTD (KM STOKES S/F NO 1 A/C) | 29,411,765 | 2.75 |
| STAFFWEAR PTY LTD (DAX CALDER SUPER FUND A/C) | 23,269,274 | 2.18 |
| MR MLADEN MARUSIC | 21,539,068 | 2.01 |
| ONCOMAB GMBH | 20,250,000 | 1.89 |
| MARGINATA PTY LTD (ROY BOLTON SUPER FUND A/C) | 20,000,000 | 1.87 |
| YALE UNIVERSITY | 16,116,324 | 1.51 |
| MR XIAOKE XIE | 14,000,000 | 1.31 |
| LGL TRUSTEES LIMITED (THE KONDA FAMILY A/C) | 13,999,999 | 1.31 |
| DAX CALDER PTY LTD | 12,000,000 | 1.12 |
| ESTELLEANNE PTY LTD | 12,000,000 | 1.12 |
| LGL TRUSTEES LIMITED (MK PENSION PLAN-473278 A/C) | 10,823,529 | 1.01 |
| VALUI PTY LTD (FORTIS SUPER FUND A/C) | 10,500,010 | 0.98 |
| MS LISA SHARON ALLEY | 9,100,000 | 0.85 |
| MR STEVEN JAMES STREICHER | 8,200,000 | 0.77 |
| PHIPPS FAMILY FUND PTY LTD (PHIPPS FAMILY FUND A/C) | 7,500,000 | 0.70 |
| MS KARIN JONES | 7,454,546 | 0.70 |
| MR PAUL ANTHONY HENRY | 7,000,000 | 0.65 |
| | <u>498,123,948</u> | <u>46.56</u> |

Unquoted equity securities

| | Number on issue | Number of holders |
|-------------------------------------|-----------------|-------------------|
| Options over ordinary shares issued | 67,250,000 | 9 |

Substantial holders

Substantial holders in the Company, as disclosed in substantial holding notices given to the Company, are set out below:

| | Ordinary shares | |
|-------------------------|-----------------|--------------------------|
| | Number held | % of total shares issued |
| Dr Dax Marcus Calder | 120,117,634 | 11.19 |
| Stork Holdings 2010 Ltd | 98,773,814 | 9.20 |
| Mason Stevens Limited | 66,254,192 | 6.18 |

Voting rights

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

Ordinary shares

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

There are no other classes of equity securities.

Corporate Governance

The Company's 2019 Corporate Governance Statement is available at <https://www.patrys.com/patrys-corporate-governance/>

Corporate Directory

| | |
|------------------------------------|---|
| DIRECTORS | <p>Mr. John Read (Non-Executive Chairman)</p> <p>Dr. James Campbell (Managing Director & CEO)</p> <p>Mr. Michael Stork (Non-Executive Director and Deputy Chairman)</p> <p>Ms. Suzy Jones (Non-Executive Director)</p> |
| COMPANY SECRETARY | Ms. Melanie Leydin |
| REGISTERED OFFICE | <p>Level 4, 100 Albert Road</p> <p>South Melbourne VIC 3205</p> <p>Phone: 03 9692 7222</p> |
| PRINCIPAL PLACE OF BUSINESS | <p>Level 4, 100 Albert Road</p> <p>South Melbourne VIC 3205</p> <p>Phone: 03 9692 7222</p> |
| SHARE REGISTER | <p>Computershare Investor Services Pty Limited</p> <p>452 Johnston Street</p> <p>Abbotsford VIC 3067</p> <p>Phone: 1300 850 505 (within Australia)</p> <p>Phone: +61 3 9415 5000</p> |
| AUDITOR | <p>BDO East Coast Partnership</p> <p>Tower 4, Level 18, 727 Collins Street</p> <p>Melbourne VIC 3008</p> <p>Australia</p> |
| STOCK EXCHANGE LISTING | Patrys Limited shares are listed on the Australian Securities Exchange (ASX code: PAB) |
| WEBSITE | www.patrys.com |
| ANNUAL GENERAL MEETING | <p>Patrys Limited advises that its Annual General Meeting will be held on Thursday, 21 November 2019. The time and other details relating to the meeting will be advised in the Notice of Meeting to be sent to all Shareholders and released to the ASX in due course.</p> |



patrys

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