



**ABN 35 094 006 023**

# **Annual Report 2018**



**Pitney Pharmaceuticals  
Pty Limited**



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## CORPORATE DIRECTORY

### PRINCIPAL PLACE OF BUSINESS

PharmAust Limited  
Suite 39,  
1 Freshwater Parade  
Claremont, Western Australia 6010  
Tel +61 (8) 6364 0899 Fax +61 (8) 9467 6111  
[www.pharmaust.com](http://www.pharmaust.com)

**ASX CODE:** PAA

Epichem Pty Ltd  
Suite 5, 3 Brodie-Hall Drive  
Bentley WA 6102

### REGISTERED OFFICE

Suite 39, 1 Freshwater Parade  
Claremont, Western Australia 6010  
Tel +61 (8) 6364 0899 Fax +61 (8) 9467 6111

### SYDNEY OFFICE

Level 7/139 Macquarie Street  
Sydney, NSW 2000  
Tel +61 (2) 9251 1142

### DIRECTORS

Dr Roger Aston  
Mr Robert Bishop  
Mr Sam Wright  
Dr Wayne Best

### COMPANY SECRETARY

Mr Sam Wright

### SHARE REGISTRY

Computershare Investor Services Pty Limited  
Level 2, 45 St George's Terrace  
Perth, Western Australia 6000

### AUDITORS

RSM Australia Partners  
2 The Esplanade  
Perth, Western Australia 6000

### SOLICITORS

Fairweather Corporate Lawyers  
595 Stirling Highway  
Cottesloe, Western Australia 6011

### STOCK EXCHANGE

Australian Securities Exchange  
Central Park  
152-158 St Georges Terrace  
Perth, Western Australia 6000

# DIRECTORS' REPORT

Your Directors present their report on the Company and the entities it controlled for the financial year ended 30 June 2018.

## Directors

The following persons held office as directors of PharmAust Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Dr Roger Aston	Executive Chairman
Mr Robert Bishop	Executive Director
Dr Wayne Best	Non-Executive Director
Mr Sam Wright	Non-Executive Director

## Principal Activities

The principal continuing activities constituted by PharmAust Limited and the entities it controlled during the year were to develop its own drug discovery intellectual property for the treatment of different types of cancers in humans and animals, as well as providing highly specialised medicinal and synthetic chemistry services on a contract basis to clients.

## Operating Results

The results of the consolidated entity for the year ended 30 June 2018 was a loss, after income tax expense, of \$2,521,679 (2017: loss of \$1,343,614).

## Financial Position

The net assets of the consolidated entity were \$7,138,218 as at 30 June 2018 (2017: \$6,915,047).

## Dividends

Since the end of the financial year, no dividend has been paid, declared or recommended.

## Review of Operations

### PITNEY PHARMACEUTICALS PTY LIMITED – 100% OWNED SUBSIDIARY

During the past 12 months the Company's focus has been primarily directed towards three Research and Development Targets with its lead product MPL in cancer therapy. These three targets are:

1. to undertake a "First Line Therapy" clinical trial in canines with naturally occurring cancer to determine the safety and value of MPL as a cancer therapy, and
2. to identify a formula that can provide both palatable and high dose MPL tablet for clinical development
3. Using the new formula, finalise Phase I and II Clinical Trial Protocols suitable for testing the anticancer activity of MPL in canines with cancer

All three of the above goals have been successfully achieved.

### Results from the First Line Clinical Trial in Canines with Naturally Occurring Cancer

The first line therapy clinical trial in canines with B-cell lymphoma was successfully completed during the 2017-2018 calendar year. This trial was undertaken using gelatin encapsulated MPL liquid. The use of MPL liquid meant that only sub-optimal doses could be tested. However, the trial confirmed MPL's presumed anticancer activity and has provided PharmAust with full confidence to explore this potential in more formal clinical studies. The trial showed that:

- for the first time, inhibition of the mTOR signaling pathway is associated with anticancer efficacy in dogs with naturally occurring cancers,
- six out of seven dogs administered gelatin encapsulated MPL liquid achieved stable disease,
- six out of seven dogs administered gelatin encapsulated MPL liquid achieved reductions in tumour size,
- stable disease and reductions in tumour size were accompanied by a high MPL safety profile,
- administration of MPL was associated with reductions in PharmAust's identified tumour marker,
- due to poor palatability and a relatively low permissible dose, it was confirmed that MPL liquid is not an ideal formula for effectively administering MPL to canines with cancer,
- reformulation is required to realise MPL's full anticancer potential, and
- progression to formal Phase I and Phase II clinical trials using reformulated MPL is warranted.

### Successful Tablet Reformulation

In May 2018 PharmAust announced that it had successfully reformulated monepantel into a tablet. This tablet will replace MPL liquid for use in the upcoming formal Phase I and Phase II clinical trials. In collaboration with BRI Pharmaceutical Research and AVISTA Pharma Solutions, PharmAust showed that a micronised tablet-based formulation was superior to MPL liquid in delivering

monepantel at high doses suitable for taking into dose escalation clinical studies in canines. Since this time, and in further collaboration with BRI Pharmaceutical Research and Catalent Inc., PharmAust has optimised the presentation of the tablet so that it is now suitable for taking into Phase II clinical trials and coating with taste enhancers.

#### **Finalisation of the Formal Canine Clinical Phase I and II Protocols**

PharmAust has completed development of its Phase I and Phase II clinical trial study protocol for the use of MPL as an anticancer agent in canines with naturally occurring cancers. PharmAust has included the use of the new tablet in the study designs as well as identified cancer targets of interest, received ethics approvals from relevant authorities and recruited veterinarians willing to participate in these trials.

#### **Research and Development Targets 2018-2019**

During the next 12 months, the Company's focus will be aimed at:

- further examining the mechanism of action of MPL upon cancer cells with the newly commenced collaboration with Dr Doug Fairlie at the Olivier Newton John Cancer Centre,
- validating preliminary studies demonstrating activity of MPL upon neurodegenerative diseases such as Parkinson's Disease,
- conducting scale up manufacture of the tablets formulated for use in canines with cancer to cGMP quality
- performing optimization studies specifically for palatability and dosing for humans with cancer,
- determining the pharmacokinetic parameters, dietary enhancements and safety of the newly formulated tablet in both canines and humans in Phase I trials,
- undertaking Phase II trials for efficacy in canines with the new tablet and in accordance with the newly signed option agreement with Elanco, and
- identifying Clinical Centers prepared to evaluate the new MPL tablet in humans in Phase I and II trials, as a follow on from the Phase I clinical trial undertaken at the Royal Adelaide Hospital in 2015.

Preparations for the trials in canines with cancer are now underway with tablet prototype finalisation, preliminary pharmacokinetics testing in canines, scale-up tablet manufacture and Phase I trial initiation sequentially commencing in Q3/Q4, 2018.

#### **Factors Supporting PharmAust's Focus on MPL as an Anti-Cancer Drug:**

1. Demonstration of activity against naturally occurring B-cell lymphoma in dogs,
2. Demonstration of a very good safety profile in animals tested to date, as well as the human participants in the clinical trial conducted at the Royal Adelaide Hospital,
3. Demonstration of activity against a key cancer marker in humans and canines,
4. Extensive preclinical R&D package evaluating MPL in many cancers,
5. Independent validation of monepantel's specificity towards malignant cell lines and relatively benign effects upon non malignant cell lines by the newly commenced collaboration with Dr Doug Fairlie at the Olivia Newton John Cancer Centre,
6. Publications in peer-review journals describing anti-cancer activity of MPL in preclinical models,
7. The fact that MPL is already approved for the treatment of parasitic infections in farm animals, which implies that the drug has received extensive regulatory consideration as it is used in food-chain animals,
8. The successful reformulation of MPL by BRI/Avista into a prototype tablet formulation,
9. New Option to Licence Agreement entered into with Elanco Inc, a global provider of veterinary products,
10. The provision by Elanco of 5kg of GMP-quality MPL.

#### **Intellectual property**

As there is growing evidence that neuro-degenerative diseases can be slowed down by blocking the mTOR pathway, PharmAust has registered intellectual property on the effects of monepantel on neurodegenerative diseases such as Alzheimer's and Parkinson's diseases. PharmAust plans to more closely assess potential commercial outcomes in these areas in FY19.

#### **EPICHEM PTY LTD - 100% OWNED SUBSIDIARY**

Epichem, PharmAust's wholly owned subsidiary, has continued to make strong progress towards key operational milestones as well as build the contract sales and income activities.

Epichem has been delivering synthetic and medicinal chemistry services to the drug discovery and pharmaceutical industries worldwide since 2003. Epichem offers a range of rare and hard to find pharmaceutical impurities, degradants and metabolites of active ingredients and excipients, particularly for OTC and generic drugs.

Epichem has been at the forefront of synthesizing new and difficult to obtain standards and many of these are exclusive to Epichem and not available elsewhere. This range is continually expanding in response to customer requests and developments in the industry. Epichem is globally competitive with clients in 39 countries and is rapidly expanding its reach.

Epichem also excels in custom synthesis and contract drug discovery, boasting a highly skilled team of scientists, most with a PhD and industry experience. This valuable investment in people allows Epichem to lead drug discovery programs, perform custom synthesis, conduct optimisation and method development for scale-up and engage in high-level problem solving.

Epichem has a long history of helping pharmaceutical companies identify trace impurities and has produced a range of pharmaceutical reference standards to aid the industry in detecting and measuring these impurities, ultimately assisting in the quality assurance and control of its clients' medicines.

Epichem's expert team of medicinal chemists is also supporting PharmAust's oncology programmes and has made a number of novel analogues of MPL. While still at the early pre-clinical research stage, if successful, this research could ultimately lead to a new drug with improved properties which is wholly owned by PharmAust.

#### **Epichem wins prestigious WA Exporter of the Year Award**

Epichem won its fifth WA Export Award and was awarded the prestigious 'WA Exporter of the Year' award at the 29th WA Industry and Export Awards in October 2017. Epichem also received the coveted Health and Biotechnology Award. Coordinated by the Department of Jobs, Tourism, Science and Innovation and managed by the Export Council of Australia, the awards recognise and honour the "best of the best" in Western Australian business.

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Dr Wayne Best, Chairman of Epichem, said "We're proud to be named 'WA Exporter of the Year', which recognises the hard work and dedication from our outstanding team. Epichem has now won a WA Export Award in each of the five years it has entered and is in the WA Export Hall of Fame. Epichem has also won a prestigious Australian Export Award in the Small Business category.

We're particularly pleased with this year's award as it recognises the strong growth in revenues we've achieved following the decision to expand our laboratory space. Epichem is also finalising a new standards accreditation to offer its services to a wider range of global customers. Delivery on these outcomes is expected to drive continued revenue growth."

#### **Epichem gains prestigious international ISO accreditation**

On 2 July 2018 PAA announced that Epichem gained accreditation from NATA (The National Association of Testing Authorities, Australia) to ISO17034:2016. Epichem is one of the first companies in Australia to achieve this internationally regarded standard of quality assurance for reference material production to support pharmaceutical drug manufacturing. Accreditation by NATA is highly regarded both locally and internationally and elevates Epichem's status, global market access and competitiveness in a growing world market.

#### **Extensions to major customer contracts**

On 18 January 2018 PAA announced that Epichem Pty Ltd was awarded a one year extension to its current contract with Drugs for Neglected Diseases initiative (DNDi). On 7 June 2018 PAA announced that Epichem had received an extension to its contract with California-based Unity Inc.

#### **Epichem Expands Laboratory to Accelerate Growth**

Epichem's laboratory expansion works are completed and deliver an additional six fumehoods. In conjunction with the expanded facilities and the additional accreditation, we expect to see accelerating Epichem revenues in FY19.

### **PHARMAUST LTD – PARENT ENTITY**

#### **Annual General Meeting**

The Annual General Meeting of the Shareholders of PharmAust Limited was held on 29 November 2017 at Epichem Pty Ltd Suite 5, 3 Brodie Hall Drive, Technology Park, Bentley, Western Australia. All resolutions that were put were unanimously passed on a show of hands.

#### **Successful Placement to Raise \$1.87m**

PharmAust was pleased to announce it has received commitments to raise \$ 1.873 million through an oversubscribed Placement to sophisticated investors.

Funds were raised via an oversubscribed placement of 39,000,000 fully paid ordinary shares (the maximum allowed under the Company's 25% capacity) at \$0.045 per share to sophisticated investors. This represents a discount of 10.9% discount to the 5-Day VWAP of \$0.0505 and a 8.2% discount to the last close (1 December 2017) of \$0.049.

In addition, officers of PAA subscribed for an additional 2.611m shares to raise up to \$118,000, which received Shareholder approval at an extraordinary general meeting held on 26 February 2018.

#### **Significant Changes in State of Affairs**

A review of events during the reporting period can be found in the review of operations.

## DIRECTORS' REPORT (Cont.)

### Subsequent Events

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

### Future Developments

In the opinion of the Directors disclosure of information regarding likely developments in the Company's operations and the expected results of those operations in subsequent financial years could prejudice the Company's interests. Accordingly, this information has not been included in this report.

### Environmental Regulation

The Company is subject to a range of environmental regulation. During the year, the Company met all reporting requirements under any relevant legislation. There were no incidents which required reporting.

### Information on Directors

#### Dr Roger Aston – Executive Chairman

Qualifications	BSc (Hons), Ph.D
Experience	Dr Aston currently serves as Chief Executive Officer of Pitney. Dr Aston served as Chief Executive Officer of Mayne Pharma Group until 15 February 2012. During his career, he has been closely involved in start-up companies and major pharmaceutical companies. Aspects of his experience include FDA and EU product registration, clinical trials, global licensing agreements, fundraising through private placements, and a network of contacts within the pharmaceutical, banking and stock broking sectors. Dr Aston is both a scientist and seasoned biotechnology entrepreneur, with a successful track record in both fields. Dr Aston holds a B.Sc. (Hons) and Ph.D. degrees from the University of Manchester from 1975 to 1981.
Interests in Shares & Options	Dr Aston holds 10,746,296 Fully Paid Ordinary Shares and 1,791,050 Options.
Other Current Directorships (ASX Listed Companies)	Immuron Limited (ASX:IMC), Oncosil Limited (ASX: OSL), Regeneus Limited (ASX:RGS) and ResApp Health Limited (ASX:RAP)
Previous Directorships (last 3 years) ASX Listed Companies	IDT Limited (ASX:IDT); and Polynovo Limited (ASX:PNV) (previously Calzada Limited (ASX:CZD))

#### Mr Robert C Bishop – Executive Director

Qualifications	LL.B (Hons), Solicitor (New South Wales and England & Wales), MAICD
Experience	Mr Bishop has 30 years' experience in corporate finance and equity capital markets. Having worked extensively in London and Sydney, first as a lawyer at Linklaters & Paines and Allen, Allen & Hemsley; and then as a stockbroker and investment banker at Ord Minnett, Robert Fleming and, since 1998, at his Sydney based corporate finance business, First Capital Markets. He has extensive experience in the areas of stock market flotation's, licensing and compliance work.
Interests in Shares & Options	Mr Bishop, via his company, holds 6,579,328 Fully Paid Ordinary Shares & 913,222 Options.
Other Current Directorships (ASX Listed Companies)	Nil
Previous Directorships (last 3 years) ASX Listed Companies	Nil

## DIRECTORS' REPORT (Cont.)

### Dr Wayne Best – Non-Executive Director

Qualifications	BSc (Hons), PhD, DIC, FRACI, GAICD
Experience	Wayne has almost 30 years' experience in synthetic and medicinal chemistry both in academia, government and industry. Wayne obtained his BSc (Hons) and PhD in Organic Chemistry from The University of Western Australia. He then spent two years at Imperial College in the UK where he obtained a DIC, followed by a year at the Australian National University in Canberra.  Wayne then took up a position with ICI Australia's Research Group in Melbourne where he spent over four years designing and synthesizing a range of biologically active compounds, particularly agrochemicals. During this time Wayne was seconded for six months to ICI Agrochemicals' Jealott's Hill Research Station in the UK to work on the rational design of a novel herbicide target.  Following ICI, Wayne returned to Western Australia and spent the ten years preceding Epichem at the Chemistry Centre (WA) where he was responsible for the formation and running of the Medicinal & Biological Chemistry Section which undertook collaborative R&D into drug discovery and contract synthesis for the drug discovery and pharmaceutical industries.  Wayne is a Fellow of the Royal Australian Chemical Institute and has held appointments as an Adjunct Associate Professor at both Murdoch University and The University of Western Australia. He is also a Director of Epichem's parent company, PharmAust Ltd, and a Graduate Member of the Australian Institute of Company Directors.
Interests in Shares & Options	Dr Best holds 787,432 ordinary shares and 1,564,573 options in PharmAust Limited.
Other Current Directorships (ASX Listed Companies)	Nanollose Limited
Previous Directorships (last 3 years) ASX Listed Companies	

### Mr Sam Wright – Non-Executive Director & Company Secretary

Qualifications	AFin DipAcc ACIS MAICD
Experience	Sam Wright is experienced in the administration of ASX listed companies, corporate governance and corporate finance. He joined the Company as the Financial Controller in September 2006, was appointed as the Company Secretary in August 2007, and was appointed as a Director in October 2008.  Mr Wright has twenty years' experience in the pharmaceutical, biotech and healthcare industry and is a member of the Australian Institute of Company Directors, the Financial Services Institute of Australasia, and the Chartered Secretaries of Australia.  Mr Wright is currently Company Secretary of ASX listed companies, Buxton Resources Limited and Structural Monitoring Systems plc. Mr Wright also has filled the role of Director and Company Secretary with a number of unlisted companies.  He is the Managing Director of Perth-based corporate advisory firm Straight Lines Consultancy, specialising in the provision of corporate services to public companies.
Interests in Shares & Options	Mr Wright, via his company, holds 4,000,000 ordinary shares and 166,668 options in PharmAust Limited.
Other Current Directorships (ASX Listed Companies)	Nil
Previous Directorships (last 3 years) ASX Listed Companies	Buxton Resources Limited (ASX: BUX) and Structural Monitoring Systems plc (ASX: SMN)

### Meetings of Directors

The number of meetings of the Company's directors held during the year ended 30 June 2018, and the number of meetings attended by each director was:

Directors	Meetings of Directors	
	Eligible to Participate	Number Attended
Dr Roger Aston	3	3
Mr Robert Bishop	3	3
Dr Wayne Best	3	3
Mr Sam Wright	3	3



## DIRECTORS' REPORT (Cont.)

### Remuneration Report (Audited)

The remuneration report, which has been audited, outlines the key management personnel (KMP) remuneration arrangements for the consolidated entity, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

This report details the nature and amount of remuneration for each director and executive of PharmAust Limited.

#### Remuneration policy

The remuneration of directors and executives of PharmAust Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Company's financial results. The Board of PharmAust Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Company, as well as create goal congruence between directors, executives and shareholders.

All executives receive a base salary (which is based on factors such as length of service and experience) and superannuation whilst some executives receive fringe benefits. The Board reviews executive packages periodically by reference to the Company's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The performance of executives is measured against criteria agreed regularly with each executive and is based on factors including the forecast growth of profits and shareholders' value.

The remuneration is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth. The goal of the remuneration structures it to align the remuneration packages of the executives with the Company's performance and specifically the Company's earnings and the consequences of the Company's performance on shareholder wealth including dividends, returns of capital and capital appreciation.

The executive directors and executives receive a superannuation guarantee contribution required by the government and do not receive any other retirement benefits. Individuals, however, have the option to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the Company and expensed. Any shares given to directors and executives will be valued as the difference between the market price of those shares and the amount paid by the director or executive. Any options granted will be valued by an independent expert using the Black-Scholes, Binomial or any other methodologies that the independent expert deems appropriate.

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Board (excluding the relevant director) determines payments to the directors and reviews their remuneration regularly, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the Company.

#### Details of remuneration

Details of the nature and amount of each element of remuneration of each key management personnel of the consolidated entity are set out in the following tables.

The key management personnel of the consolidated entity consisted of the following directors and other key management personnel:

#### Directors

Roger Aston	Chief Executive Officer
Robert Bishop	Executive Director
Sam Wright	Non-Executive Director and Company Secretary
Wayne Best	Non-Executive Director

#### Other Key Management Personnel

John Horton	Director – Epichem Pty Ltd
Rebecca McCrackan	Director – Epichem Pty Ltd
Richard Hopkins	Chief Executive Officer – PharmAust Ltd (resigned 25 May 2018)
Richard Mollard	Chief Scientific Officer – PharmAust Ltd
Martine Keenan	Chief Executive Officer – Epichem Pty Ltd (appointed 10 March 2018)

## DIRECTORS' REPORT (Cont.)

### Remuneration Report (Audited)

2018	Short-term Benefits	Post-employment Benefits	Share-based Payments	Total
	Salary & Fees \$	Superannuation \$	Options & Performance Rights \$	
<b>Directors</b>				
Sam Wright	114,000	-	-	114,000
Roger Aston	260,000	24,700	-	284,700
Robert Bishop	104,000	9,880	-	113,880
Wayne Best	162,160	15,405	34,698	212,263
<b>Other Key Management Personnel</b>				
John Horton	12,000	-	8,789	20,789
Rebecca McCrackan	4,500	428	8,789	13,717
Richard Hopkins*	167,429	15,906	401,363	584,698
Richard Mollard	182,650	17,352	403,214	603,216
Martine Keenan**	120,773	11,473	-	132,246
	1,127,512	95,144	856,853	2,079,509

\* Resigned 25 May 2018

\*\* Appointed 10 April 2018

2017	Short-term Benefits	Post-employment Benefits	Share-based Payments	Total
	Salary & Fees \$	Superannuation \$	Options & Performance Rights \$	
<b>Directors</b>				
Sam Wright	103,000	-	-	103,000
Roger Aston	260,000	24,700	-	284,700
Robert Bishop	104,000	9,880	-	113,880
Wayne Best	150,000	14,250	-	164,250
<b>Other Key Management Personnel</b>				
John Horton	11,000	-	-	11,000
Rebecca McCrackan	5,400	513	-	5,913
Richard Hopkins*	59,010	5,606	52,572	117,188
Richard Mollard**	56,200	5,339	41,232	102,771
	748,610	60,288	93,804	902,702

\* Appointed on 7 March 2017

\*\* Appointed on 13 March 2017

## DIRECTORS' REPORT (Cont.)

### Remuneration Report (Audited)

#### Service agreements

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

#### **Remuneration of Roger Aston (Executive Chairman - PharmAust Limited)**

Term of the agreement – permanent and no specific term.

Base salary of \$260,000 per year plus superannuation of 9.5% of base salary.

Payment of termination benefit on termination by the employer, other than for gross misconduct, is equal to six (6) months base salary and superannuation.

#### **Remuneration of Robert Bishop (Executive Director - PharmAust Limited)**

Term of the agreement – permanent and no specific term.

Base salary of \$104,000 per year plus superannuation of 9.5% of base salary.

Payment of termination benefit on termination by the employer, other than for gross misconduct, is equal to three (3) months base salary and superannuation.

#### **Remuneration of Wayne Best (Non-Executive Director – PharmAust Limited) (Managing Director – Epichem Pty Ltd)**

Term of the agreement – permanent and no specific term.

Base salary of \$9,000 per year plus superannuation of 9.5% of base salary.

Payment of termination benefit on termination by the employer, other than for gross misconduct, is equal to six (6) months base salary and superannuation.

#### **Remuneration of Sam Wright (Non-Executive Director and Company Secretary – PharmAust Limited)**

Term of the agreement – permanent and no specific term.

Consultancy fees of \$7,500 plus GST per month, payable in arrears.

Payment of termination benefit on termination by the employer, other than for gross misconduct, is equal to six (6) months consultancy fee.

#### **Remuneration of John Horton (Director – Epichem Pty Ltd)**

Term of the agreement – permanent and no specific term.

Consultancy fees of \$12,000 per annum.

#### **Remuneration of Rebecca McCrackan (Director – Epichem Pty Ltd)**

Term of the agreement – permanent and no specific term.

Director fees of \$5,400 per annum plus superannuation of 9.5% of base salary.

#### **Remuneration of Richard Hopkins (Chief Executive Officer – PharmAust Limited) (Resigned 25<sup>th</sup> May 2018)**

Term of the agreement – permanent and no specific term.

Base salary of \$182,650 per year plus superannuation of 9.5% of base salary.

Payment of termination benefit on termination by the employer, other than for gross misconduct, is equal to six (6) months base salary and superannuation.

#### **Remuneration of Richard Mollard (Chief Scientific Officer – PharmAust Limited)**

Term of the agreement – permanent and no specific term.

Base salary of \$182,650 per year plus superannuation of 9.5% of base salary

Payment of termination benefit on termination by the employer, other than for gross misconduct, is equal to six (6) months base salary and superannuation.

#### **Remuneration of Martine Keenan (Chief Executive Officer – Epichem Pty Ltd)**

Term of the agreement – permanent and no specific term.

Base salary of \$140,000 per annum plus superannuation of 9.5% of base salary.

Bonus of up to a maximum of \$30,000 in the event of the satisfaction of Bonus milestones for any one financial year that Epichem Pty Ltd makes an after tax profit of:

- \$100,000 – \$200,000 - bonus of \$5,000; or
- \$200,001 – \$350,000 - bonus of \$10,000; or
- \$350,001 – \$500,000 - bonus of \$20,000; or
- \$500,001 or more - bonus of \$30,000.

Payment of termination benefit on termination by the employer, other than for gross misconduct, is equal to six (6) months base salary and superannuation.

## DIRECTORS' REPORT (Cont.)

### Remuneration Report (Audited)

#### Share-based compensation

##### Issue of shares

There were no shares issued to directors and other KMP as part of compensation during the year ended 30 June 2018.

##### 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	Expiry date	Exercise price	Fair value per option at grant date
<b>Directors</b>						
Wayne Best	1,250,000	26 Feb 2018	26 Feb 2018	31 December 2020	\$0.07	\$0.02776

#### Other Key Management

##### Personnel

Richard Hopkins*	1,875,000	31 May 2017	7 March 2018	31 March 2020	\$0.075	\$0.04989
Richard Hopkins*	3,750,000	31 May 2017	7 March 2018	31 March 2020	\$0.15	\$0.03851
Richard Hopkins*	4,500,000	31 May 2017	7 March 2018	31 March 2020	\$0.23	\$0.03138
Richard Mollard	1,875,000	6 June 2017	13 March 2018	31 March 2020	\$0.075	\$0.04896
Richard Mollard	3,750,000	6 June 2017	13 March 2018	31 March 2020	\$0.15	\$0.03768
Richard Mollard	4,500,000	6 June 2017	13 March 2018	31 March 2020	\$0.23	\$0.03063
John Horton	250,000	31 August 2017	31 August 2017	30 August 2020	\$0.08	\$0.03516
Rebecca McCrackan	250,000	31 August 2017	31 August 2017	30 August 2020	\$0.08	\$0.03516

\*Richard Hopkins resigned on 25 May 2018. His options fully vested as of 7 March 2018. As there is no service condition, the performance rights are not forfeited upon resignation.

##### Performance rights

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

Name	Class	Number of rights granted	Grant Date	Fair value at grant date	Value of rights expensed at 30 June 2018
Richard Hopkins*	Class A	625,000	31 May 2017	0.08	46,187
	Class B	1,250,000	31 May 2017	0.08	15,109
	Class C	1,500,000	31 May 2017	0.08	1,522
Richard Mollard	Class A	625,000	06 June 2017	0.079	46,201
	Class B	1,250,000	06 June 2017	0.079	15,880
	Class C	1,500,000	06 June 2017	0.079	1,991
					126,890

\*Richard Hopkins resigned on 25 May 2018. His performance rights fully vested as of 7 March 2018. As there is no service condition, the performance rights are not forfeited upon resignation.

The value of the rights expensed as at 30 June 2018 has been determined based on the probability of meeting the specified performance milestones.

#### Options and performance rights granted as part of remuneration

All options and performance rights have been granted and issued. The amount allocated to remuneration is allocated over the vesting period.

#### Other transactions with key management personnel and their related parties

There were no other transactions with key management personnel and their related parties during the year.

## DIRECTORS' REPORT (Cont.)

### Remuneration Report (Audited)

#### Additional information

The earnings of the consolidated entity for the five years to 30 June 2018 are summarised below:

	2018 \$	2017 \$	2016 \$	2015 \$	2014 \$
Revenue	3,295,904	3,333,505	2,754,737	2,420,020	2,007,086
EBITDA	(2,374,722)	(1,161,152)	(4,076,414)	(1,844,390)	(1,261,822)
EBIT	(2,493,327)	(1,343,614)	(3,927,256)	(1,925,091)	(1,317,853)
Loss after income tax	(2,521,679)	(1,343,614)	(3,927,256)	(1,925,091)	(1,317,853)

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

	2018	2017	2016	2015	2014
Share price at financial year end (\$)	0.04	0.06	0.08	0.14	0.22
Total dividends declared (cents per share)	-	-	-	-	-
Basic earnings per share (cents per share)	(1.72)	(1.08)	(0.60)	(0.13)	(0.1)

#### 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 consolidated entity, including their personally related parties, is set out below:

	Balance 1 July 2017 No.	Share Consolidation No.	Received as Compensation No.	At date of Appointment and/or Resignation No.	Net Change Other* No.	Balance 30 June 2018 No.
<b>2018</b>						
<b><u>Directors</u></b>						
Wayne Best	387,432	-	-	-	400,000	787,432
Sam Wright	1,000,000	-	-	-	1,000,000	2,000,000
Roger Aston	10,746,296	-	-	-	-	10,746,296
Robert Bishop	5,479,328	-	-	-	1,100,000	6,579,328
<b><u>Other Key Management Personnel</u></b>						
John Horton	1,250	-	-	-	-	1,250
Rebecca McCrackan	-	-	-	-	-	-
Richard Hopkins**	1,000,000	-	-	(2,331,111)	1,331,111	-
Richard Mollard	-	-	-	-	-	-
Martine Keenan***	-	-	-	-	-	-
	<b>18,614,306</b>	<b>-</b>	<b>-</b>	<b>(2,331,111)</b>	<b>3,831,111</b>	<b>20,114,306</b>

\*The net change other column above includes those shares that have been disposed or acquired by holders during the year.

\*\* Resigned 25 May 2018.

\*\*\* Appointed 10 April 2018.

## DIRECTORS' REPORT (Cont.)

### Remuneration Report (Audited)

*Option holding*

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

2018	Balance 1 July 2017 No.	Granted as Compensation No.	Options Exercised No.	At date of Appointment and/or Resignation	Net Change Other* No.	Balance 30 June 2018 No.	Total Vested No.
<b><u>Directors</u></b>							
Sam Wright	166,668	-	-	-	-	166,668	166,668
Roger Aston	1,791,050	-	-	-	-	1,791,050	1,791,050
Robert Bishop	913,222	-	-	-	-	913,222	913,222
Wayne Best	314,573	1,250,000	-	-	-	1,564,573	1,564,573
<b><u>Other Key Mangement</u></b>							
<b><u>Personnel</u></b>							
John Horton	-	250,000	-	-	-	250,000	250,000
Richard Mollard	10,125,000	-	-	-	-	10,125,000	10,125,000
Rebecca McCrackan	-	250,000	-	-	-	250,000	250,000
Richard Hopkins**	10,458,334	-	-	(10,458,334)	-	-	-
Martine Keenan***	-	-	-	900,000	-	900,000	900,000
	23,768,847	1,750,000	-	(9,558,334)	-	15,960,513	15,960,513

\*The net change other column above includes those options that have been disposed or acquired by holders during the year.

\*\* Resigned 25 May 2018.

\*\*\* Appointed 10 April 2018.

**[END OF REMUNERATION REPORT]**

## DIRECTORS' REPORT (Cont.)

### Share Options & Performance Rights

The details of unissued ordinary shares under option at the date of this report are as follows:

	Number	Exercise Price	Expiry Date
Unlisted	675,000	16 cents	3 September 2018
Unlisted	21,645,412	12 cents	30 November 2019
Unlisted	3,750,000	7.5 cents	31 March 2020
Unlisted	7,500,000	15 cents	31 March 2020
Unlisted	9,000,000	23 cents	31 March 2020
Unlisted	5,000,000	8 cents	30 August 2020
Unlisted	10,000,000	12 cents	31 January 2022

During the year, no options were exercised. There have been no further options exercised since the end of the financial year to the date of this report.

The entity has further unissued ordinary shares through Performance Rights as per the summary below:

- 3,375,000 performance rights with a fair value at grant date of 8 cents;
- 3,375,000 performance rights with a fair value at grant date of 7.9 cents.

The performance rights granted vest upon the individual's continuing service with the Company and upon certain performance milestones.

### Shares Issued on Exercise of Compensation Options

No options were exercised last financial year, this financial year or up to the date of this report.

### Indemnification and Insurance of Directors and Officers

During the year, the Company held Directors and Officers Indemnity insurance.

The Company's Constitution provides that except as may be prohibited by Sections 199A and 199B of the Corporations Act every Officer, auditor or agent of the Company shall be indemnified out of the property of the Company against any liability incurred by him in his capacity as Officer, auditor or agent of the Company or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings whether civil or criminal.

### Indemnification 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 for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of these proceedings.

### Annual Report Disclosure on Corporate Governance

PharmAust Limited is a drug discovery and development company. The Company has established, and continues to refine and improve procedures to ensure a culture of good corporate governance exists and is respected across the consolidated entity.

The Company has a written policy designed to ensure compliance with ASX Listing Rules and all other regulatory requirements for disclosures. Additionally, the Company has adopted a policy designed to ensure procedures to implement the policy are suitable and effective.

The Board wishes to acknowledge that nothing has come to its attention that would lead it to conclude that its current practices and procedures are not appropriate for an organisation of the size and maturity of the Company. The Corporate Governance Policy and the Company's corporate governance practices is set out on the Company's web site at [www.pharmaust.com](http://www.pharmaust.com)

## DIRECTORS' REPORT (Cont.)

### Non-Audit Services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 28 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 28 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

### Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included within these financial statements.

### Auditor

RSM Australia Partners 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



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**Dr ROGER ASTON**  
**Executive Chairman**

28 September 2018  
Perth, Western Australia



RSM Australia Partners

Level 32, Exchange Tower  
2, The Esplanade Perth WA 6000  
GPO Box R1253 Perth WA 6844

T +61(0) 8 92619100  
F +61(0) 8 92619101

[www.rsm.com.au](http://www.rsm.com.au)

### **AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of the financial report of PharmAust Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) The auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) Any applicable code of professional conduct in relation to the audit.



RSM AUSTRALIA PARTNERS

Perth, WA  
Dated: 28 September 2018

DAVID WALL  
Partner

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**RSM Australia Partners**

Level 32, Exchange Tower  
2 The Esplanade Perth WA 6000  
GPO Box R1253 Perth WA 6844

T +61 (0) 8 9261 9100  
F +61 (0) 8 9261 9111

[www.rsm.com.au](http://www.rsm.com.au)

## INDEPENDENT AUDITOR'S REPORT To the members of PharmAust Limited

### Opinion

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

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; 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 auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (**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.

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### 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.

Key audit matter	How our audit addressed this matter
<p><b><i>Impairment of intangible non-current asset</i></b>  Refer to Note 8 in the financial statements</p>	
<p>Intangible assets are stated at \$3,107,476 as at 30 June 2018 and comprise the intellectual property rights for the monepantel oncology platform (<b>MPL</b>). The MPL asset is not yet available for use and remains subject to annual impairment review by management to assess whether the asset's recoverable amount is greater than its carrying amount.</p> <p>Management's assessment involved:</p> <ul style="list-style-type: none"> <li>• Reviewing the key assumptions for the MPL value in use calculation model, which was prepared in the previous financial year, to determine whether there were any significant changes during the current financial year; and</li> <li>• Evaluating whether any events have occurred to indicate the MPL asset's recoverable amount may be less than its carrying amount.</li> </ul> <p>Management's assessment is subject to estimation uncertainty and requires significant management judgement. We determined this to be a key audit matter due the risk that the outcome of the impairment assessment could vary significantly if different assumptions are applied.</p>	<p>Our audit procedures, in relation to management's impairment assessment of the MPL asset, included:</p> <ul style="list-style-type: none"> <li>• Assessing whether there are any indicators of impairment of the MPL asset, including enquiring with management on the current and planned commercialisation activities;</li> <li>• Involving our financial modelling specialists to check the mathematical accuracy of the value in use model, including the appropriateness of the discount rate used;</li> <li>• Assessing the reasonableness of management's assumptions included in the value in use model and whether there are any indicators that would require the re-estimation of the asset's recoverable amount; and</li> <li>• Assessing the adequacy of the disclosures in Note 8 to the financial statements.</li> </ul>

Key audit matter	How our audit addressed this matter
<p><b>Revenue recognition</b></p> <p>Refer to Note 2 in the financial statements</p>	
<p>For the year ended 30 June 2018, the Group has recognised sales revenue of \$2,871,345. We determined revenue recognition be a key audit matter due to the following:</p> <ul style="list-style-type: none"> <li>The balance is significant to the Group and there are risks associated with management override, completeness and accuracy of sales and the timing of revenue recognition for sales occurring on or around year end; and</li> <li>Sales generated from the pharmaceutical segment are comprised of revenue streams with varying contract terms and pricing elements, which may result in minor errors that could, in aggregate, have a material impact on the financial statements.</li> </ul>	<p>Our audit procedures in relation to the Group's revenue recognition included:</p> <ul style="list-style-type: none"> <li>On a sample basis, we agreed the revenue amounts to various supporting documentation including a combination of approved contracts, price lists and proof of delivery documents to assess that the Australian Accounting Standards revenue recognition criteria were met for recognised sales;</li> <li>For a sample of revenue received in advance, we recalculated and checked the allocation between revenue and current liabilities;</li> <li>Reviewing sale transactions occurring near the reporting date to ensure that revenue had been recognised in the correct period;</li> <li>Performing testing on journals to identify any management override of internal controls related to revenue recognition; and</li> <li>Assessing the adequacy of the net sales disclosures contained in Note 23 Segment Reporting.</li> </ul>

#### Other information

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

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

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

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

#### Responsibilities of the directors for the financial report

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

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

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### **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 at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar2.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar2.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 within the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of PharmAust Limited, for the year ended 30 June 2018, 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.

D J WALL  
Partner  
RSM AUSTRALIA PARTNERS

Perth, Western Australia  
28 September 2018

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## DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of PharmAust Limited, I state that:

1. In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2018 and of its performance, for the year ended on that date; and
    - (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
  - (c) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1;
2. This declaration has been made after receiving the declarations required to be made in accordance with sections of 295A of the Corporations Act 2001 for the financial year ending 30 June 2018.

On behalf of the Board



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**Dr ROGER ASTON**  
**Executive Chairman**

28 September 2018  
Perth, Western Australia

STATEMENT OF COMPREHENSIVE INCOME  
For the year ended 30 June 2018

		CONSOLIDATED	
	NOTE	2018 \$	2017 \$
Revenue	2	2,871,345	2,854,176
Other income	2	424,559	479,329
		<u>3,295,904</u>	<u>3,333,505</u>
Raw materials and consumables used		(289,318)	(340,617)
Employee benefits expense		(3,561,963)	(2,522,959)
Depreciation expense		(118,605)	(123,085)
Finance costs		(28,352)	(59,377)
Research and development expenses		(463,875)	(329,302)
Administration expenses		<u>(1,355,470)</u>	<u>(1,301,779)</u>
<b>(Loss) before income tax expense</b>		(2,521,679)	(1,343,614)
Income tax expense	3a	-	-
<b>(Loss) after income tax expense</b>		(2,521,679)	(1,343,614)
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive (loss) for the year</b>		<u><b>(2,521,679)</b></u>	<u><b>(1,343,614)</b></u>
Basic and diluted loss per share (cents per share)	16	(1.72)	(1.08)

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION  
As at 30 June 2018

	NOTE	CONSOLIDATED	
		2018 \$	2017 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	1,875,431	2,590,330
Trade and other receivables	5a	248,353	222,187
Other current assets	6	58,568	44,668
Inventory	7	574,015	486,773
<b>TOTAL CURRENT ASSETS</b>		<b>2,756,367</b>	<b>3,343,958</b>
<b>NON-CURRENT ASSETS</b>			
Intangible assets	8	3,107,476	3,107,476
Plant and equipment	9	2,494,154	1,743,829
<b>TOTAL NON-CURRENT ASSETS</b>		<b>5,601,630</b>	<b>4,851,305</b>
<b>TOTAL ASSETS</b>		<b>8,357,997</b>	<b>8,195,263</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	10	616,825	361,873
Borrowings	11	424,634	206,250
Provisions	12	151,708	388,104
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,193,167</b>	<b>956,227</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	11	1,007	281,250
Provisions	12	25,605	42,739
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>26,612</b>	<b>323,989</b>
<b>TOTAL LIABILITIES</b>		<b>1,219,779</b>	<b>1,280,216</b>
<b>NET ASSETS</b>		<b>7,138,218</b>	<b>6,915,047</b>
<b>EQUITY</b>			
Issued capital	13	49,371,354	47,604,668
Reserves	14	2,055,460	1,077,296
Accumulated losses	26	(44,288,596)	(41,766,917)
<b>TOTAL EQUITY</b>		<b>7,138,218</b>	<b>6,915,047</b>

The accompanying notes form part of these financial statements.



**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 30 June 2018**

	Issued Capital \$	Accumulated Losses \$	Options Reserve \$	Total Equity \$
	<b>44,463,072</b>	<b>(40,423,303)</b>	<b>983,492</b>	<b>5,023,261</b>
<b>As at 1 July 2016</b>				
Loss for the year	-	(1,343,614)	-	(1,343,614)
<b>Total comprehensive (loss) for the year</b>	-	(1,343,614)	-	(1,343,614)
Shares issued (net)	3,141,596	-	-	3,141,596
Share based payment	-	-	93,804	93,804
	<b>47,604,668</b>	<b>(41,766,917)</b>	<b>1,077,296</b>	<b>6,915,047</b>
<b>As at 30 June 2017</b>				
	<b>47,604,668</b>	<b>(41,766,917)</b>	<b>1,077,296</b>	<b>6,915,047</b>
<b>As at 1 July 2017</b>				
Loss for the year	-	(2,521,679)	-	(2,521,679)
<b>Total comprehensive (loss) for the year</b>	-	(2,521,679)	-	(2,521,679)
Shares issued (net)	1,766,686	-	-	1,766,686
Share based payment	-	-	978,164	978,164
	<b>49,371,354</b>	<b>(44,288,596)</b>	<b>2,055,460</b>	<b>7,138,218</b>
<b>As at 30 June 2018</b>				

The accompanying notes form part of these financial statements.

**STATEMENT OF CASH FLOWS**  
**For the year ended 30 June 2018**

	NOTE	CONSOLIDATED	
		2018	2017
		\$	\$
Cash Flows From Operating Activities			
Receipts from customers		2,845,179	2,726,008
Payments to suppliers and employees		(4,792,183)	(4,401,626)
Other income		387,656	453,401
Interest received		36,903	25,928
Interest and other costs of finance		(28,352)	(59,377)
Net cash used in operating activities	19b	<u>(1,550,797)</u>	<u>(1,255,666)</u>
Cash Flows From Investing Activities			
Payments for plant and equipment		<u>(868,929)</u>	<u>(57,023)</u>
Net cash used in investing activities		<u>(868,929)</u>	<u>(57,023)</u>
Cash Flows From Financing Activities			
Proceeds from share issues (net)		1,766,686	3,141,595
Proceeds/(Repayment) of borrowing (net)		<u>(61,859)</u>	<u>(120,399)</u>
Net cash provided by financing activities		<u>1,704,827</u>	<u>3,021,196</u>
Net (decrease)/increase in cash held		(714,899)	1,708,507
Cash at the beginning of the financial year		<u>2,590,330</u>	<u>881,823</u>
Cash at the end of the financial year	19a	<u>1,875,431</u>	<u>2,590,330</u>

*The accompanying notes form an integral part of these financial statements.*

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## NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2018

These consolidated financial statements and notes represent those of PharmAust Limited and its Controlled Entities (the "consolidated entity" or "group").

The separate financial statements of the parent entity, PharmAust Limited, have not been presented within this financial report as permitted by the *Corporations Act 2001*. Supplementary information about the parent entity is disclosed within this financial statements.

### SIGNIFICANT ACCOUNTING POLICIES

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the Australian Accounting Standards Board has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The financial report was authorised for issue on 1 October 2018 by the Directors of the Company.

#### (a) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of PharmAust Limited as at 30 June 2018 and the results of all subsidiaries for the year then ended. PharmAust Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity 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 consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity 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 consolidated entity.

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.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity 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 consolidated entity 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.

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2018

### 1 SIGNIFICANT ACCOUNTING POLICIES (Cont.)

#### (b) 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.

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.

The parent and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

#### (c) Plant and Equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in profit or loss during the financial period in which they are incurred.

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2018

### 1 SIGNIFICANT ACCOUNTING POLICIES (Cont.)

#### (c) Plant and Equipment (Cont.)

##### *Depreciation*

The depreciable amount of all plant and is depreciated on a straight line basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

<i>Class of Fixed Asset</i>	<i>Depreciation Rate</i>
Plant and equipment	3-20 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

#### (d) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

#### (e) Financial Instruments

##### *Recognition and initial measurement*

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

##### *Classification and subsequent measurement*

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability.

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2018

### 1 SIGNIFICANT ACCOUNTING POLICIES (Cont.)

#### (e) Plant and Equipment (Cont.)

Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

#### (i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

#### (ii) Financial assets at fair value through profit or loss

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss.

#### (iii) Financial liabilities

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

#### *Impairment*

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset has been impaired. A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

#### *Derecognition*

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2018**

1 SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(f) Foreign Currency Transactions and Balances

The financial statements are presented in Australian dollars, which is the group'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.

(g) Impairment of Assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (e.g. in accordance with the revaluation model in AASB 116: Property, Plant and Equipment). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill, intangible assets with indefinite lives and intangible assets not yet available for use.

(h) Employee Benefits

*Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

*Other long-term employee benefits*

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*Share-based payments*

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

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 consolidated entity 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.

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2018

### 1 SIGNIFICANT ACCOUNTING POLICIES (Cont.)

#### (i) Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

#### (j) 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. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

#### (k) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

#### (l) Revenue

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. When the inflow of consideration is deferred, it is treated as the provision of financing and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest method.

All revenue is stated net of the amount of goods and services tax.

#### (m) 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.

#### (n) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.



**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2018**

1 SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(o) 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.

(p) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of PharmAust 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.

(q) Borrowing Costs

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

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

(r) Intangibles Assets

*Intellectual property rights- three oncology technology platforms*

Intellectual property rights are recognised at cost of acquisition less accumulated amortisation and any impairment losses. For intellectual property rights not yet available for use, they are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired, and are carried at cost less accumulated impairment losses.

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably.

Intangible assets have a finite useful life and are amortised on a systematic basis based on the future economic benefits over the useful life of the project following commercialisation of the assets.

(s) 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.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

(t) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(u) 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.

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2018

### 1 SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- (v) 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 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 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.

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

- (w) Trade and other payables  
These amounts represent liabilities for goods and services provided to the consolidated entity 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.

- (x) Borrowings  
Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity as a convertible note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

- (y) New, revised or amending accounting standards and interpretations adopted  
In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period.

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

- (z) Business Combinations  
The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2018

### 1 SIGNIFICANT ACCOUNTING POLICIES (Cont.)

#### (z) Business Combinations (Cont.)

measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

#### (aa) Critical Accounting Estimates and Judgements

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 consolidated entity 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.

##### *Impairment of non-financial assets other than goodwill and other indefinite life intangible assets*

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

##### *Provision for impairment of receivables*

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor financial position.

##### *Estimation of useful lives of assets*

The consolidated entity 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.

##### *Employee benefits provision*

As discussed in note 1, 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.

##### *Other finite life intangible assets not yet in use*

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether other finite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital, royalty rates and growth rates of the estimated future cash flows.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2018**

		CONSOLIDATED	
		2018	2017
		\$	\$
2	REVENUE		
	Sales	2,871,345	2,854,176
	OTHER INCOME		
	Interest received	36,903	25,928
	Other revenue	387,656	453,401
		424,559	479,329
3	INCOME TAX EXPENSE		
3a	No income tax is payable as a tax loss has been incurred for income tax purposes.		
	Loss before income tax	(2,521,679)	(1,343,614)
	Prima facie tax benefit at 27.5% (2017: 30%)	(693,462)	(369,494)
	Tax effect of:		
	- Other non-allowable items	376,137	220,807
	- Deferred tax asset not brought to account	317,325	148,687
		-	-
3b	Deferred tax asset		
	The potential deferred tax assets have not been recognised in the statement of financial position because their recovery is not considered probable.		
	- Tax losses at 27.5% tax rate (not recognised) (2017: 27.5%)	6,603,997	6,305,280
	PharmAust Limited and its wholly-owned Australian subsidiary have formed an income tax consolidated group under the Tax Consolidation Regime. PharmAust Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The tax consolidated group has entered a tax sharing agreement whereby each company in the consolidated entity contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.		
4	CASH AND CASH EQUIVALENTS		
	Cash at bank	1,875,431	2,590,330

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**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2018**

		CONSOLIDATED	
		2018	2017
		\$	\$
5	TRADE AND OTHER RECEIVABLES		
5a	CURRENT		
	Trade receivables	248,353	222,187
	Less: provision for doubtful debts	-	-
		248,353	222,187
	Trade receivables: Payment terms are 30 days from the date of recognition.		
5b	Provision for impairment of receivables		
	Current trade and term receivables are non-interest bearing and generally on 30-day terms. Non-current trade and term receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired.		
5c	Past due but not impaired		
	As of 30 June 2018, trade receivables of \$31,202 (2017:\$ 372) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:		
	31 to 60 days	7,216	74,625
	61 days and above	31,202	372
		38,418	74,997
	Based on the credit history of these other classes, it is expected that these amounts will be received when due. The Group does not hold any collateral in relation to these receivables.		
5d	Fair value and credit risk		
	The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties other than those receivables specifically provided for and mentioned within Note 5. The class of assets described as "trade and other receivables" is considered to be the main source of credit risk related to the Group.		
6	OTHER CURRENT ASSETS		
	GST receivables	37,174	36,794
	Bond	6,269	4,291
	Prepayments	15,125	3,583
		58,568	44,668
7	Inventories		
	Finished Goods	574,015	486,773
		574,015	486,773

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2018**

	CONSOLIDATED	
	2018 \$	2017 \$
8. Intangible Assets		
Intellectual property rights – at cost	5,179,128	5,179,128
Amortisation	-	-
Accumulated impairment losses	(2,071,652)	(2,071,652)
	3,107,476	3,107,476
Movements in Carrying Amounts:		
Balance at the beginning of the year	3,107,476	3,107,476
Addition	-	-
Impairment	-	-
Balance at the end of the year	3,107,476	3,107,476

The group has assessed the recoverability of the carrying amount of the Intangible Asset based on a 16 year value in use calculation using a discounted cash flow model for the intellectual property rights to the monepanel (MPL) oncology platform. The calculation is based on budgets approved by management, assuming commercialisation through a royalty revenue stream for both human and animal patents. The key assumptions used in the discounted cash flow model include:

- Royalty rate of 10% (2017: 10%);
- Post-tax discount rate of 30% (2017: 30%);

The discount rate of 30% post-tax reflects management's estimate of the time value of money and the group's weighted average cost of capital. As disclosed in Note 1, the directors have made judgements and estimates in respect of impairment testing of intangible assets.

	CONSOLIDATED	
	2018 \$	2017 \$
9. PLANT AND EQUIPMENT		
Cost	3,326,377	2,457,561
Accumulated depreciation	(832,223)	(713,732)
	2,494,154	1,743,829
Movements in Carrying Amounts:		
Carrying amount at beginning of the year	1,743,829	1,819,868
Additions – Plant and Equipment	191,556	57,024
Additions – Construction in Progress	677,374	-
Disposals	-	(24)
Depreciation expense	(118,605)	(133,039)
Carrying amount at end of the year	2,494,154	1,743,829
10. TRADE AND OTHER PAYABLES		
Trade creditors and accruals	616,825	361,873
	Payment terms are 30 days from receipt of goods and/or services rendered.	
11. BORROWINGS		
CURRENT		
EFIC Loan Facility 1**	281,250	206,250
EFIC Loan Facility 2***	143,384	-
	424,634	206,250
NON CURRENT		
EFIC Loan Facility 1**	-	281,250
EFIC Loan Facility 2***	1,007	-
	1,007	281,250

*Terms and conditions:*

\*\* The EFIC Loan liability has a variable interest rate charged at the AFMA Bank Bill Average Bid Rate fix + 5% margin. At 30 June 2018 this rate was 6.86%.

\*\*\* The EFIC Loan liability has a variable interest rate charged at the AFMA Bank Bill Average Bid Rate fix + 6.05% margin. At 30 June 2018 this rate was 7.91%.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2018**

11 BORROWINGS (Cont.)

**Financing arrangements**

Loan Facility 1:

The consolidated entity entered into a loan agreement to gain access to an original loan facility of \$750,000.

Interests: 3 month AFMA Bank Bill Average Bid Rate fix plus 5% margin.

Security: First charge over the new laboratory equipment.

Loan Facility 2:

The consolidated entity entered into a loan agreement to gain access to an original loan facility of \$466,000.

Interests: 3 month AFMA Bank Bill Average Bid Rate fix plus 6.05% margin.

Security: First charge over the new laboratory equipment.

**Loan facility 1:**

Total facility limit	281,250	487,500
Amount utilised	(281,250)	(487,500)

Total unused facility at 30 June

- -

**Loan facility 2:**

Total facility limit	144,391	-
Amount utilised	(144,391)	-

Total unused facility at 30 June

- -

12 PROVISIONS

CURRENT

Employee entitlements	151,708	388,104
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NON CURRENT

Employee entitlements	25,605	42,739
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*Amounts not expected to be settled within the next 12 months*

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the consolidated entity does not have an unconditional right to defer settlement. However, based on past experience, the consolidated entity does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

Employee benefits obligation expected to be settled after 12 months	52,099	68,091
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13 ISSUED CAPITAL

Issued and paid up ordinary shares	49,371,354	47,604,668
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13a Movement in fully paid ordinary shares

	2018	2017	2018	2017
Ordinary Shares	Number of shares		\$	
At 1 July 2017	157,339,553	92,503,645	47,604,668	44,463,072
Share Issued (net of costs)	41,711,111	64,835,908	1,766,686	3,141,596
At 30 June 2018	199,050,664	157,339,553	49,371,354	47,604,668

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2018**

13 ISSUED CAPITAL (Cont.)

13b Terms and Conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up the Company, ordinary shares rank after all other shareholders and creditors and are fully entitled to any proceeds from liquidation.

Ordinary shares issued as a result of the exercise of options, will rank equally and on the same terms and conditions as all other shareholders.

13c Capital Management

Management controls the capital of the Group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing its financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year. The gearing ratios for the year ended 30 June 2018 and 30 June 2017 are as follows:

	NOTE	CONSOLIDATED	
		2018	2017
		\$	\$
Total borrowings	10,11	1,042,466	849,373
Less: cash and cash equivalents		(1,875,431)	(2,590,330)
Net debt		(832,965)	(1,740,957)
Total equity		7,123,598	6,915,047
Total capital		6,290,633	5,174,090
Gearing ratio		6.0%	1.8%

14 RESERVES

Options reserve

2,055,460 1,077,296

Movement in options issued as follow:

**2017**

	No.	Weighted Average Exercise Price \$
At 1 July	675,000	0.16
Options Expired	-	-
Options issued free attaching	21,612,079	0.12
Options - KMP	20,250,000	0.16
At 30 June	42,537,079	0.14

During the period Options have been granted to KMP but not yet issued.

**2018**

	No.	Weighted Average Exercise Price \$
At 1 July	42,537,079	0.14
Options issued - Employees	3,783,333	0.004
Options issued - KMP	1,250,000	0.001
Options issued - Corporate Advisors	10,000,000	0.02
At 30 June	57,570,412	0.13



**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2018**

14 RESERVES (Cont.)

57,570,412 options are exercisable as at 30 June 2018 (2017: 22,287,079).

No options were exercised during the year.

The weighted average remaining contractual life of options outstanding at year-end was 1.84 years (2017: 2.40years). The weighted average exercise price of outstanding options at the end of the reporting period was \$0.13 (2017: \$0.14).

15 RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions which are no more favourable than those available to other parties. The following transactions occurred with related parties:

	<b>CONSOLIDATED</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Transactions with related parties:		
<i>Other related parties:</i>		
Sales – Nanollose Limited <sup>[1]</sup>	49,322	-
Corporate Services Expense – Straight Lines Consultancy <sup>[2]</sup>	18,000	15,000

<sup>[1]</sup> Non-Executive Director Wayne Best was appointed Executive Chairman of Nanollose Limited on 10 April 2018.

<sup>[2]</sup> Non-Executive Director Sam Wright is Managing Director of Straight Lines Consultancy.

16 EARNINGS PER SHARE

Net (loss) attributable to members of the Company	<u>(2,521,679)</u>	<u>(1,343,614)</u>
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Weighted average number of ordinary shares outstanding during the year used in calculating basic earnings per share.

16a Basic Earnings per Share	<u>No.</u>	<u>No.</u>
	146,580,486	124,566,026

Basic earnings per share is determined by dividing the loss after income tax attributable to members of the Company by the weighted average number of ordinary shares outstanding during the financial period, adjusted for any bonus elements in ordinary shares issued during the year.

16b Diluted Earnings per Share

Diluted earnings per share is the same as basic earnings per share as there were no options on issue which would be potential ordinary shares.

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**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2018**

17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to and from subsidiaries, borrowings and leases.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Note	Consolidated	
		2018 \$	2017 \$
<b>Financial assets</b>			
Cash and cash equivalents	4	1,875,431	2,590,330
Loans and receivables (excluding GST)	5a	248,353	222,187
<b>Total financial assets</b>		<u>2,123,784</u>	<u>2,812,517</u>
<b>Financial liabilities</b>			
Trade and other payables	10	616,825	361,873
Borrowings	11	425,641	487,500
<b>Total financial liabilities</b>		<u>1,042,466</u>	<u>849,373</u>

**Specific Financial Risk Exposures and Management**

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk and foreign exchange risk. Other minor risks are either summarised below or disclosed at Note 5 in the case of credit risk and Note 13 in the case of capital risk management. The Board reviews and agrees policies for managing each of these risks.

**Cash Flow Interest Rate Risk**

The Group's exposure to the risks of changes in market interest rates relates primarily to the Group's short-term deposits with a floating interest rate. These financial assets with variable rates expose the Group to cash flow interest rate risk. All other financial assets and liabilities in the form of receivables and payables are non-interest bearing. The Group does not engage in any hedging or derivative transactions to manage interest rate risk.

The following tables set out the carrying amount by maturity of the Group's exposure to interest rate risk and the effective weighted average interest rate for each class of these financial instruments.

The Group has not entered into any hedging activities to cover interest rate risk. In regard to its interest rate risk, the Group does not have a formal policy in place to mitigate such risks.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2018**

17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)

**2018**

	Weighted Average Interest Rate	Floating Interest Rate \$	Fixed Interest Rate Within 1 Year \$	Fixed Interest Rate Within 1-5 Years \$	Non-Interest Bearing \$	Total \$
<b>Financial Assets</b>						
Cash and cash equivalents	1.05%	1,875,431	-	-	-	1,875,431
Trade and other receivables		-	-	-	248,353	248,353
<b>Total financial assets</b>		<b>1,875,431</b>	<b>-</b>	<b>-</b>	<b>248,353</b>	<b>2,123,784</b>
<b>Financial liabilities</b>						
Trade and other payables		-	-	-	(616,825)	(616,825)
Borrowings	7.22%	(425,641)	-	-	-	(425,641)
<b>Total financial liabilities</b>		<b>(425,641)</b>	<b>-</b>	<b>-</b>	<b>(616,825)</b>	<b>(1,042,466)</b>
<b>Net Financial Assets/(Liabilities)</b>		<b>1,449,790</b>	<b>-</b>	<b>-</b>	<b>(368,472)</b>	<b>1,081,318</b>

**Cash Flow Interest Rate Risk (Cont.)**

**2017**

	Weighted Average Interest Rate	Floating Interest Rate \$	Fixed Interest Rate Within 1 Year \$	Fixed Interest Rate Within 1-5 Years \$	Non-Interest Bearing \$	Total \$
<b>Financial Assets</b>						
Cash and cash equivalents	1.27%	2,590,330	-	-	-	2,590,330
Trade and other receivables		-	-	-	230,061	230,061
<b>Total financial assets</b>		<b>2,590,330</b>	<b>-</b>	<b>-</b>	<b>230,061</b>	<b>2,820,391</b>
<b>Financial liabilities</b>						
Trade and other payables		-	-	-	(361,873)	(361,873)
Borrowings	6.86%	(487,500)	-	-	-	(487,500)
<b>Total financial liabilities</b>		<b>(487,500)</b>	<b>-</b>	<b>-</b>	<b>(361,873)</b>	<b>(849,373)</b>
<b>Net Financial Assets/(Liabilities)</b>		<b>2,102,830</b>	<b>-</b>	<b>-</b>	<b>(131,812)</b>	<b>1,971,018</b>

**Interest rate sensitivity analysis**

At 30 June 2018 if interest rates had changed by 100 basis points during the entire year with all other variables held constant, profit for the year and equity would have been \$38,411 (2017: \$ \$20,422) lower/higher, mainly as a result of lower/higher interest income from cash and cash equivalents.

Based on the sensitivity analysis only interest revenue from variable rate deposits and cash balances are impacted resulting in a decrease or increase in overall income.

**Liquidity risk**

The Group manages liquidity risk by maintaining sufficient cash reserves and marketable securities and through the continuous monitoring of budgeted and actual cash flows.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2018**

17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)

	CONSOLIDATED	
	2018	2017
	\$	\$
Contracted maturities Payables		
- within 1 year	616,825	361,873
	<hr/>	<hr/>
Borrowings		
- within 1 year	424,634	206,250
	<hr/>	<hr/>

**Price risk**

The Group is not exposed to price risk.

**Foreign exchange risk**

The Group is exposed to foreign exchange rate arising from various currency exposures. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the Group's functional currency.

The Group's exposure to foreign currency risk at the reporting date was as follows:

	2018			2017		
	USD	EUR	NZD	USD	EUR	GBP
	\$	\$	\$	\$	\$	\$
Trade receivables	110,335	-	-	135,268	1,873	-
Trade payables	23,491	-	-	7,298	-	420
	<hr/>			<hr/>		<hr/>

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**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2018**

17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)

**Foreign currency risk sensitivity analysis**

At 30 June, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the foreign currencies, with all other variables remaining constant is as follows:

	2018			2017		
	Change in profit and equity with a +/-			Change in profit and equity with a +/-		
	10% in AUD to			10% in AUD to		
	USD	EUR	NZD	USD	EUR	GBP
	\$	\$	\$	\$	\$	\$
Trade receivables	10,532	-	-	12,912	179	-
Trade payables	2,242	-	-	697	-	62

**Net fair values**

For assets and other liabilities the net fair value approximates their carrying value. The Group has no financial assets where the carrying amount exceeds net fair values at reporting date.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of comprehensive income and in the notes to the financial statements.

*Financial instruments at fair value*

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using the fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted prices in active markets for identical assets and liabilities (Level 1);
- inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	\$	\$	\$	\$
<b>2018</b>				
Financial assets held for trading	-	-	-	-
	-	-	-	-
<b>2017</b>				
Financial assets held for trading	-	-	-	-
	-	-	-	-

18 INVESTMENT IN CONTROLLED ENTITIES

	COUNTRY OF CORPORATION	CLASS OF SHARES	EQUITY HOLDING	EQUITY HOLDING
			2018	2017
			%	%
Parent Entity:				
PharmAust Limited	Australia	-	-	-
Name of Controlled Entity:				
Epicchem Pty Ltd	Australia	Ordinary	100	100
Pitney Pharmaceuticals Pty Ltd	Australia	Ordinary	100	100

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2018**

19 NOTES TO THE STATEMENT OF CASH FLOWS

19a Reconciliation of Cash

	CONSOLIDATED	
	2018	2017
	\$	\$
Cash at bank	1,875,431	2,590,330
19b Reconciliation of net cash used in operating activities to loss after income tax		
Loss after income tax	(2,521,679)	(1,343,614)
Loss on disposal of fixed assets	-	24
Depreciation	118,605	123,085
Depreciation capitalised into inventories	4,348	9,953
Share Based Payment	978,164	93,804
Movement in assets and liabilities:		
Inventory	(87,243)	(164,890)
Receivables	(24,190)	(128,168)
Other assets	(20,222)	(12,288)
Payables	254,950	(35,562)
Provisions	(253,530)	201,990
Net cash used in operating activities	(1,550,797)	(1,255,666)

19c Non-cash Financing and Investing Activities

There were no non-cash financing and investing activities during the year (2017: \$nil).

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**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2018**

20 SHARE BASED PAYMENTS

The Company has recognised the following amounts as expenses relating to share based payments for the year.

	2018 \$	2017 \$
Share based payments to KMP - Options	729,963	72,421
Share based payments to KMP – Performance Rights	126,890	21,383
Share based payments to others – Options	121,310	-
<b>Total</b>	<b>978,164</b>	<b>93,804</b>

**Share based payments to KMP – Options**

During the 2018 Options were granted to KMP as follows:

Name	Grant Date	Expiry Date	Exercise Price	Number	Expense
Richard Mollard	06-Jun-17	31-Mar-20	\$0.08	1,875,000	83,938
Richard Mollard	06-Jun-17	31-Mar-20	\$0.15	3,750,000	129,195
Richard Mollard	06-Jun-17	31-Mar-20	\$0.23	4,500,000	126,009
Wayne Best	26-Feb-18	31-Dec-20	\$0.07	1,250,000	34,698
Richard Hopkins	31-May-17	31-Mar-20	\$0.08	1,875,000	83,520
Richard Hopkins	31-May-17	31-Mar-20	\$0.15	3,750,000	128,953
Richard Hopkins	31-May-17	31-Mar-20	\$0.23	4,500,000	126,072
John Horton	31-Aug-17	30-Aug-20	\$0.08	250,000	8,789
Rebecca McCrackan	31-Aug-17	30-Aug-20	\$0.08	250,000	8,789
					<b>729,963</b>

During 2017 Options were granted to KMP but were not yet issued as at the balance date as follows:

Name	Grant Date	Expiry Date	Exercise Price	Number	Expense
Richard Hopkins	31-May-17	31-Mar-20	\$0.08	1,875,000	10,022
Richard Hopkins	31-May-17	31-Mar-20	\$0.15	3,750,000	15,474
Richard Hopkins	31-May-17	31-Mar-20	\$0.23	4,500,000	15,129
Richard Mollard	06-Jun-17	31-Mar-20	\$0.08	1,875,000	7,869
Richard Mollard	06-Jun-17	31-Mar-20	\$0.15	3,750,000	12,113
Richard Mollard	06-Jun-17	31-Mar-20	\$0.23	4,500,000	11,814
					<b>72,421</b>

**Share based payments to others – Options**

During 2018 Options were granted to other Option holders as follows:

Name	Grant Date	Expiry Date	Exercise Price	Number	Expense to 30 June 2018
Epichem Employees	31-Aug-17	30-Aug-20	\$0.08	3,250,000	114,260
Consultants	16-Mar-18	16-Mar-22	\$0.12	10,000,000	7,050
					<b>121,310</b>

No Options were granted to other Option holders during 2017.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2018**

20 SHARE BASED PAYMENTS (Cont'd)

The fair values of the Options granted in 2018 were calculated using the Black-Scholes option pricing model applying the following inputs:

Name	Options	Share Price at Grant Date	Exercise Price	Expected Volatility	Dividend Yield	Risk-free Interest Rate	Vesting Date	Fair Value at Grant Date
Richard Hopkins	1,875,000	\$0.08	\$0.08	100%	0%	1.90%	07-Mar-18	\$0.05
Richard Hopkins	3,750,000	\$0.08	\$0.15	100%	0%	1.90%	07-Mar-18	\$0.04
Richard Hopkins	4,500,000	\$0.08	\$0.23	100%	0%	1.90%	07-Mar-18	\$0.03
Richard Mollard	1,875,000	\$0.08	\$0.08	100%	0%	1.90%	13-Mar-18	\$0.05
Richard Mollard	3,750,000	\$0.08	\$0.15	100%	0%	1.90%	13-Mar-18	\$0.04
Richard Mollard	4,500,000	\$0.08	\$0.23	100%	0%	1.90%	13-Mar-18	\$0.03
Wayne Best	1,250,000	\$0.06	\$0.07	100%	0%	1.90%	26-Feb-18	\$0.03
John Horton	250,000	\$0.06	\$0.08	99%	0%	1.90%	31-Aug-17	\$0.03
Rebecca McCrackan	250,000	\$0.06	\$0.08	99%	0%	1.90%	31-Aug-17	\$0.03
Epichem Employees	3,250,000	\$0.06	\$0.08	99%	0%	1.90%	31-Aug-17	\$0.03

The 10,000,000 Options granted to consultants in 2018 were valued at the fair value of services provided which was determined to be \$7,050

The fair values of the options granted in 2017 were calculated using the Black-Scholes option pricing model applying the following input:

Name	Options	Share Price at Grant Date	Exercise Price	Expected Volatility	Dividend Yield	Risk-free Interest Rate	Vesting Date	Fair Value at Grant Date
Richard Hopkins	1,875,000	\$0.08	\$0.08	100%	0%	1.90%	07-Mar-18	\$0.05
Richard Hopkins	3,750,000	\$0.08	\$0.15	100%	0%	1.90%	07-Mar-18	\$0.04
Richard Hopkins	4,500,000	\$0.08	\$0.23	100%	0%	1.90%	07-Mar-18	\$0.03
Richard Mollard	1,875,000	\$0.08	\$0.08	100%	0%	1.90%	13-Mar-18	\$0.05
Richard Mollard	3,750,000	\$0.08	\$0.15	100%	0%	1.90%	13-Mar-18	\$0.04
Richard Mollard	4,500,000	\$0.08	\$0.23	100%	0%	1.90%	13-Mar-18	\$0.03

**Share based payments to KMP – Performance Rights**

During 2018 Performance Rights were granted to KMP as follows:

Name	Class	No of rights	Grant Date	Share Price	Expense to 30 June 2018
Richard Hopkins	Class A	625,000	31/05/2017	0.08	46,187
Richard Hopkins	Class B	1,250,000	31/05/2017	0.08	15,109
Richard Hopkins	Class C	1,500,000	31/05/2017	0.08	1,522
					<b>62,818</b>
Name	Class	No of rights	Grant Date	Share Price	Expense to 30 June 2018
Richard Mollard	Class A	625,000	06/06/2017	0.079	46,201
Richard Mollard	Class B	1,250,000	06/06/2017	0.079	15,880
Richard Mollard	Class C	1,500,000	06/06/2017	0.079	1,991
					<b>64,072</b>
<b>Total</b>					<b>126,890</b>

The total Performance Rights expense for the period of \$126,890 is determined based on the service condition vesting period based on management's estimate of the vesting probability at grant date. This is determined with reference to the likelihood of achieving the specified performance milestones for each class of Performance Rights.



**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2018**

20 SHARE BASED PAYMENTS (Cont'd)

During 2017 Options were granted to KMP, but were not yet issued as at the balance date as follows:

Name	Grant Date	Expiry Date	Exercise Price	Number	Expense
Richard Hopkins	31-May-17	31-Mar-20	\$0.08	1,875,000	10,022
Richard Hopkins	31-May-17	31-Mar-20	\$0.15	3,750,000	15,474
Richard Hopkins	31-May-17	31-Mar-20	\$0.23	4,500,000	15,129
Richard Mollard	06-Jun-17	31-Mar-20	\$0.08	1,875,000	7,869
Richard Mollard	06-Jun-17	31-Mar-20	\$0.15	3,750,000	12,113
Richard Mollard	06-Jun-17	31-Mar-20	\$0.23	4,500,000	11,814
					<b>72,421</b>

The total share based payment expense for the period of \$72,421 is determined based on the service condition vesting period.

21 KEY MANAGEMENT PERSONNEL

21a Remuneration of Key Management Personnel

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the consolidated entity's key management personnel for the year ended 30 June 2018 and 30 June 2017.

The totals of remuneration paid to key management personnel of the consolidated entity during the year are as follows:

	CONSOLIDATED	
	2018	2017
	\$	\$
Short term employee benefits	1,127,512	748,610
Post-employment benefits	95,144	60,288
Share based payment	856,853	93,804
	<u>2,079,509</u>	<u>902,702</u>

22 COMMITMENTS

Office lease commitments

Non-cancellable operating leases contracted for but not recognised in the financial statements:

Payable – minimum lease payments

- Not later than 12 months

- Between 12 months and 5 years

- Later than 5 years

Minimum lease payments

	CONSOLIDATED	
	2018	2017
	\$	\$
- Not later than 12 months	162,685	162,685
- Between 12 months and 5 years	650,741	650,741
- Later than 5 years	328,534	493,478
Minimum lease payments	<u>1,141,960</u>	<u>1,306,904</u>

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2018

### 23 SEGMENT REPORTING

#### Segment Information

##### Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

##### Descriptions of segments

- i. *Corporate*  
The corporate segment covers all the corporate overhead expenses.
- ii. *Pharmaceutical*  
The pharmaceutical segment provides products and services in synthetic and medicinal chemistry to the drug discovery and pharmaceutical industries.

##### Basis of accounting for purposes of reporting by operating segments

- a. **Accounting policies adopted**  
All amounts reported to the Directors, being the chief decision makers with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in these financial statements.
- b. **Intersegment transactions**  
There are intersegment sales and purchase within the consolidated entity.  
Intersegment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs.
- c. **Segment assets**  
Where an asset is used across multiple segments, the asset is allocated to the segment that receives majority economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.
- d. **Segment liabilities**  
Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2018**

23 SEGMENT REPORTING(Cont'd)

The consolidated entity operates in three business segments as disclosed below:

i) Segment Performance

**Consolidated**

<b>2018</b>	<b>Corporate</b>	<b>Pharmaceutical</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenue</b>			
External sales	-	2,890,057	2,890,057
Other external revenue	388,720	17,127	405,847
Inter-segment revenue	-	93,199	93,199
Total segment revenue	388,720	3,000,383	3,389,103
Inter-segment elimination			(93,199)
Total revenue per statement of comprehensive income			3,295,904
<b>Results</b>			
Segment result from continuing operations before tax	(2,535,506)	13,827	(2,521,679)

**Consolidated**

<b>2017</b>	<b>Corporate</b>	<b>Pharmaceutical</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenue</b>			
External sales	-	2,854,176	2,854,176
Other external revenue	358,084	121,245	479,329
Inter-segment revenue	-	75,720	75,720
Total segment revenue			3,409,225
Inter-segment elimination			(75,720)
Total revenue per statement of comprehensive income			3,333,505
<b>Results</b>			
Segment result from continuing operations before tax	(1,607,977)	264,363	(1,343,614)

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**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2018**

23 SEGMENT REPORTING (Cont.)

ii) Segment assets and liabilities

<b>Consolidated</b>	<b>Corporate</b>	<b>Pharmaceutical</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>2018</b>			
<b>Segment assets</b>			
Segment assets	1,849,919	6,508,078	8,357,997
Total assets of the consolidated entity:	<u>1,849,919</u>	<u>6,508,078</u>	<u>8,357,997</u>
<b>Segment liabilities</b>			
Segment operating liabilities	(137,732)	(1,082,047)	(1,219,779)
Total liabilities of the consolidated entity:	<u>(137,732)</u>	<u>(1,082,047)</u>	<u>(1,219,779)</u>

<b>Consolidated</b>	<b>Corporate</b>	<b>Pharmaceutical</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>2017</b>			
<b>Segment assets</b>			
Segment assets	2,550,925	5,644,338	8,195,263
Total assets of the consolidated entity:	<u>2,550,925</u>	<u>5,644,338</u>	<u>8,195,263</u>
<b>Segment liabilities</b>			
Segment operating liabilities	(382,842)	(897,374)	(1,280,216)
Total liabilities of the consolidated entity:	<u>(382,842)</u>	<u>(897,374)</u>	<u>(1,280,216)</u>

ii) Revenue by geographical region

	<b>CONSOLIDATED</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Revenue by geographical region</b>		
Revenue attributable to external customers is disclosed below, based on the location of the external customer:		
Switzerland	1,336,080	1,448,510
Australia	462,760	1,060,565
Others	1,497,064	824,430
Total revenue	<u>3,295,904</u>	<u>3,333,505</u>

**Assets by geographical region**

The location of segment assets by geographical location of the assets is disclosed below:

Australia	8,357,997	8,195,263
Total assets	<u>8,357,997</u>	<u>8,195,263</u>

**Major customers**

The consolidated entity has a number of customers to which it provides both products and services. The consolidated entity supplies a single external customer within the pharmaceutical segment who accounts for 46% of external revenue (2017: 39%). The next most significant customer accounts for 27% (2017: 14%).

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**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2018**

24 CONTINGENT LIABILITIES

The consolidated entity has the following contingent liabilities at reporting date:

**Issue of additional shares**

As part of Share Sale Agreement to acquire Pitney Pharmaceuticals Pty Ltd, the consolidated entity will issue additional shares of 2.5 million (post consolidation of 20 to 1) each to the seller upon meeting the three milestones.

The three milestones are:

- Milestone 1 - One of the consolidated entity's products being granted investigational new drug (IND) status from the US Food and Drug Administration and the Company receiving an IND number issued by the US Food and Drug Administration within 5 years of the Settlement Date and provided this is no later than 31 October 2018;
- Milestone 2 - Commencement of treatment of the first patient under a Phase II Trial with the product Albendazole within 5 years of the Settlement Date and provided this is no later than 31 October 2018; and
- Milestone 3 - Commencement of treatment of the first patient under a Phase II Trial using the product Monepantel within 5 years of the Settlement Date and provided this is no later than 31 October 2018.

25 PARENT INFORMATION

<b>Statement of Financial Position</b>	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Assets		
Current assets	5,287,267	5,988,274
Non-current assets	1,424,861	759,957
Total assets	<u>6,712,128</u>	<u>6,748,231</u>
Liabilities		
Current liabilities	137,731	382,842
Non-current liabilities	234,063	234,063
Total liabilities	<u>371,794</u>	<u>616,905</u>
Equity		
Issued capital	49,371,354	47,604,668
Reserves	2,055,460	1,077,296
Accumulated losses	(45,086,480)	(42,550,637)
Total equity	<u>6,340,334</u>	<u>6,131,327</u>
Statement of comprehensive income		
(Loss) for the year	(2,535,506)	(1,607,976)
Other comprehensive income	-	-
Total comprehensive loss for the year	<u>(2,535,506)</u>	<u>(1,607,976)</u>

**Guarantees**

PharmAust Limited is a guarantor of a debt facility for its fully owned subsidiary Epicchem during the year as disclosed in Note 11.

**Other Commitments and Contingencies**

PharmAust Limited has no commitments to acquire property, plant and equipment and has no contingent liabilities other than those disclosed in Note 24.

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**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2018**

	2018	CONSOLIDATED 2017
	\$	\$
26 EQUITY- ACCUMULATED LOSSES		
Accumulated losses at beginning of the financial year	(41,766,917)	(40,423,303)
(Loss)after income tax for the year	(2,521,679)	(1,343,614)
Accumulated losses at the end of the financial year	<u>(44,288,596)</u>	<u>(41,766,917)</u>

27 EVENTS AFTER THE REPORTING PERIOD

The directors are not aware of any significant events since the end of the reporting period.

28 AUDITOR'S REMUNERATION

Remuneration of RSM Australia Partners as auditor for:

- auditing or reviewing the financial report	67,000	67,000
- taxation services	15,500	16,945
	<u>82,500</u>	<u>83,945</u>

29 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 consolidated entity for the annual reporting period ended 30 June 2017. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

*AASB 9 Financial Instruments*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Group will adopt this standard from 1 July 2018 but the impact of its adoption is currently being assessed by the Group and yet to be finalised.

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2018

### 29 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET MANDATORY OR EARLY ADOPTED (cont'd)

#### AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The Group will adopt this standard from 1 July 2018 and the impact is expected to be minimal.

#### 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 as 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. 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 impact to the Group.

As the entity holds leases as at 30 June 2018 the impact of the new Leases standard is that leased asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term and 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.

## SHAREHOLDER INFORMATION

Additional information required by the Australian Stock Exchange Limited Listing Rules, and not disclosed elsewhere in this report.

### SHAREHOLDINGS

At the date of this report two shareholders had lodged substantial shareholder notices with the Company.

- a) Mr Graham Darcy is a substantial shareholder holding a relevant interest in 11,000,000 shares representing 5.53% of voting power.
- b) Dr Roger Aston is a substantial shareholder holding a relevant interest in 10,746,296 shares representing 5.40% of voting power.

### CLASS OF SHARES AND VOTING RIGHTS

The voting rights attached to the Fully Paid Ordinary shares of the Company are:

- (a) at a meeting of members or classes of members each member entitled to vote may vote in person or by proxy or by attorney; and
- (b) on a show of hands every person present who is a member has one vote, and on a poll every person present in person or by proxy or attorney has one vote for each ordinary share held.

There are no voting rights attached to any Options on issue.

### ORDINARY FULLY PAID SHARES as at 28 September 2018

Range	Total holders	Units	% of Issued Capital
1 - 1,000	202	67,005	0.03
1,001 - 5,000	322	958,411	0.48
5,001 - 10,000	230	1,921,773	0.97
10,001 - 100,000	780	31,244,776	15.70
100,001 - 9,999,999,999	329	164,858,699	82.82
<b>Rounding</b>			<b>0.00</b>
<b>Total</b>	<b>1,863</b>	<b>199,050,664</b>	<b>100.00</b>

### Unmarketable Parcels

Minimum Parcel Size	Holders	Units
Minimum \$ 500.00 parcel at \$ 0.0370 per unit	13514	840
		3984603

There is no current on-market buy back taking place.

During the reporting period the Company used its cash and assets in a manner consistent with its business objectives.



**TWENTY LARGEST SHAREHOLDERS (as at 28 September 2018)**

Rank	Name	Units	% Units
1	HYBRID HOLDINGS PTY LTD <DARCY FAMILY SUPER FUND A/C>	11,000,000	5.53
2	DR ROGER ASTON	10,428,296	5.24
3	Longbow Croft Capital Pty Limited	5,857,184	2.94
4	MR GERALD JAMES VAN BLOMMESTIEN + MRS GILLIAN VAN BLOMMESTEIN <VAN BLOMMESTEIN S/F A/C>	4,783,334	2.40
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,629,913	1.32
6	KOHEN ENTERPRISES PTY LTD	2,500,900	1.26
7	MR MICHAEL PHILIP EASTERBROOK	2,460,000	1.24
8	OMNIOFFICES PTY LTD	2,235,616	1.12
9	CARDA PTY LTD <CARDA SUPER A/C>	2,200,000	1.11
10	BLACKWOOD COOK PTY LTD <GAVIN BLACKWOOD COOK A/C>	2,001,000	1.01
11	MYALL RESOURCES PTY LTD <MYALL GROUP SUPER FUND A/C>	2,000,000	1.00
11	PERSHING AUSTRALIA NOMINEES PTY LTD <ARGONAUT ACCOUNT>	2,000,000	1.00
11	STRAIGHT LINES CONSULTANCY PTY LTD <STRAIGHT LINES CONSULT A/C>	2,000,000	1.00
14	MR MICHAEL FRANCIS MCMAHON + MRS SUSAN LESLEY MCMAHON <MCMAHON SUPER FUND A/C>	1,999,998	1.00
15	MR PETER HOWELLS	1,927,618	0.97
16	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	1,756,747	0.88
17	JARMACK HOLDINGS PTY LIMITED <VIP SUPER FUND A/C>	1,672,550	0.84
18	MR DAVID LESLIE NORRIS	1,600,000	0.80
19	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	1,566,860	0.79
20	MR ROGER BOWMAN	1,500,000	0.75
<b>Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (Total)</b>		<b>64,120,016</b>	<b>32.21</b>
<b>Total Remaining Holders Balance</b>		<b>134,930,648</b>	<b>67.79</b>