



**AdAlta**  
next generation protein therapeutics

**ANNUAL  
REPORT**

FOR THE YEAR ENDED  
30 JUNE 2020

ADALTA LTD  
ABN 92 120 332 925

# CORPORATE DIRECTORY

## DIRECTORS

**Dr Paul MacLeman**

Non-Executive Chairman

**Dr Timothy Oldham**

Chief Executive Officer and Managing Director  
(appointed 8/10/2019)

**Ms Elizabeth McCall**

Non-Executive Director

**Dr Robert Peach**

Non-Executive Director

**Dr David Fuller**

Non-Executive Director  
(appointed 22/7/2020)

**Dr James Williams**

Alternate Director to Elizabeth McCall  
(transitioned to Alternate Director 27/03/2020)

## COMPANY SECRETARY

**Cameron Jones**

## REGISTERED OFFICE

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**Email:** enquiries@adalta.com.au

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## STOCK EXCHANGE

**Australian Securities Exchange Limited**

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525 Collins Street  
Melbourne VIC 3000

## ASX CODE

1AD

## SHARE REGISTRY

**Automic Registry Services**

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126 Phillip Street  
Sydney NSW 2000

**Telephone:** 1300 288 664

**Website:** automic.com.au

## AUDITOR

**Butler Settinari (Audit) Pty Ltd**

Unit 16  
First Floor  
100 Railway Road  
Subiaco WA 6008

## BANKERS

**Westpac Banking Corporation**

## SOLICITORS

**K & L Gates**

Level 25  
South Tower  
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Melbourne VIC 3000

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# CHAIR'S LETTER

In the FY2019 Annual Report I noted that the year to come would see AdAlta make the transition to being a clinical stage biopharmaceutical development company. I am delighted to report that in FY2020 we have achieved that goal with lead asset AD-214 being approved to commence Phase I clinical trials (with first patients dosed in mid-July). We also took important steps to capitalise on this clinical validation of our i-body technology and unlock its full potential through development of a product pipeline.

Progressing AD-214 into Phase I clinical trials was the primary focus of the Company during the year. During the first half we completed a Good Laboratory Practice (GLP) toxicology study in Non-Human Primates (NHPs), successfully demonstrating the safety of AD-214 and determining critical circulating half-life and target binding parameters that gave us confidence in and supported our human dosing schedule. We also completed Good Manufacturing Practice (GMP) production of AD-214 for clinical trials at KBI Biopharma.

In December we were awarded a A\$1 million grant from MTPConnect under the Biomedical Translational Bridge (BTB) program to develop a radio-labelled version of AD-214 for PET imaging. This project will give us the ability for the first time to determine the distribution and localisation of AD-214 in the lungs of patients with Interstitial Lung Disease (ILD) and Idiopathic Pulmonary Fibrosis (IPF). This has enabled us to include patients in our Phase I clinical program, significantly increasing the value of the initial trials for both partnering and further clinical development.

We also reported efficacy of AD-214 in the gold standard animal model of IPF, the bleomycin mouse model, completing the pre-clinical data set necessary to commence clinical trials.

While finalising the Human Research Ethics Committee (HREC) application to commence our Phase I trials, we were able to consult the US FDA who confirmed that our pre-clinical data package was generally sufficient to support Phase I clinical trials in the US and that the Phase I trial design was reasonable. US FDA approval was not required to commence the trial in Australia but was an important further validation of our development program. The minor modifications suggested by the FDA were readily incorporated into our program, providing confidence we have developed AD-214 to international regulatory standards.

During the year we also achieved an important first commercial validation of our i-body technology platform, commencing a collaboration with GE Healthcare (GEHC) to discover i-bodies against granzyme B for use as a molecular imaging agent and generating our first commercial revenues. GEHC have paid an upfront milestone and are funding discovery research which is progressing successfully.

Dr Tim Oldham was welcomed as CEO and Managing Director in October 2019 following founding CEO Sam Cobb's resignation in August. Tim and the management team have worked hard to not only deliver AD-214 to the clinic but also develop a path for future growth. At Board level, we farewelled John Chiplin, Ros Wilson and James Williams (who remains an alternate director to Liddy McCall) and recently welcomed David Fuller who brings a wealth of preclinical, clinical and Asia experience.

I would like to acknowledge and thank you, our shareholders who supported us last year with funds to bring AD-214 to the clinic and have now provided strong support for a \$4 million placement and have provided strong encouragement for our ongoing rights issue.

Finally, the COVID-19 pandemic has disrupted individuals, companies and economies in unprecedented ways in 2020. AdAlta is in the fortunate position that our laboratories and clinical trial site have been able to remain open and our programs suffered only minor delays as a result of temporary closures in collaborator laboratories. Our thoughts are with all those less fortunate than us, and particularly with the survivors of COVID-19 infection who it would appear are highly likely to develop lung fibrosis – this gives us even more encouragement to bring AD-214 to the patients who so desperately need new therapeutic options for lung fibrosis.



**Paul MacLeman**

Chair

# CEO AND MANAGING DIRECTOR'S LETTER

The opportunity to lead a company with AdAlta's potential does not present itself every day, and I am privileged to have been invited to lead our Company. I saw in AdAlta:

- A strong lead asset, AD-214, in an important lead indication, IPF, where today's therapeutic options are suboptimal, and with potential in a wide range of other fibrotic indications.
- A platform for ongoing new asset creation using the i-body technology which has genuinely unique and demonstrated capabilities to address the drug targets that most challenge our industry today.
- A company at a pivotal point, with commercial and clinical validation of the lead asset and platform imminent that can unlock the potential of the i-body.
- A shareholder community looking for the Company to use this coming of age moment as the catalyst to grow a sustainable, multi-product pipeline.

Almost a year later, I am pleased to report that my confidence in the potential of our Company is increased and that substantial progress has been made preparing to unlock that potential. AD-214 is now in Phase I clinical trials with a stronger clinical trial design, providing clinical validation of the asset and also of the platform. This trial will unlock not only potential partnering discussions for AD-214 but also i-body platform partnerships. The first of these, our collaboration with GEHC, has already generated first revenues for the Company and is progressing successfully through the agreed milestones.

And the external market for our technology has also remained strong. In July 2019, Boehringer Ingelheim licensed Korean firm Bridge Biotherapeutics' Phase I IPF asset, BBT-877, for €45 million up front and €1.1 billion in potential milestones and followed this in January 2020 licensing Singapore firm Enleofen's pre-clinical IL-11 platform for IPF for US\$1 billion in potential milestones. Meanwhile in November 2019 Roche acquired Promedior for their lead asset PRM-151 in Phase II for IPF for US\$390 million up front and \$1 billion in potential milestones.

As we outlined during our March 2020 strategy briefing, AdAlta's purpose is to generate a broad portfolio of i-body enabled drugs against drug targets that challenge traditional antibody technologies. Our strategy to do this is clear: develop an internal pipeline of wholly owned assets that we discover and develop to early clinical trials before partnering (ie more assets like AD-214) and develop an external pipeline of assets co-developed with partners who provide the target (ie more GEHC-like deals).

Our near term strategic priorities therefore are:

1. **Continue AD-214 progression through clinical value inflection points.** During FY20/21, we will complete the healthy volunteer Part A of our Phase I program and report top line safety and pharmacology results and commence part B in ILD/IPF patients with the PET tracer version of AD-214 to gather additional data. We also plan additional investments in pre-clinical studies and continuous manufacturing improvements to support partnering activity and additional indications including evaluating opportunities for long term care of COVID-19 survivors. We see a first window of opportunity to partner AD-214 opening towards the end of 2021, though we will retain the option of developing AD-214 into further clinical studies ourselves.
2. **Add additional assets to our internal pipeline.** We will focus on a drug target class called G-protein coupled receptors (GPCRs) that have proven challenging for traditional drug discovery and where we can leverage our i-body platform. We will focus on the therapeutic areas of fibrosis, inflammation and oncology where we can leverage our existing pre-clinical expertise. In the next year we aim to complete our rigorous target selection process and commence discovery on two new targets.
3. **Add additional assets to our external pipeline.** In the next year we aim to progress the GEHC collaboration and add a second co-development collaboration. We have an active business development pipeline spanning a wide range of potential applications for our i-body technology.
4. **Continue to invest in our i-body platform.** It is important that we invest to keep our platform technology at the forefront of drug discovery technologies. We have a strategy to make improvements to our i-body platform in the coming year that will improve its efficiency and potentially extend its intellectual property protection.

I would like to thank the leadership team and board for their contributions to AdAlta this transformational year, the volunteers who are participating in our clinical trials, and our shareholders for their encouragement as we have developed our strategy.



**Tim Oldham**  
CEO and Managing Director

# DIRECTORS' REPORT

The Directors of AdAlta Limited ("AdAlta" or "the Company") submit herewith the annual report of the Company for the financial year ended 30 June 2020. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

## Information about the Directors

The names and particulars of the Directors of the Company during or since the end of the financial year are:

**Dr Paul MacLeman** MBA, BVSc, Grad Dip Tech, Grad Cert Eng, GAICD, MATT

Executive Chairman (as announced on 12 August 2020), joined the Board 16 April 2015. Paul has over 25 years experience across the life sciences sector. With a career-spanning veterinary practice, pharmaceutical development and manufacturing, biotechnology, diagnostics and finance, Paul has expertise in capital raising, business development, technology commercialisation, and sales and marketing. He has founded life sciences start-ups in the biologics area and worked in investment banking focusing on the analysis and financing of technology companies. Paul has previously served as Managing Director and/or CEO of several VC funded, ASX, NASDAQ and TSX listed companies. Paul is also a Non-Executive Director of Sypharma Pty Limited.

**Ms Elizabeth (Liddy) McCall** LLB., B.Juris, B.Com (Hons), GDipApFin (SIA), GAICD

Non-Executive Director, joined the Board 16 December 2010. Liddy is co-founder of 3 biotechnology companies successfully achieving 3 FDA drug registrations and 1 FDA/CE Mark medical device approval. She is an inventor on patents granted in major jurisdictions translating novel G-protein coupled pharmacology into a therapeutic drug treatment currently in Phase 2 clinical trials. Liddy co-founded IIF venture capital fund, Yuuwa Capital LP, which is responsible for a portfolio of 6 companies commercializing biotechnology and IT innovation. Liddy has over 25 years of experience in senior Board and management roles including iCeutica Inc group (acquired in 2011) and Dimerix Bioscience Pty Ltd (now Dimerix Limited ASX:DXB) and iCetana Pty Ltd (now iCetana Limited ASX:ICE). Liddy was an Associate Director in the Corporate Advisory Group of Macquarie Bank and prior to that worked as a lawyer with a leading Australian law firm. She has qualifications in law and finance. Liddy is a non-executive director of the not-for-profit Ear Science Institute Australia and also of Agworld Pty Ltd, Nexgen Plants Pty Ltd and The Tailor Made Spirits Company Limited.

**Dr Robert Peach** BSc, MSc, PhD

Non-Executive Director, appointed 14 November 2016. Dr Peach has over 25 years of drug discovery and development experience in the Pharmaceutical and Biotechnology industry. In 2009 he co-founded Receptos, becoming Chief Scientific Officer and raising \$59M in venture capital and \$800M in an IPO and three subsequent follow-on offerings. In August 2015 Receptos was acquired by Celgene for \$7.8B. Robert held senior executive and scientific positions in other companies including Apoptos, Biogen Idec, IDEC and Bristol-Myers Squibb, supporting in-licensing, acquisition and venture investments. His extensive drug discovery and development experience in autoimmune and inflammatory diseases, and cancer has resulted in multiple drugs entering clinical trials and 4 registered drugs. He currently serves on the Board of Directors of Amplia Therapeutics, Recover Therapeutics and Avalia Immunotherapies and is a consultant for several other biotechnology companies. Robert is the co-author of 75 scientific publications and book chapters, and 17 patents. He was educated at the University of Canterbury and the University of Otago, New Zealand.

**Dr Timothy Oldham** BSc(Hons), LLB (Hons), PhD

Appointed 8 October 2019.

Tim has more than 15 years of life sciences business development, alliance management, portfolio and product development, and commercialisation experience in Europe, Asia and Australia, with a particular focus on biologics, cell and gene therapies and pharmaceutical product. Tim was appointed CEO and MD in October 2019. Immediately prior to this, he was Executive Leader of Tijan Ventures, an advisory business focussed on growing life sciences companies through strategic advisory and interim CEO, executive and non-executive leadership services, with a particular focus on biologics, cell and gene therapies and immunotherapy. Previous roles include CEO and Managing Director of Cell Therapies Pty Ltd, a leading contract manufacturer and distributor cellular therapies in Asia Pacific, President of Asia Pacific for Hospira, Inc., and a variety of senior management roles with Mayne Pharma Ltd prior to its acquisition by Hospira. Prior to this, Tim was an engagement manager with McKinsey & Company. Industry leadership roles include currently serving as a Director of BioMelbourne Network Inc and terms as Chair of the European Generic Medicines Association Biosimilars and Biotechnology Committee, a Director of the Alliance for Regenerative Medicine and a Director of the Generic Medicines Industry Association. He is a Non-executive Director at Acrux Ltd (ASX:ACR).

**Dr David Fuller** MBBS, BPharm

Appointed 22 July 2020.

David has 30 years' experience in pre-clinical, clinical development, medical and regulatory affairs with a specialisation in the early phase development of biological molecules. an impressive record of developing and commercialising new products and establishing and nurturing businesses in complex international environments. He has led five product approvals in the United States (US) and European Union (EU) for orphan and major market products, together with multiple Regulatory Agency (US/EU) interactions including Investigational New Drug (IND) applications. David has designed and executed multiple Phase I – III studies in US, EU and Asia across multiple therapeutic areas. David is currently Senior Vice President, Clinical Development, Oncology Business Unit, Syneos Health where he has overall responsibility for the strategy and growth of the Oncology Business Unit in Asia Pacific. He is also a Non-Executive Director at EpiAxis Therapeutics Pty Ltd, a former Non-Executive Director of Linear Clinical Research Ltd – a Perth based clinical trials facility – and a former Chair of Dimerix Ltd (ASX:DXB). David holds Bachelor of Medicine/Bachelor of Surgery and Bachelor of Pharmacy degrees from University of Sydney.

**Dr James Williams** BSc (Hons), MBA, PhD, GAICD

Transitioned to Alternate Director on 27 March 2020.

Alternate Director to Liddy McCall. James is a co-founder and Investment Director of Yuuwa Capital LP, a venture capital firm based in Western Australia. Prior to Yuuwa Capital, he was Managing Director of two medical device companies, ASX-listed Resonance Health Ltd and Argus Biomedical Pty Ltd, both of which secured regulatory approvals under his leadership. He conceived, co-founded and is a former CTO and Director of iCeutica, Inc., a clinical stage nano drug delivery company. iCeutica was acquired by Philadelphia-based Iroko Pharmaceuticals in 2011. Iroko received FDA approval for the first three iCeutica formulations between 2013 and 2015. James is Chairman of ASX-listed clinical stage drug discovery and development company Dimerix Ltd (ASX:DXB) and Director of Yuuwa investee company PolyActiva Pty Ltd. He is a member of the "Panel of Experts" for the University of Western Australia's Pathfinder Fund and a member of the Australian Federal Government's Entrepreneur Program Committee.

**Ms Samantha Cobb**

Resigned as a Director of the Company on 25 August 2019.

**Dr John Chiplin**

Resigned as a Director of the Company on 3 January 2020.

**Dr Rosalind Wilson**

Appointed on 1 August 2019 and resigned 27 March 2020.

The above-named Directors held office during the whole of the financial year and since the end of the financial year, unless otherwise indicated.



## Directors' shareholdings as at the date of this report

The following table sets out each Director's relevant interest in shares, debentures and rights or options in shares or debentures of the Company as at the date of this report:

| Directors  | Fully paid ordinary shares<br>(Number) | Options under ESOP<br>(Number) | IADO listed options<br>(Number) |
|--|--|--------------------------------|---------------------------------|
| Paul MacLeman  | 472,970                                | 30,000                         | 16,667                          |
| Timothy Oldham   | 120,000                                | 4,929,060                      | -                               |
| Liddy McCall <sup>1</sup>                                  | 133,334                                | -                              | 16,667                          |
| Robert Peach   | 1,295,999                              | 200,000                        | 481,333                         |
| David Fuller   | 149,808                                | -                              | -                               |
| James Williams<br>(alternate to Liddy McCall) <sup>1</sup> | 233,334                                | -                              | 66,667                          |

<sup>1</sup>James Williams and Elizabeth McCall's interests do not include 54,059,848 ordinary shares beneficially owned by the limited partners of Yuuwa Capital LP, a venture capital fund. Yuuwa Capital Management Pty Ltd which is associated with James Williams and Elizabeth McCall provides investment management services to Yuuwa Capital LP

## Company Secretary

**Cameron Jones** B.Bus, CA

Cameron Jones is a Chartered Accountant and holds a Certificate in Governance (Practice) from the Governance Institute of Australia. Cameron is a Director of Bio101Group Pty Ltd. Bio101 provides life science companies with outsourced CFO, taxation (including R&D) and company secretarial solutions.

## Dividends

No dividends have been paid or declared since the start of the financial year and the Directors have not recommended the payment of a dividend in respect of the financial year.

## Shares under option or issued on exercise of options

Details of unissued shares or interests under option as at the date of this report are:

| Number of shares under option | Class of shares | Exercise price of option | Expiry date of options |
|-------------------------------|-----------------|--------------------------|------------------------|
| 600,000                       | Ordinary        | \$0.17                   | 16 October 2020        |
| 234,472                       | Ordinary        | \$0.17                   | 1 November 2020        |
| 23,348,803 <sup>1</sup>       | Ordinary        | \$0.25                   | 30 June 2021           |
| 25,000                        | Ordinary        | \$0.25                   | 14 November 2021       |
| 130,000                       | Ordinary        | \$0.50                   | 14 November 2021       |
| 100,000                       | Ordinary        | \$0.75                   | 14 November 2021       |
| 100,000                       | Ordinary        | \$1.00                   | 14 November 2021       |
| 620,535                       | Ordinary        | \$0.24                   | 27 February 2022       |
| 375,000                       | Ordinary        | \$1.00                   | 1 November 2022        |
| 600,000                       | Ordinary        | \$0.085                  | 20 March 2023          |
| 4,929,060                     | Ordinary        | \$0.25                   | 26 November 2025       |

<sup>1</sup>Listed Options (ASX:IADO)

All options issued with the exception of the Listed Options have been issued under the Shareholder approved Employee Share Option Plan and Omnibus Equity Plan.

The holders of these options do not have the right to participate in any share issue of the Company without first exercising the options in accordance with the terms of any such share issue.

## Indemnification of officers and auditors

During the financial year, the Company paid a premium in respect of a contract that insures the Directors of the Company (as named above), the company secretary and all executive officers of the Company and of any related body corporate against a liability incurred as such a Director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

## Directors' meetings

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) held during the financial year and the number of meetings attended by each Director (while they were a Director or committee member). During the financial year, eleven Board meetings were held.

## Proceedings on behalf of the Company

| Directors       | Board of Directors |          | Audit & Risk Committee |          | Remuneration & Nomination Committee |          |
|-----------------|--------------------|----------|------------------------|----------|-------------------------------------|----------|
|                 | Eligible to attend | Attended | Eligible to attend     | Attended | Eligible to attend                  | Attended |
| Paul MacLeman   | 11                 | 11       | 2                      | 2        | 3                                   | 3        |
| Timothy Oldham  | 7                  | 7        | -                      | -        | -                                   | -        |
| Samantha Cobb   | 2                  | 2        | -                      | -        | -                                   | -        |
| James Williams* | 11                 | 9        | -                      | -        | -                                   | -        |
| Liddy McCall    | 11                 | 10       | 2                      | 2        | 3                                   | 3        |
| John Chiplin    | 7                  | 6        | -                      | -        | 1                                   | 1        |
| Robert Peach    | 11                 | 10       | 2                      | 2        | 3                                   | 3        |
| Rosalind Wilson | 8                  | 7        | -                      | -        | -                                   | -        |

\*includes Board meetings attending while in the role of Alternate Director.

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

## Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 22 to the financial statements.

No non-audit services were provided by the appointed auditors.

## Auditor's independence declaration

The auditor's independence declaration is included on page 26 of the financial report.

# OPERATING AND FINANCIAL REVIEW

## Summary of principal activities

AdAlta Ltd (**AdAlta** or the **Company**) is a clinical stage biotechnology company listed on the Australian Securities Exchange (ASX:**IAD**). AdAlta's purpose is to use its i-body technology platform to generate a broad portfolio of i-body enabled drugs against drug targets that challenge traditional antibody technologies and in doing so create novel therapies for high unmet need medical conditions.

i-bodies are a new class of small, targeted, fully human proteins modelled on the single domain antibodies found in the shark immune system. Their unique properties (small size and long, flexible binding domain) make them ideally suited for addressing drug targets considered challenging or 'undruggable' by traditional antibody therapies, offering the potential for new drugs against substantial unmet medical needs.

The Company's strategy, outlined in March 2020, is to develop multiple i-body enabled products using a combination of:

- Internal pipeline products: wholly owned, internal developments addressing Company selected targets intended to be developed through initial clinical trials prior to out-licensing for later stage clinical development and commercialisation.
- External pipeline products: co-development programs with third parties addressing targets supplied by the third party and partially or wholly funded by the third party that intends to ultimately commercialise resulting products.

AdAlta's first internal product candidate, AD-214, is a first-in-class product being developed to treat fibrotic diseases, with an initial focus on degenerative Interstitial Lung Disease (**ILD**) including the orphan (rare) disease Idiopathic Pulmonary Fibrosis (**IPF**). The Company has recently commenced a Phase I clinical trial of AD-214, which will administer AD-214 to healthy volunteers and then ILD/IPF patients. The US Food and Drug Administration (**FDA**) is supportive of the pre-clinical data package for AD-214 and Phase I trial design and specific FDA guidance has been incorporated into the development program and Phase I trial. The first participants received AD-214 on 19 July 2020.

AdAlta's first external product candidate is being developed through a co-development collaboration with GE Healthcare (**GEHC**) to discover i-bodies specific to an enzyme called granzyme B. GEHC has paid an initial milestone to access the i-body technology and is funding i-body discovery activities. If successful, GEHC have the option to take over pre-clinical and clinical development of the i-bodies for use as molecular imaging agents for cancer. This collaboration provides important commercial validation of the attractiveness of the i-body platform.

The primary focus over the last 12 months has been to complete preclinical development and manufacturing of AdAlta's lead i-body enabled candidate, AD-214, and commence Phase I clinical trials for the treatment of IPF.

## Company strategy

AdAlta's purpose is to develop multiple i-body enabled products that utilise the unique i-body features to address challenging drug targets and high unmet need diseases. Figure 1 illustrates the two core strategies AdAlta plans to use to generate returns from the i-body platform.

First, AdAlta will invest to develop an internal pipeline of i-body enabled products against targets it selects. Product candidates are intended to be developed from discovery through pre-clinical development and initial clinical development (Phase I or Phase II) prior to out-licensing to larger biopharmaceutical companies to complete clinical development and obtain regulatory approval, reimbursement and commercial launch. AdAlta anticipates receiving upfront and development milestones and royalties on commercial success. AD-214 is the first example of this strategy and AdAlta has set a goal to add up to five new internal development candidates to the pipeline by 2023). These candidates will initially be focussed on a class of biological receptors found in cell membranes called G-protein coupled receptors (**GPCRs**). GPCRs are one of the largest families of drug targets and also one of the most difficult to drug successfully, making them ideal candidates for i-body enabled drugs. Therapeutic areas of primary focus will be fibrotic and inflammatory diseases and cancer.

Secondly, AdAlta will enter co-development collaborations with other biopharmaceutical companies to discover and develop i-body enabled therapeutics against a wide range of complex, challenging targets provided by the collaborator companies (external pipeline). The GEHC collaboration is an example of this type of relationship and AdAlta has set the goal of adding 3-5 more such collaborations by 2023.

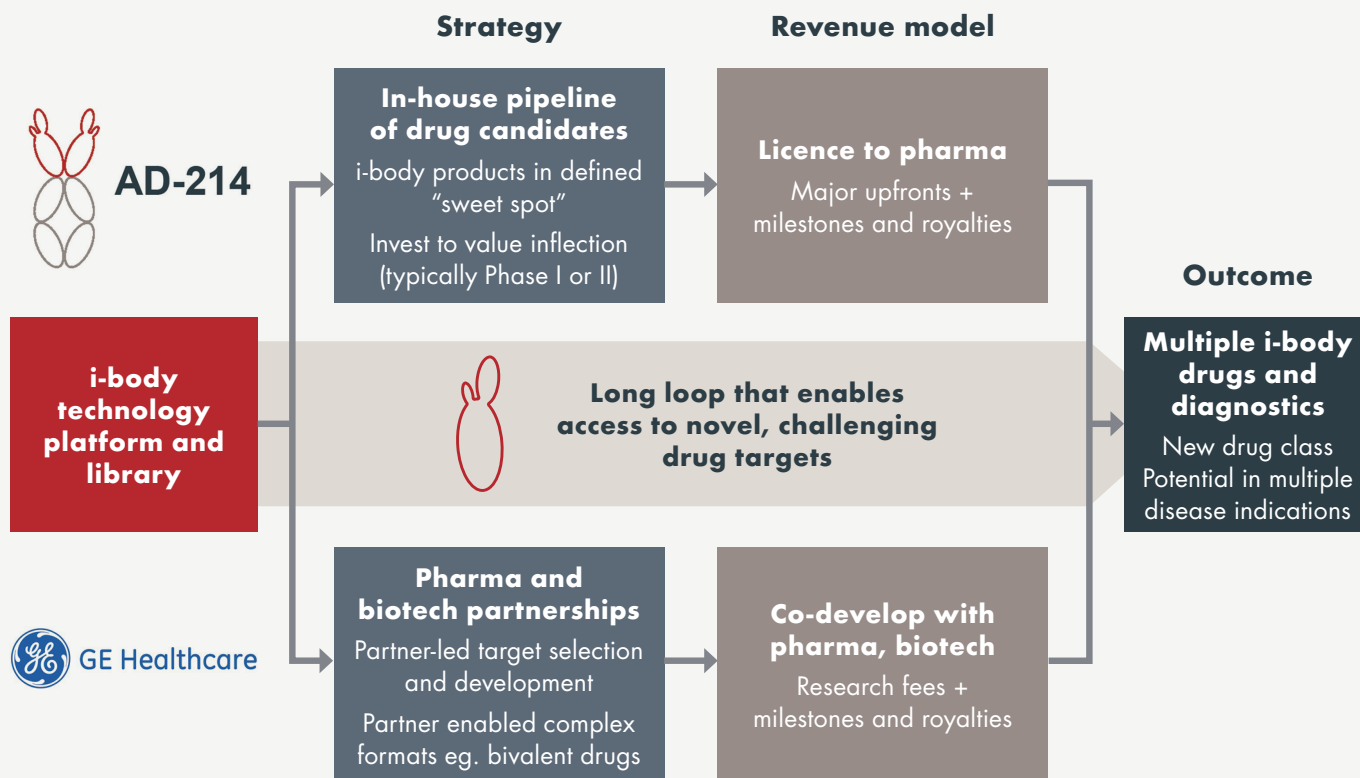


Figure 1: AdAlta's business model to create value from the i-body platform

The commencement of the Phase I clinical trial of AD-214 demonstrates that AdAlta can develop i body enabled products from discovery to the clinic, confirming the Company's ability to execute the first growth strategy. The GEHC collaboration demonstrates the conviction that major global companies have in the ability of the i-body platform to deliver unique therapeutic and diagnostic products, validating the second growth strategy.

AdAlta's growth requires continued execution of projects while scaling resources and investment for each new target opportunity. The immediate strategic priorities are:

1. **AD-214:** Completion of Phase 1 trials for AD-214 in healthy volunteers and ILD/IPF patients; developing radio-labelled AD 214 for imaging; extending pre-clinical data for IPF, other fibrotic indications and cancer while developing relationships with potential licensing partners; and continuously improving the AD-214 manufacturing process.
2. **Internal pipeline assets:** Progressing development projects against new targets to develop a portfolio of i-body enabled drugs against GPCRs.
3. **External pipeline assets:** Developing multiple co-development collaborations while continuing to execute the GEHC contract. In most cases, collaborators will wish to undertake practical evaluation and testing of AdAlta's technology in advance, for which AdAlta may invest modest funds to produce small quantities of research grade i-bodies.
4. **i-body platform:** Invest in continuous improvement, extending AdAlta's intellectual property protection to ensure that the i body platform remains at the forefront of tools available to address the drug targets that most challenge the biopharmaceutical industry today.

<sup>1</sup>GlobalData Dec 2019

## Commercial opportunity

### *IPF and fibrosis – AD-214*

The two marketed IPF drugs, pirfenidone and nintedanib, generated estimated sales of US\$2.9 billion in 2019 including US\$1.74 billion in the USA, the five largest EU markets and Japan<sup>1</sup>, despite modest efficacy and significant side effects. Multinational pharmaceutical companies Roche (markets pirfenidone) and Boehringer Ingelheim (markets nintedanib) have both in-licensed or acquired IPF products in 2019 and 2020 at early stages and in large transactions. In November 2019, Roche acquired Promedior for US\$390 million upfront and US\$1 billion in potential milestones. At the time the major asset in Promedior's pipeline was PRM-151 that had completed a Phase II study in IPF. In July 2019 Boehringer Ingelheim licensed a Phase I product from Bridge Biotherapeutics for €45 million up front and €1.1 billion in potential milestones and followed this in January 2020 by licensing a fibrosis platform with a lead product still in pre-clinical development from Enleofen for an undisclosed upfront payment and US\$1 billion in potential milestones.

In addition, it has been reported that the burden of fibrotic lung disease following SARS-CoV-2 infection is likely to be high, and antifibrotic therapies could have value in preventing severe COVID19 in IPF patients and preventing or treating fibrosis after SARS-CoV-2 infection.<sup>2</sup>

The market for fibrotic indications in other organs, and also relevant for applications of AD-214, is potentially even larger, with the market for chronic kidney disease estimated at US\$10 billion per year and the market for wet age-related macular degeneration estimated at US\$16 billion per year.<sup>3</sup> Fibrotic diseases were identified as one of the top three therapeutic areas of the future at the 2020 JPMorgan Healthcare Conference. In addition, antibodies against AD-214's biological target, CXCR4, are now being developed against some of the 23 or more cancers with which CXCR4 is associated.

### *Platform technologies – i-bodies*

AdAlta's i-body technology is applicable in the global antibody market, worth US\$131 billion in 2019.<sup>4</sup> i-bodies are a member of the single domain antibody segment. The first single domain antibody product, caplacizumab, was approved by the US Food and Drug Administration in February 2019. Caplacizumab was discovered and developed by Ablynx whose single domain antibody platform was derived from camelid (llamas, camels, etc) immune systems. Ablynx was acquired by Sanofi in January 2018, ten years after its first product commenced clinical trials, for €3.8 billion.

GPCRs are the largest human membrane protein family and regulate large numbers of diverse physiological processes and so are of significant interest as drug targets. Approximately one third of all approved drugs target a GPCR and these drugs had aggregate sales of US\$890 billion from 2011-2015.<sup>5</sup> Of the 400 known GPCRs (excluding those associated with the sense of smell), only 108 are acted on by approved drugs (and even then not optimally) with only 66 more the subject of clinical trials, leaving nearly two thirds of GPCRs as untapped therapeutic potential. There are very few GPCR targeted monoclonal antibodies approved or in late clinical development, highlighting the challenges of drugging these targets using standard technologies.

There is no guarantee that AdAlta will be able to execute transactions of the type or value of those listed above.

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<sup>2</sup>PM George, AU Wells, RG Jenkins, "Pulmonary fibrosis and COVID-19: the potential role for antifibrotic therapy", Lancet published online May 15, 2020 [https://doi.org/10.1016/S2213-2600\(20\)30225-3](https://doi.org/10.1016/S2213-2600(20)30225-3)

<sup>3</sup>GlobalData 2019

<sup>4</sup>MarketData Forecast, Global Antibodies Market Size, Share, Trends and Growth Analysis Report Forecast 2019 to 2024, August 2019

<sup>5</sup>AS Hauser et al, Nature Reviews Drug Discovery, 2017 (16) 829

# SIGNIFICANT MILESTONES ACHIEVED DURING THE REPORTING PERIOD

## AD-214

### *Pre-clinical development*

During the year, AdAlta completed the pre-clinical development of AD-214 necessary to commence Phase I clinical studies.

AD-214 was demonstrated to be effective in slowing or halting the progression of fibrosis in the gold standard animal model of lung fibrosis, the bleomycin mouse model. This replicated previous studies with the predecessor format, AD-114. Compared with untreated controls, AD-214 resulted in a statistically significant reduction in Ashcroft Score (a standardised visual assessment of lung tissue) at doses in excess of 1 mg/kg every second day and 10 mg/kg every four days. Changes in hydroxyproline (a measure of tissue collagen levels) and collagen gene expression were also observed.

Good Laboratory Practice (GLP) toxicology studies in non-human primates demonstrated a very clean toxicology profile, showing no apparent adverse effects or signs of overt toxicity at AD-214 doses up to 100 mg/kg twice weekly for four weeks, well in excess of the maximum equivalent dose planned for human clinical studies. AD-214 demonstrated a half-life and CXCR4 receptor occupancy (saturation) profile supporting the therapeutic potential of the planned weekly dosing schedule and up to 20 mg/kg dose in human subjects.

### *PET tracer*

In December, the Company announced the award of A\$1 million over two years from the Australian Government's Medical Research Future Fund (**MRFF**) through the Biomedical Translation Bridge (**BTB**) program to develop and clinically evaluate a radiolabeled version of AD-214 for imaging of the cell surface receptor CXCR4 (the target of AD-214) in IPF patients. This project is expected to substantially improve the quantity and quality of information obtained from Phase I clinical studies and enabled the Company to introduce patients into the Phase I protocol, providing valuable partnering and clinical development information earlier than would have otherwise been possible.

The development of a radio-labelling process is now substantially complete and pre-clinical animal studies are ready to commence in anticipation of introducing the PET tracer into the patient cohorts of the Phase I study in early 2021. In addition to supporting development of AD-214 for IPF, variants of a radio-labelled AD-214 may themselves be commercially attractive products.

### *Manufacturing*

KBI Biopharma, North Carolina, USA successfully complete the current Good Manufacturing Practice (**cGMP**) manufacturing of AD-214 to provide drug substance for AdAlta's Phase I trial and completed in-use stability studies on the drug product. PCI Pharma Services, Melbourne, Australia filled AD-214 drug substance into vials to provide the drug product for the Phase I clinical trials and also manufactured the placebo vials.

### *Regulatory and intellectual property*

US Patent number 10,538,596 entitled "CXCR4 binding molecules and methods of use thereof" was granted by the US Patent and Trademarks Office and has an expiration date of 8 January 2036. This patent includes the composition of AD-214 and its use in therapeutic and diagnostic applications, including IPF.

AdAlta's application to conduct its first Phase I human clinical trial in Australia was approved by the relevant Human Research Ethics Committee (**HREC**) in June 2020.

AdAlta also participated in a pre-Investigational New Drug application (**IND**) meeting with the US FDA, receiving confirmation that the pre-clinical data package for AD 214 is generally sufficient and the Phase I trial design is reasonable to support an IND application. Specific guidance points have been incorporated into the Australian Phase I trial prior to the first participants being treated in July 2020.

Approval of this trial represents the first time independent regulatory bodies have reviewed the complete package of pre-clinical and manufacturing data for AD-214 and determined it to be ready for human trials. The Phase I trial develops AD 214 and validates the safety and potential of AdAlta's i-body platform.

### *Phase I clinical trial*

The Phase I trial evaluates the safety, tolerability, pharmacokinetics (PK, concentration in the blood over time) and pharmacodynamics (PD, biological effect, in this case saturation of CXCR4 receptors) of AD-214 in healthy volunteers and in ILD (including IPF) patients.

Part A in healthy volunteers investigates increasing single doses of AD-214, with top line safety results due in early 2021. Parts B (single dose) in patients will then commence in early 2021 and Part C (multiple doses) at a later date. It is intended that PET imaging using the radio-labelled version of AD-214 will allow the distribution of AD-214 in the lungs of patients to be measured and visualised.

Patient studies are important because they have increased levels of CXCR4 relative to healthy volunteers meaning this

further information about the PK and PD parameters of AD-214 and will better support the design of Phase II studies while adding significant value to partnering efforts.

The Phase I trial was initiated in June and in July 2020 the first participants received AD 214 without dose limiting adverse events being observed at two dose levels. Dose escalation is proceeding in accordance with the findings of the trial safety management committee.

## GE Healthcare

In September 2019, AdAlta announced a co-discovery and development collaboration with GEHC. GEHC are seeking i-bodies that bind to a protein called granzyme B that they can use as an imaging agent in cancer diagnostics. This provides commercial revenues from the i-body platform as part of our external pipeline product.

GEHC paid AdAlta an upfront fee of A\$181,115 to access the i-body platform and in the financial year paid an additional A\$434,704 in research fees to cover the ongoing costs of each stage of an 11-14 month discovery project. Each stage has defined activities and deliverables. At the end of the discovery phase, GEHC may progress binders with suitable properties into pre-clinical and clinical development as imaging agents at its expense, with AdAlta receiving ongoing development milestones and royalty payments on successful commercialisation.

## Business development

During the year AdAlta continued to develop relationships with potential licensing partners for AD-214 and i-body co-development partners. The Company anticipates that the first significant partnering opportunity for AD-214 will open towards the end of the Phase I clinical trial. The Company is also pleased with the pipeline of potential i-body co-development partners with several under confidentiality agreement or evaluating the i-body technology under material transfer agreements.

## COVID-19 response

The Company is fortunate that its major programs have not been materially affected by the COVID 19 environment to date.

The Company laboratories at La Trobe University have remained continuously open though out 2020, with remote working where possible and modified work practices implemented. The Phase I trial is being conducted at CMAX Clinical Research in Adelaide and continues to recruit solidly. The development of radiolabelled AD-214 was delayed three months by the closure of a collaborator laboratory (now reopened). This is not expected to affect the availability of the PET tracer for the commencement of the patient parts of the Phase I trial and grant funding is not affected. The

GEHC collaboration was slightly delayed by slower than normal overseas delivery times for critical reagents and the collaboration agreement has been modified to accommodate this. Business development discussions are continuing remotely, including virtual conference attendance.

None-the-less the Company has a comprehensive risk assessment and contingency plan in place and can absorb some delays in any project without material impact on cash position.

The Company is now actively monitoring literature reporting a likely significantly increased burden of lung fibrosis in patients recovering from COVID-19 infection and considering the potential of AD-214 to contribute to the long term care of these recovering patients.

## Summary of operating results

The Company reported a loss for the year ended 30 June 2020, after accounting for income tax benefit, of (\$6,006,456) (prior year: (\$5,918,193)). The year ended 30 June 2020 operating results are attributed to the following:

- License and Collaboration Income (GEHC): \$615,819 (prior year: Nil)
- Research and Development Tax Incentive (**RDTI**) rebate: \$3,143,912 (prior year: \$3,498,774) due to the slight reduction of eligible R&D expenditure included in cost of services expense;
- Cost of services expense of \$7,012,240 (prior year: \$7,353,660), with the decrease a result of phasing of manufacturing costs and commencement of clinical trial costs across prior and current year; and
- Employment benefit expense of \$816,152 (prior year: \$715,964).

## Financial liquidity and capital resources

The Company began the year with \$5.56 million cash at bank.

On 3rd July 2019, the Company completed Tranche 2 of a Placement and Entitlement Offer begun in the prior financial year, FY2019 which raised \$2.1 million of new funding.

In December, the Company announced a loan facility with Radium Capital providing the Company with immediate access to up to 80% of its estimated accrued RDTI rebate each quarter. At 30 June 2020, the Company had drawn funds of \$2.08 million under this Facility which is secured against the FY2020 RDTI refund.

Net cash flow from operations, including RDTI refund of \$3.50million (prior year: \$2.02million), was an outflow of \$5.89million (prior year: \$5.82million).

The Company ended the year with \$3.37 million cash at bank on 30 June 2020. After the end of the year the Company completed a placement with existing and new institutional and sophisticated investors raising \$4 million before expenses and has launched an Entitlement Offer to raise up to an additional \$4.1 million.

As a result, the Directors believe the Company is in a strong and stable financial position and that the funds raised from the Placement and Entitlement Offer will see the Company achieve a number of further major value inflection points in FY2021.

## Leadership

On 9 October 2019, the Company announced the appointment of Dr Tim Oldham as Chief Executive Officer and Managing Director. This followed the resignation of Ms Samantha Cobb in August 2019 after 12 years as founding CEO having grown the Company from a research based start up to an ASX listed company about to commence clinical trials.

There were a number of Board changes announced during the year as part of the Board's progression to a clinical stage company and due to personal commitments.

The Board thanks Ms Cobb for her significant contribution to AdAlta since its inception and also the retiring Board members Dr John Chiplin, Dr Ros Wilson and Dr James Williams (who continues as an alternate director).

Board fees were suspended as part of the Company's COVID-19 risk management plan.

## Events after the reporting period

On 22 July 2020, the Company appointed Dr. David Fuller as a Non-Executive Director.

On 23 July 2020, the Company announced that the first participants in the Phase I clinical trial of AD 214 had been dosed with no dose limiting adverse events. Participants at three dose levels have now been treated.

On 11 August 2020, the Company announced it had received \$4 million in commitments from existing and new institutional and sophisticated investors in an oversubscribed Placement and was launching a one (1) for four (4) Entitlement Offer for Eligible Shareholders with strong indications of support to raise up to an additional \$4.1 million. Both Placement and Entitlement Offer were priced at \$0.10 per share. The Placement was made under available capacity in accordance with ASX Listing Rules 7.1 and 7.1A, does not require shareholder approval and completed on

18 August 2020 with the issue of 40,000,000 ordinary shares. The Entitlement Offer closes on 2 September 2020 and includes Top-Up and Shortfall Facilities.

Otherwise, there has not been any matter or circumstance that has arisen subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

## Future developments, prospects and business strategies

During FY2021 the Company's focus is on executing the Phase I clinical trials for AD-214 and the growth of the AdAlta asset pipeline.

The Company expects to complete the healthy volunteer Part A of its first in man, Phase I clinical trial for AD-214 and to commence the patient Part B in Interstitial Lung Disease including Idiopathic Pulmonary Fibrosis patients. The first PET images of AD-214 in these patients are expected around the end of FY2021. The Company is working on additional clinical studies in expanded indications (whether conducted by AdAlta or partners) and support partnering efforts. These activities are backed by a focus on continuously improving manufacturing processes.

The Company is evaluating new target candidates to deliver two new targets into discovery during the period.

For the external pipeline, the Company is continuing progress with the GEHC collaboration and aims to secure an additional collaborative partner during the period.

AdAlta's transformation to become a clinical stage company provides the foundation for expanding the pipeline of internal and external assets while progressing AD-214 through further clinical value inflection points.

## Environmental issues

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



# REMUNERATION REPORT (AUDITED)

This remuneration report, which forms part of the Directors' report, sets out information about the remuneration of AdAlta Limited's key management personnel for the financial year ended 30 June 2020.

The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise) of the Company. The prescribed details for each person covered by this report are detailed below under the following headings:

- key management personnel
- remuneration policy
- relationship between the remuneration policy and Company performance
- remuneration of key management personnel
- key terms of employment contracts.

## Key management personnel

The Directors and other key management personnel of the Company during the financial year were:

| Non-executive Directors | Position  |
|-------------------------|---|
| Dr Paul MacLeman        | Non-Executive Chairman  |
| Ms Elizabeth McCall     | Non-Executive Director  |
| Dr Robert Peach         | Non-Executive Director  |
| Dr James Williams       | Alternate Director to Elizabeth McCall (transitioned from Non-Executive Director to Alternate Director on 27/03/2020) |
| Dr John Chiplin         | Non-Executive Director (resigned 3/1/2020)  |
| Dr Rosalind Wilson      | Non-Executive Director (appointed 1/8/2019 - resigned 27/3/2020)  |

## Executive Directors

|                   |   |
|-------------------|---|
| Ms Samantha Cobb  | Chief Executive Officer and Managing Director (resigned 25/8/2019)  |
| Dr Timothy Oldham | Chief Executive Officer and Managing Director (appointed 8/10/2019) |

The named persons held their current position for the whole of the financial year and since the end of the financial year unless otherwise indicated.

## Remuneration policy

The Board of Directors of the Company is currently responsible for determining and reviewing compensation arrangements for key management personnel. The Company has a Remuneration Committee, which consists of Paul MacLeman (Chair of Remuneration Committee), Robert Peach and Liddy McCall. The remuneration policy, which is set out below, is designed to promote superior performance and long-term commitment to the Company.

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*Non-Executive Director remuneration*

Non-executive Directors are remunerated by way of fees, in the form of cash, non-cash benefits, superannuation contributions or salary sacrifice into equity and do not normally participate in schemes designed for the remuneration of executives.

Board fees were suspended from 1 April 2020 as part of the Company's COVID-19 risk and management plan.

Shareholders' approval must be obtained in relation to the overall limit set for the non-executive Directors' fees. The maximum aggregate remuneration approved by shareholders for non-executive Directors is \$350,000 per annum. The Directors set the individual non-executive Director fees within the limit approved by shareholders. Non-executive Directors are not provided with retirement benefits.

*Executive Director and Executive remuneration*

Executive Directors and Executives receive a base remuneration, which is at market rates, and may be entitled to performance based remuneration, which is determined on an annual basis. Overall remuneration policies are subject to the discretion of the Board and can be changed to reflect competitive and business conditions where it is in the interests of the Company and shareholders to do so. Executive remuneration and other terms of employment are reviewed annually by the Board having regard to performance, relevant comparative information and expert advice.

The Board's remuneration policy reflects its obligation to align executive remuneration with shareholders' interests and to retain appropriately qualified executive talent for the benefit of the Company. The main principles are:

- (a) remuneration reflects the competitive market in which the Company operates;
- (b) individual remuneration should be linked to performance criteria if appropriate; and
- (c) executives should be rewarded for both financial and non-financial performance.

The total remuneration of executives consists of the following:

- (a) salary – executives receive a fixed sum payable monthly in cash plus superannuation at 9.5% of salary;
- (b) cash at risk component (short term incentive) – executives may receive a variable cash sum up to a maximum percentage of salary that is payable annually at the end of each financial year on the basis of performance against goals set at the beginning of each financial year (as assessed by the Board);
- (c) equity component (long term incentive) – executives may participate, at the discretion of the board, in share and option schemes generally made in accordance with thresholds and on terms set in plans approved by shareholders and otherwise at the discretion of the Board. In exceptional circumstances the Board may, subject to any necessary shareholder approval, issue shares and options to executives outside of approved schemes. Long term incentive awards are typically time limited and are made on a case by case basis having regard to the overall number, value and remaining term of unexpired incentive securities held by the executive, benchmarking and performance; and
- (d) other benefits – executives may, if deemed appropriate by the Board, be provided with a fully expensed mobile phone and other forms of remuneration.

The Board has not formally engaged the services of a remuneration consultant to provide recommendations when setting the remuneration received by Directors or other key management personnel during the financial year.

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**Relationship between the remuneration policy and Company financial performance**

The Board considers that at this time, evaluation of the Company's financial performance using generally accepted measures such as profitability, total shareholder return or per Company comparison are not relevant due to the early stage of development of the Company's assets as outlined in the Directors' report. Remuneration is structured to align short term incentives with the achievement of operational objectives that meaningfully progress the development of the Company's assets each year and to align long term incentives with increasing shareholder value as a result of developing and increasing those assets over the mid-term.

**Remuneration of key management personnel**

Remuneration is reported as Earned Remuneration and Realised Remuneration.

Earned Remuneration is the accounting value of remuneration awarded in a period as recorded in the financial statements of the Company. This includes cash payments during the period plus the value of long term incentives awarded during the period which have an accounting value that may not be immediately realisable by the recipient, for example because options have an exercise price that is equal to or below the current share price.

Realised Remuneration is the value of remuneration realised or becoming realisable by the recipient during the period. This includes cash payments during the period plus the value of long term incentive payments from the current or any prior period that have become immediately realisable by the recipient during the period. This will include, for example, the value of shares issued on the exercise of options less the exercise price (as measured at the time of exercise).

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| 2020                                       | Short-term employee benefits |          | Post-employment benefits | Total Cash Payments | Share-based payment | Total Earned Remuneration | Realised option value | Total Realised Remuneration |
|--|------------------------------|----------|--------------------------|---------------------|---------------------|---------------------------|-----------------------|-----------------------------|
|  | Salary & fees \$             | Other \$ |                          |                     |                     |                           |                       |                             |
| <b>Non-executive Directors<sup>7</sup></b> |                              |          |                          |                     |                     |                           |                       |                             |
| Paul MacLeman <sup>1</sup>                 | 71,198                       | -        | 6,764                    | 77,962              | -                   | 77,962                    | -                     | 77,962                      |
| James Williams <sup>2</sup>                | 33,750                       | -        | -                        | 33,750              | -                   | 33,750                    | -                     | 33,750                      |
| Liddy McCall <sup>2</sup>                  | 33,750                       | -        | -                        | 33,750              | -                   | 33,750                    | -                     | 33,750                      |
| John Chiplin <sup>3</sup>                  | 22,500                       | -        | -                        | 22,500              | -                   | 22,500                    | -                     | 22,500                      |
| Robert Peach                               | 33,750                       | -        | -                        | 33,750              | -                   | 33,750                    | -                     | 33,750                      |
| Rosalind Wilson <sup>4</sup>               | 27,397                       | -        | 2,603                    | 30,000              | -                   | 30,000                    | -                     | 30,000                      |
| <b>Executive Directors</b>                 |                              |          |                          |                     |                     |                           |                       |                             |
| Samantha Cobb <sup>5</sup>                 | 160,376                      | -        | 9,491                    | 169,867             | 12,423              | 182,290                   | -                     | 169,867                     |
| Timothy Oldham <sup>6</sup>                | 209,987                      | -        | 15,079                   | 225,066             | 167,712             | 392,778                   | -                     | 225,066                     |
| <b>Total</b>                               | <b>592,708</b>               | <b>-</b> | <b>33,937</b>            | <b>626,645</b>      | <b>180,135</b>      | <b>806,780</b>            | <b>-</b>              | <b>626,645</b>              |

<sup>1</sup> Paul MacLeman filled the role as Executive Director during the transition of outgoing CEO and Managing Director Samantha Cobb and incoming CEO and Managing Director Timothy Oldham. During this time Paul MacLeman was remunerated \$21,086 in addition to the Non-Executive Chair fees.

<sup>2</sup> James Williams and Liddy McCall are contracted under a service agreement with Yuuwa Capital LP. Fees are paid directly to Yuuwa Capital LP. Yuuwa Capital LP is a venture capital fund that is managed by its General Partner, Yuuwa Management LP/Yuuwa Capital Management Pty Ltd which is associated with James Williams and Liddy McCall.

<sup>3</sup> John Chiplin resigned as a Director of the Company on 3 January 2020.

<sup>4</sup> Rosalind Wilson was appointed on 1 August 2019 and resigned as a Director of the Company on 27 March 2020

<sup>5</sup> Samantha Cobb resigned as CEO on 12 August 2019 and as a Director of the Company on 25 August 2019

<sup>6</sup> Timothy Oldham was appointed CEO and Managing Director on 8 October 2020.

<sup>7</sup> Non-executive director fees were suspended effective 1 April 2020 under the Company's COVID-19 risk management plan and were not reinstated prior to 30 June 2020. Paul MacLeman continued to receive 50% of his fee as Chair

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| 2019                           | Short-term employee benefits |                     | Post-employment benefits | Total Cash Payments | Share-based payment | Total Earned Remuneration | Realised option value | Total Realised Remuneration |
|--------------------------------|------------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------------|-----------------------|-----------------------------|
|                                | Salary & fees                | Other               |                          |                     |                     |                           |                       |                             |
|                                | \$                           | \$                  | \$                       | \$                  | Options             | \$                        | \$                    | \$                          |
| <b>Non-executive Directors</b> |                              |                     |                          |                     |                     |                           |                       |                             |
| Paul MacLeman                  | 59,361                       | -                   | 5,639                    | 65,000              | -                   | 65,000                    | -                     | 65,000                      |
| James Williams <sup>1</sup>    | 45,000                       | -                   | -                        | 45,000              | -                   | 45,000                    | -                     | 45,000                      |
| Liddy McCall <sup>1</sup>      | 45,000                       | -                   | -                        | 45,000              | -                   | 45,000                    | -                     | 45,000                      |
| John Chipplin                  | 45,000                       | -                   | -                        | 45,000              | -                   | 45,000                    | -                     | 45,000                      |
| Robert Peach                   | 45,000                       | -                   | -                        | 45,000              | 5,305               | 50,305                    | -                     | 45,000                      |
| <b>Executive Directors</b>     |                              |                     |                          |                     |                     |                           |                       |                             |
| Samantha Cobb                  | 260,000                      | 46,685 <sup>2</sup> | 29,135                   | 335,820             | 12,423              | 348,243                   | -                     | 335,820                     |
| <b>Total</b>                   | <b>499,361</b>               | <b>46,685</b>       | <b>34,774</b>            | <b>580,820</b>      | <b>17,728</b>       | <b>598,548</b>            | <b>-</b>              | <b>580,820</b>              |

<sup>1</sup> James Williams and Liddy McCall are contracted under a service agreement with Yuuwa Capital LP. Fees are paid directly to Yuuwa Capital LP. Yuuwa Capital LP is a venture capital fund that is managed by its General Partner, Yuuwa Management LP/Yuuwa Capital Management Pty Ltd which is associated with James Williams and Liddy McCall.

<sup>2</sup> Bonus awarded by the Board and remuneration committee.

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**Share options**

4,929,060 share options were issued to key management personnel as remuneration during the financial year as set out in the following table. Key management personnel that participated in the Entitlement Offer under the Prospectus dated 23 May 2019 were issued 100,001 options (2019: Nil). No share options were exercised by key management personnel during the year (2019: Nil).

|                 | Balance at       | Granted as       | Exercised | Net other                | Balance at       |
|-----------------|------------------|------------------|-----------|--------------------------|------------------|
| 2020            | 1 July No.       | compensation No. |           | Change No.               | 30 June No.      |
| Timothy Oldham  | -                | 4,929,060        | -         | -                        | 4,929,060        |
| Samantha Cobb   | 1,750,000        | -                | -         | (1,750,000) <sup>1</sup> | -                |
| Paul MacLeman   | 30,000           | -                | -         | 16,667 <sup>2</sup>      | 46,667           |
| James Williams  | -                | -                | -         | 66,667 <sup>2</sup>      | 66,667           |
| Liddy McCall    | -                | -                | -         | 16,667 <sup>2</sup>      | 16,667           |
| John Chiplin    | 20,000           | -                | -         | (20,000) <sup>1</sup>    | -                |
| Robert Peach    | 200,000          | -                | -         | -                        | 200,000          |
| Rosalind Wilson | -                | -                | -         | -                        | -                |
| <b>Total</b>    | <b>2,000,000</b> | <b>4,929,060</b> | <b>-</b>  | <b>(1,669,999)</b>       | <b>5,259,061</b> |

<sup>1</sup>Balance of options held at date of resignation as a Director

<sup>2</sup>Listed options issued under the Prospectus dated 23 May 2019.

|                | Balance at       | Granted as       | Exercised | Net other        | Balance at       |
|----------------|------------------|------------------|-----------|------------------|------------------|
| 2019           | 1 July No.       | compensation No. |           | change No.       | 30 June No.      |
|                |                  |                  |           | (375,000)        |                  |
| Samantha Cobb  | 1,750,000        | 375,000          | -         | 1                | 1,750,000        |
| Paul MacLeman  | 30,000           | -                | -         | -                | 30,000           |
| James Williams | -                | -                | -         | -                | -                |
| Liddy McCall   | -                | -                | -         | -                | -                |
| John Chiplin   | 20,000           | -                | -         | -                | 20,000           |
| Robert Peach   | 200,000          | -                | -         | -                | 200,000          |
| <b>Total</b>   | <b>2,000,000</b> | <b>375,000</b>   | <b>-</b>  | <b>(375,000)</b> | <b>2,000,000</b> |

<sup>1</sup> As announced on 29 April 2019 options issued to Samantha Cobb were cancelled as the vesting criteria could never be met as the criteria referred to the Company's previous lead compound, AD-114 which has ceased development. The value of the options at their date of grant has been taken as zero because, at the time of grant, the Company was an unlisted entity and the equity structure operated such that any returns were paid to convertible note holders with any residual being paid to holders of Series A Preference shares with any final amount being available to ordinary shareholders. Based on the Company's net assets at the date of grant there was no value attributable to ordinary shares.

Options have been granted to the Managing Director on a case by case basis since 2011 based on the achievement of milestones which varied for the relevant year depending on the stage of the Company's research projects and the achievement of funding. The milestones and time based vesting selected were considered relevant to enable the Company to progress its research projects and the assessment as to their achievement was performed by the Board.

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Certain options granted to non-executive Directors Paul MacLeman, Robert Peach and former non-executive Director John Chiplin related to their efforts in securing additional funding for the Company. A condition attached to a portion of these options is that the options can only be exercised in the event of a transaction or exit of the Company. All other options are subject to time-based vesting conditions with no specific performance condition attached.

**Key terms of employment contracts**

Timothy Oldham is employed in the position of CEO and Managing Director of the Company on the following material terms:

1. Effective 8 October 2019, a salary of \$300,000 plus statutory superannuation.
2. A short-term cash incentive of up to 40% of the annual salary subject to achieving key performance objectives as set by the Board from time to time.
3. Until completion of 12 months service, either party is entitled to terminate the employment contract by giving 3 months' notice. After completion of 12 months service, either party is entitled to terminate the employment contract by giving 6 months' notice.
4. After termination of employment, Dr Oldham is subject to a non-compete condition, within any country in the world in which AdAlta or a Group Company physically operates, for a period that is the lower of 9 months, or half the time elapsed between the commencement date and the termination date.

Arrangements with key management personnel:

| Position                | Annual Salary (inclusive of superannuation) |
|-------------------------|---|
| Non-Executive Chairman  | \$65,000                                    |
| Non-Executive Directors | \$45,000                                    |

As announced on 27 March 2020 payment of Non-Executive Director fees were suspended until further notice. Board Chair, Paul MacLeman will continue to receive 50% of Chairman fees being \$31,250 including superannuation until further notice.

The Company has entered into consulting agreements with all Directors. Under the terms of these consulting agreement, the agreements can be terminated by either party by giving one months' notice. Further, continuation of appointment is subject to re-election at a forthcoming AGM.

Elizabeth McCall is appointed as the nominated Director of Yuuwa Capital LP, with James Williams as Ms McCall's Alternate Director. Director fees are not payable to Alternate Directors. The director fees in respect of Ms McCall are paid to Yuuwa Capital LP and not to the direct benefit of Ms McCall or Dr Williams.

No additional fees are payable to Directors for their involvement in Board committees.

On appointment to the Board, all non-executive Directors are required to sign a letter of appointment with the Company. The letter of appointment summarises the Board policies and terms, including compensation relevant to the office or Director.

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**Key management personnel equity holdings**

*Fully paid ordinary shares of AdAlta Limited*

|                             | Balance at 1<br>July<br>No. | Received on<br>exercise of<br>options<br>No. | Net other<br>change<br>No. | Additions | Balance at 30<br>June<br>No. |
|-----------------------------|-----------------------------|--|----------------------------|-----------|------------------------------|
| <b>2020</b>                 |                             |  |                            |           |                              |
| Timothy Oldham              | -                           | -  | -                          | 120,000   | 120,000                      |
| Samantha Cobb               | 1,443,843                   | -  | (1,443,843) <sup>2</sup>   | -         | -                            |
| Paul MacLeman               | 439,636                     | -  | -                          | 33,334    | 472,970                      |
| James Williams <sup>1</sup> | 100,000                     | -  | -                          | 133,334   | 233,334                      |
| Liddy McCall <sup>1</sup>   | 100,000                     | -  | -                          | 33,334    | 133,334                      |
| John Chiplin                | 1,000,000                   | -  | (1,000,000) <sup>2</sup>   | -         | -                            |
| Robert Peach                | 333,333                     | -  | -                          | 962,666   | 1,295,999                    |
| Rosalind Wilson             | -                           | -  | -                          | -         | -                            |

<sup>1</sup>James Williams and Elizabeth McCall's interests do not include 54,059,848 ordinary shares beneficially owned by the limited partners of Yuuwa Capital LP, a venture capital fund. Yuuwa Capital Management Pty Ltd which is associated with James Williams and Elizabeth McCall provides investment management services to Yuuwa Capital LP.

<sup>2</sup> Shares held on resignation or retirement during the period.

|                             | Balance at 1<br>July<br>No. | Received on<br>exercise of<br>options<br>No. | Net other<br>change *<br>No. | Additions<br>No. | Balance at 30<br>June<br>No. |
|-----------------------------|-----------------------------|--|------------------------------|------------------|------------------------------|
| <b>2019</b>                 |                             |  |                              |                  |                              |
| Samantha Cobb               | 1,443,843                   | -  | -                            | -                | 1,443,843                    |
| Paul MacLeman               | 439,636                     | -  | -                            | -                | 439,636                      |
| James Williams <sup>1</sup> | 100,000                     | -  | -                            | -                | 100,000                      |
| Liddy McCall <sup>1</sup>   | 100,000                     | -  | -                            | -                | 100,000                      |
| John Chiplin                | 810,883                     | -  | -                            | 189,117          | 1,000,000                    |
| Robert Peach                | -                           | -  | -                            | 333,333          | 333,333                      |

<sup>1</sup>James Williams and Elizabeth McCall's interests do not include 54,059,848 ordinary shares beneficially owned by the limited partners of Yuuwa Capital LP, a venture capital fund. Yuuwa Capital Management Pty Ltd which is associated with James Williams and Elizabeth McCall provides investment management services to Yuuwa Capital LP.



**ADALTA LTD**  
**ABN 92 120 332 925**

*Share Options of AdAlta Limited*

|                | Balance<br>at 1 July | Granted as<br>compensation | Cancelled   | Net other<br>change | Balance at<br>30 June | Vested and<br>exercisable | Options vested<br>during year |
|----------------|----------------------|----------------------------|-------------|---------------------|-----------------------|---------------------------|-------------------------------|
| 2020           | No.                  | No.                        | No.         | No.                 | No.                   | No.                       | No.                           |
| Timothy Oldham | -                    | 4,929,060                  | -           | -                   | 4,929,060             | 492,906                   | 492,906                       |
| Samantha Cobb  | 1,750,00             | -                          | (1,750,000) | -                   | -                     | -                         | -                             |
| Paul MacLeman  | 30,000               | -                          | -           | 16,667              | 46,667                | 46,667                    | 16,667                        |
| James Williams | -                    | -                          | -           | 66,667              | 66,667                | 66,667                    | 66,667                        |
| Liddy McCall   | -                    | -                          | -           | 16,667              | 16,667                | 16,667                    | 16,667                        |
| John Chiplin   | 20,000               | -                          | (20,000)    | -                   | -                     | -                         | -                             |
| Robert Peach   | 200,000              | -                          | -           | 481,333             | 681,333               | 481,333                   | 381,333                       |

|                | Balance<br>at 1 July | Granted as<br>compensation | Cancelled | Net other<br>change | Balance at<br>30 June | Vested and<br>exercisable | Options vested<br>during year |
|----------------|----------------------|----------------------------|-----------|---------------------|-----------------------|---------------------------|-------------------------------|
| 2019           | No.                  | No.                        | No.       | No.                 | No.                   | No.                       | No.                           |
| Samantha Cobb  | 1,750,00             | 375,000                    | (375,000) | -                   | 1,750,000             | -                         | -                             |
| Paul MacLeman  | 30,000               | -                          | -         | -                   | 30,000                | 30,000                    | -                             |
| James Williams | -                    | -                          | -         | -                   | -                     | -                         | -                             |
| Liddy McCall   | -                    | -                          | -         | -                   | -                     | -                         | -                             |
| John Chiplin   | 20,000               | -                          | -         | -                   | 20,000                | 20,000                    | -                             |
| Robert Peach   | 100,000              | -                          | -         | 100,000             | 100,000               | 100,000                   | -                             |

**Voting and comments made at the company's 2019 Annual General Meeting (AGM)**

At the Company's 2019 Annual General Meeting (AGM), a resolution to adopt the prior year's Remuneration Report was put to the vote and greater than 75% of the votes cast on the resolution to adopt the 2019 Remuneration Report were cast in favour of the resolution.

No comments were made at the AGM by shareholders in relation to the Remuneration Report.

This Directors' report, incorporating the remuneration report, is signed in accordance with a resolution made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors



Paul MacLeman

**Chairman**

Melbourne, 27 August 2020

## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of AdAlta Limited for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

- a) No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) No contraventions of any applicable code of professional conduct in relation to the audit.

BUTLER SETTINERI (AUDIT) PTY LTD



MARIUS VAN DER MERWE CA  
Director

Perth  
Date: 27 August 2020

# CORPORATE GOVERNANCE

The Board of Directors of AdAlta Limited is responsible for the corporate governance of the Company and guides and monitors the business and affairs of the Company on behalf of its shareholders.

To ensure the Board is well equipped to discharge its responsibilities it has guidelines for the nomination and selection of Directors and for the operation of the Board.

The key charters and policies associated with AdAlta's corporate governance practices are:

- Constitution
- Board Charter
- Code of Conduct
- Securities Trading Policy
- Continuous Disclosure Policy
- Shareholders Communication Policy
- Risk Management Policy
- Diversity Policy
- Whistleblower Policy
- Anti-bribery, Corruption and Fraud Policy
- Audit & Risk Committee Charter
- Remuneration & Nomination Committee Charter

The Board has also reviewed its compliance with the ASX Corporate Governance Principles and Recommendations (3rd Edition).

The Board has also reviewed its skill matrix setting out the mix of skills and diversity that the Board currently has.

In accordance with Listing Rule 4.10.3, the Company has elected to disclose its Corporate Governance policies and its compliance with them on its website, rather than in the Annual Report. Accordingly, the information detailed above about the Company's Corporate Governance practices is set out on the Investor page of the Company's website at [www.adalta.com.au](http://www.adalta.com.au)

**ADALTA LTD**  
**ABN 92 120 332 925**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE  
INCOME FOR THE YEAR ENDED 30 JUNE 2020**

|  | Note | 2020<br>\$                | 2019<br>\$                |
|--|------|---------------------------|---------------------------|
| <b>Revenue</b>                           |      |                           |                           |
| License and Collaboration Income         |      | 615,819                   | -                         |
| Interest Received                        |      | 19,149                    | 50,794                    |
| Other Revenue                            | 2    | <u>3,211,912</u>          | <u>3,538,774</u>          |
|  |      | <u>3,846,880</u>          | <u>3,589,568</u>          |
| <b>Expenses</b>                          |      |                           |                           |
| Cost of services                         |      | (7,012,240)               | (7,353,660)               |
| Depreciation and amortisation expenses   | 7    | (41,833)                  | (32,498)                  |
| Employee benefit expense                 |      | (816,152)                 | (715,964)                 |
| Travel expense                           |      | (48,551)                  | (172,509)                 |
| Board fees                               |      | (230,085)                 | (245,000)                 |
| Patent and legal costs                   |      | (170,289)                 | (181,420)                 |
| Share based payments                     | 12   | (590,458)                 | (100,698)                 |
| Other expenses                           |      | (757,978)                 | (726,106)                 |
| Finance costs                            |      | (115,546)                 | -                         |
| Net foreign exchange (loss) / gain       |      | <u>(70,205)</u>           | <u>20,094</u>             |
|  |      | <u>(9,853,337)</u>        | <u>(9,507,761)</u>        |
| <b>Profit (loss) before income tax</b>   |      | <b>(6,006,456)</b>        | <b>(5,918,193)</b>        |
| Tax expense                              | 3    | -                         | -                         |
| <b>Profit (loss) for the year</b>        |      | <b><u>(6,006,456)</u></b> | <b><u>(5,918,193)</u></b> |
| <b>Earnings per Share</b>                |      |                           |                           |
| Basic and diluted loss per share (cents) | 4    | (3.66)                    | (5.00)                    |

The accompanying notes form part of these financial statements.

**ADALTA LTD**  
**ABN 92 120 332 925**

**STATEMENT OF FINANCIAL POSITION**

**AS AT 30 JUNE 2020**

|  | Note | 2020<br>\$       | 2019<br>\$       |
|--|------|------------------|------------------|
| <b>ASSETS</b>                          |      |                  |                  |
| <b>CURRENT ASSETS</b>                  |      |                  |                  |
| Cash and cash equivalents              | 5    | 3,366,503        | 5,555,875        |
| Trade and other receivables            | 6    | 3,364,391        | 3,613,441        |
| <b>TOTAL CURRENT ASSETS</b>            |      | <u>6,730,894</u> | <u>9,169,316</u> |
| <b>NON-CURRENT ASSETS</b>              |      |                  |                  |
| Plant and equipment                    | 7    | 98,648           | 138,105          |
| Other non-current assets               | 8    | 77,918           | 2,600            |
| <b>TOTAL NON-CURRENT ASSETS</b>        |      | <u>176,566</u>   | <u>140,705</u>   |
| <b>TOTAL ASSETS</b>                    |      | <u>6,907,461</u> | <u>9,310,021</u> |
| <b>LIABILITIES</b>                     |      |                  |                  |
| <b>CURRENT LIABILITIES</b>             |      |                  |                  |
| Trade and other payables               | 9    | 829,858          | 1,740,111        |
| Provisions                             | 10   | 30,487           | 78,801           |
| Other liabilities                      | 11   | 153,702          | -                |
| Borrowings                             | 12   | 2,191,327        | -                |
| <b>TOTAL CURRENT LIABILITIES</b>       |      | <u>3,205,374</u> | <u>1,818,912</u> |
| <b>TOTAL LIABILITIES</b>               |      | <u>3,205,374</u> | <u>1,818,912</u> |
| <b>NET ASSETS</b>                      |      | <u>3,702,086</u> | <u>7,491,109</u> |
| <b>EQUITY</b>                          |      |                  |                  |
| Issued capital                         | 13   | 28,436,476       | 26,809,501       |
| Reserves                               | 14   | 864,022          | 273,564          |
| Retained earnings (accumulated losses) |      | (25,598,412)     | (19,591,956)     |
| <b>TOTAL EQUITY</b>                    |      | <u>3,702,086</u> | <u>7,491,109</u> |

The accompanying notes form part of these financial statements.

**ADALTA LTD**  
**ABN 92 120 332 925**

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2020**

|  | Ordinary shares   | Retained Earnings   | Share based payment reserve | Unissued Share Reserve |                  |
|--|-------------------|---------------------|-----------------------------|------------------------|------------------|
| <b>Balance at 1 July 2018</b>  |                   |                     |                             |                        |                  |
| <b>Comprehensive income</b>  |                   |                     |                             |                        |                  |
| Profit (loss) for the year   | \$ 17,573,527     | \$ (13,673,762)     | \$ 172,866                  | \$ -                   | \$ 4,072,631     |
| <b>Total comprehensive income for the year attributable to the member of the company</b> | -                 | (5,918,193)         | -                           | -                      | (5,918,193)      |
| <b>Transactions with the owner, in capacity as owner and other transfers</b>             |                   |                     |                             |                        |                  |
| Issue of Ordinary Shares   | 9,672,338         | -                   | -                           | -                      | 9,672,338        |
| Cost of Issuing Shares   | (716,632)         | -                   | -                           | -                      | (716,632)        |
| Cash received requiring approval to issue Ordinary Shares                                | -                 | -                   | -                           | 280,267                | 280,267          |
| Share Based Payments Recognised  | -                 | -                   | 100,698                     | -                      | 100,698          |
| <b>Total transactions with the owner and other transfers</b>                             | 8,955,706         | -                   | 100,698                     | 280,267                | 9,336,671        |
| <b>Balance at 30 June 2019</b>   | <u>26,529,233</u> | <u>(19,591,955)</u> | <u>273,564</u>              | <u>280,267</u>         | <u>7,491,109</u> |
| <b>Balance at 1 July 2019</b>  | 26,529,233        | (19,591,955)        | 273,564                     | 280,267                | 7,491,109        |
| <b>Comprehensive income</b>  |                   |                     |                             |                        |                  |
| Profit (loss) for the year   | -                 | (6,006,457)         | -                           | -                      | (6,006,457)      |
| <b>Total comprehensive income for the year attributable to the member of the company</b> | -                 | (6,006,457)         | -                           | -                      | (6,006,457)      |
| <b>Transactions with the owner, in capacity as owner and other transfers</b>             |                   |                     |                             |                        |                  |
| Issue of Ordinary Shares   | 2,059,887         | -                   | -                           | -                      | 2,059,887        |
| Cost of Issuing Shares   | (152,644)         | -                   | -                           | -                      | (152,644)        |
| Cash received requiring approval to issue Ordinary Shares                                | -                 | -                   | -                           | (280,267)              | (280,267)        |
| Share Based Payments Recognised  | -                 | -                   | 590,458                     | -                      | 590,458          |
| <b>Total transactions with the owner and other transfers</b>                             | 1,907,243         | -                   | 590,458                     | (280,267)              | 2,217,434        |
| <b>Balance at 30 June 2020</b>   | <u>28,436,476</u> | <u>(25,598,412)</u> | <u>864,022</u>              | <u>-</u>               | <u>3,702,086</u> |

The accompanying notes form part of these financial statements.

**ADALTA LTD**  
**ABN 92 120 332 925**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2020**

|  | Note          | 2020<br>\$         | 2019<br>\$         |
|--|---------------|--------------------|--------------------|
| <b>Cash flows from operating activities</b>                |               |                    |                    |
| Receipts from customers                                    |               | 615,819            | -                  |
| Payments to suppliers and employees                        |               | (10,091,262)       | (7,930,746)        |
| R & D tax incentive  |               | 3,498,774          | 2,020,175          |
| Interest received  |               | 19,457             | 50,486             |
| Cash receipts from other operating activities              |               | 68,000             | 44,000             |
| <b>Net cash provided by (used in) operating activities</b> | <b>20 (b)</b> | <u>(5,889,212)</u> | <u>(5,816,085)</u> |
| <b>Cash flows from investing activities</b>                |               |                    |                    |
| Payments for property, plant and equipment                 |               | (2,376)            | (170,602)          |
| <b>Net cash provided by (used in) investing activities</b> |               | <u>(2,376)</u>     | <u>(170,602)</u>   |
| <b>Cash flows from financing activities</b>                |               |                    |                    |
| Proceeds from borrowings                                   |               | 2,075,781          | -                  |
| Proceeds requiring approval to issue share capital         |               | -                  | 280,267            |
| Proceeds from share capital                                |               | 1,779,620          | 9,672,338          |
| Payment of share issue costs                               |               | (153,185)          | (716,091)          |
| <b>Net cash provided by financing activities</b>           |               | <u>3,702,216</u>   | <u>9,236,514</u>   |
| Net increase (decrease) in cash held                       |               | (2,189,372)        | 3,249,827          |
| Cash and cash equivalents at beginning of financial year   |               | 5,555,875          | 2,306,048          |
| Cash and cash equivalents at end of financial year         | <b>20 (a)</b> | <u>3,366,503</u>   | <u>5,555,875</u>   |

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020

The financial statements cover AdAlta Ltd as an individual entity. AdAlta Ltd is a company limited by shares, incorporated and domiciled in Australia.

The financial statements were authorised for issue on 27 August 2020 by the Directors of the Company.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of Preparation**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial report is presented in Australian Dollars. The Company is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

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

**(b) Going Concern**

These financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

As disclosed in the financial statements, the Company incurred losses of \$6,006,456 (2019: \$5,918,193) and the Company had net cash outflows from operating activities of \$5,889,212 (2019: \$5,816,085). As at balance date, the Company had net current assets of \$3,525,520 (2019: \$7,350,404).

On 11 August 2020, the Company announced it had received \$4 million in commitments from existing and new institutional and sophisticated investors in an oversubscribed Placement and was launching a one (1) for four (4) Entitlement Offer for Eligible Shareholders with strong indications of support to raise up to an additional \$4.1 million. Both Placement and Entitlement Offer were priced at \$0.10 per share. The Placement was made under available capacity in accordance with ASX Listing Rules 7.1 and 7.1A, does not require shareholder approval and completed on 18 August 2020 with the issue of 40,000,000 ordinary shares. The Entitlement Offer closes on 2 September 2020 and includes Top-Up and Shortfall Facilities.

The Directors believe that it is reasonably foreseeable that the Company will continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report.



NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**(c) Income tax**

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

**(d) Fair value measurement**

Fair value is the price the Company would receive to sell an asset or would have to pay to transfer a liability in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

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

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

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Plant and Equipment

Each class of plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

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

**Depreciation**

The depreciable amount of all fixed assets is depreciated on a diminishing value basis over the asset's useful life to the Company commencing from the time the asset is held ready for use.

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

| Class of Fixed Asset: | Depreciation Rate | Notes                                 |
|-----------------------|-------------------|---------------------------------------|
| Computer software     | 13.17%            |                                       |
| Office equipment      | 17.31%            | Assets acquired pre 31 December 2016  |
| Office equipment      | 100%              | Assets acquired post 31 December 2016 |
| Plant and Equipment   | 28.57%            |                                       |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are recognised in profit or loss when the item is derecognised. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(f) Financial instruments

**Recognition, initial measurement and derecognition**

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument. Financial instruments (except for trade receivables) are measured initially at fair value adjusted by transactions costs, except for those carried "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss. Where available, quoted prices in an active market are used to determine the fair value. In other circumstances, valuation techniques are adopted. Subsequent measurement of financial assets and financial liabilities are described below.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**(f) Financial instruments (continued)**

Trade receivables are initially measured at the transaction price if the receivables do not contain a significant financing component in accordance with AASB 15.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

**Impairment**

At the end of each reporting period, the Company 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).

Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified into profit or loss at this point.

**(g) Impairment of assets**

At the end of each reporting period, the Company assesses whether there is any indication that an asset may be impaired. The assessment will include considering external sources of information and internal sources of information, including dividends received from subsidiaries, associates or joint ventures 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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

**(h) Trade and Other Receivables**

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(i) 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 within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

The Company's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position.

**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 recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is 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 national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

**(j) Provisions**

Provisions are recognised when the Company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result, and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

**(k) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of 12 months or less, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the statement of financial position.

**(l) Foreign exchange gains/losses**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Australian dollars at the foreign exchange rate at that date. Foreign exchange differences arising on translation are recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**(l) Foreign exchange gains/losses**

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are retranslated to Australian dollars using the foreign exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Australian dollars at the exchange rate at the date that the fair value was determined.

**(m) Revenue**

**AASB 15 Revenue from contracts with customers**

The Company has adopted AASB 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an application of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are 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. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Research and Development Tax Incentive

Accounted for in line with AASB 120 Government Grants on an accruals basis when the following recognition criteria have been met:

- (a) the entity reasonably expects it will comply with the conditions attaching to the grant; and
- (b) the grant will be received.

**(n) Trade and Other Payables**

Trade and other payables represent the liabilities for goods and services received by the Company that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**(o) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

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 ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST component of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

**(p) Comparative Figures**

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

**(q) Critical Accounting Estimates and Judgements**

The Directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company.

**Key Estimates**

*(i) Environmental Issues*

Balances disclosed in the financial statements and notes thereto are not adjusted for any pending or enacted environmental legislation, and the Directors understanding thereof. At the current stage of the Company's development and its current environmental impact the Directors believe such treatment is reasonable and appropriate.

*(ii) Taxation*

Balances disclosed in the financial statements and the notes hereto, related to taxation are based on the best estimates of Directors. These estimates take into account both the financial performance and position of the Company as they pertain to current income tax legislation and the Directors understanding thereof. No adjustment has been made for pending or future tax legislation. The current income tax position represents that Directors' best estimate, pending an assessment by the Australian Taxation Office.

**(r) New and Revised Accounting Standards Adopted by the Company**

AASB 16: Leases was adopted on 1 July 2019 with no financial effect on the Company.

*(ii) Other standards not yet applicable*

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2020**

|   | <b>2020</b> | <b>2019</b> |
|---|-------------|-------------|
|   | <b>\$</b>   | <b>\$</b>   |
| <b>2. OTHER REVENUE</b>                         |             |             |
| R & D Tax incentive                             | 3,143,912   | 3,498,774   |
| Other revenue                                   | 68,000      | 40,000      |
| Total other revenue                             | 3,211,912   | 3,538,774   |
| <b>3. TAX EXPENSE</b>                           |             |             |
| <b>(a) Tax expense</b>                          |             |             |
| Current tax                                     | -           | -           |
| Deferred tax                                    | -           | -           |
| Income tax expense                              | -           | -           |
| <b>(b) Tax reconciliation</b>                   |             |             |
| Profit (loss) before income tax expense         | (6,006,457) | (5,918,193) |
| Prima facie tax payable at 27.5%                | (1,651,775) | (1,627,503) |
| Non deductible expenses                         | 2,193,452   | 2,238,108   |
| Non assessable income                           | (878,326)   | (962,163)   |
| Temporary differences                           | (79,222)    | (52,128)    |
| Benefits of tax losses not brought into account | 415,871     | 403,686     |
|   | -           | -           |

(c) The Company has revenue losses of approximately \$5,040,000 for which no deferred tax asset has been recognised.

(d) The Company has no franking credits currently available for future offset.

**4. EARNINGS PER SHARE**

|  |                         |                         |
|--|-------------------------|-------------------------|
| <b>(a) Loss used to calculate basic EPS</b>  | (6,006,457)             | (5,918,193)             |
|  | <b>Number of shares</b> | <b>Number of shares</b> |
| <b>(b) Weighted average number of ordinary shares outstanding during the year used in calculating basic and diluted EPS.</b> | 164,030,499             | 118,368,172             |

The 31,062,870 options (2019: 20,837,520) are not considered to be dilutive.

**5. CASH AND CASH EQUIVALENTS**

|                      | <b>2020</b> | <b>2019</b> |
|----------------------|-------------|-------------|
|                      | <b>\$</b>   | <b>\$</b>   |
| Cheque accounts      | 25,240      | 124,849     |
| Cash reserve account | 3,341,263   | 1,419,794   |
| Savings - bonus      | -           | -           |
| Term Deposit         | -           | 4,011,232   |
|                      | 3,366,503   | 5,555,875   |

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|   | 2020             | 2019             |
|---|------------------|------------------|
|   | \$               | \$               |
| <b>6. TRADE AND OTHER RECEIVABLES</b>               |                  |                  |
| <b>CURRENT</b>                                      |                  |                  |
| Sundry receivable - R&D tax incentive               | 3,143,912        | 3,498,774        |
| Good and services tax                               | 76,981           | 78,465           |
| Prepaid expenses                                    | 53,498           | 35,895           |
| Accrued income                                      | -                | 308              |
| Other Receivables                                   | 90,000           | -                |
|   | <u>3,364,391</u> | <u>3,613,442</u> |
| <br>  |                  |                  |
| <b>7. PLANT AND EQUIPMENT</b>                       |                  |                  |
| Plant and Equipment                                 | 167,234          | 167,234          |
| Less accumulated depreciation                       | <u>(68,586)</u>  | <u>(29,129)</u>  |
|   | <u>98,648</u>    | <u>138,105</u>   |
| <br>  |                  |                  |
| Office equipment                                    | 15,794           | 13,418           |
| Less accumulated depreciation                       | <u>(15,794)</u>  | <u>(13,418)</u>  |
|   | <u>-</u>         | <u>-</u>         |
| <b>Total plant and equipment</b>                    | <u>98,648</u>    | <u>138,105</u>   |
| Movements in carrying amounts                       |                  |                  |
| Movements in the carrying amounts for each class of |                  |                  |
| <b>(a) Plant and Equipment</b>                      |                  |                  |
| Balance at beginning of year                        | 138,105          | -                |
| Additions   | -                | 167,233          |
| Disposals   | -                | -                |
| Loss on sale  | -                | -                |
| Depreciation expense                                | <u>(39,457)</u>  | <u>(29,128)</u>  |
| Balance at end of year                              | <u>98,648</u>    | <u>138,105</u>   |
| <br>  |                  |                  |
| <b>(b) Office Equipment</b>                         |                  |                  |
| Balance at beginning of year                        | -                | -                |
| Additions   | 2,376            | 13,418           |
| Disposals   | -                | -                |
| Loss on sale  | -                | -                |
| Depreciation expense                                | <u>(2,376)</u>   | <u>(13,418)</u>  |
| Balance at end of year                              | <u>-</u>         | <u>-</u>         |
| <br>  |                  |                  |
| <b>8. OTHER ASSETS</b>                              |                  |                  |
| <b>NON-CURRENT</b>                                  |                  |                  |
| Security Deposits/Bond                              | <u>77,918</u>    | <u>2,600</u>     |
|   | <u>77,918</u>    | <u>2,600</u>     |



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|                                    | 2020           | 2019             |
|------------------------------------|----------------|------------------|
|                                    | \$             | \$               |
| <b>9. TRADE AND OTHER PAYABLES</b> |                |                  |
| <b>CURRENT</b>                     |                |                  |
| Accrued expenses                   | 268,005        | 209,929          |
| Trade creditors                    | 540,832        | 1,511,380        |
| PAYG payable                       | 21,021         | 18,802           |
|                                    | <u>829,858</u> | <u>1,740,111</u> |
| <b>10. PROVISIONS</b>              |                |                  |
| <b>CURRENT</b>                     |                |                  |
| Provision for annual leave         | 30,487         | 21,874           |
| Provision for long service leave   | -              | 56,927           |
|                                    | <u>30,487</u>  | <u>78,801</u>    |
| <b>11. OTHER LIABILITIES</b>       |                |                  |
| <b>CURRENT</b>                     |                |                  |
| Forward exchange contract          | 153,702        | -                |
|                                    | <u>153,702</u> | <u>-</u>         |

On 23 March 2020 the Company entered into a Forward Exchange contract to buy \$520,000 USD at a rate of 1AUD = 0.5702USD, maturing on 31 December 2020. The amount disclosed is the unrealised loss on the forward exchange contract as at 30 June 2020.

|                       |                  |          |
|-----------------------|------------------|----------|
| <b>12. BORROWINGS</b> |                  |          |
| <b>CURRENT</b>        |                  |          |
| Loan – R&D Advance    | 2,191,327        | -        |
|                       | <u>2,191,327</u> | <u>-</u> |

The loan facility is with Innovation Structured Finance Co., LLC serviced via Radium Capital and is an advance on 80% of the Company's R&D Tax Incentive (RDTI) for the financial year ending 30 June 2020. The interest rate for the loan facility is 15% per annum. Repayment is timed to coincide with receipt of AdAlta's 2020FY RDTI refund. The facility has been in place since 20 December 2019.

|  |                   |                   |
|--|-------------------|-------------------|
| <b>13. ISSUED CAPITAL</b>                                  |                   |                   |
| Fully paid ordinary shares                                 | 28,436,476        | 26,529,233        |
| Cash received requiring approval to issue Ordinary Shares* | -                 | 280,267           |
|  | <u>28,436,476</u> | <u>26,809,501</u> |

\*On 3 July 2019 Ordinary Shares were issued.

**(a) Ordinary Shares**

|                                    | No.               | No.                |
|------------------------------------|-------------------|--------------------|
| At beginning of reporting period   | 150,569,42        | 101,845,845        |
| Issue of ordinary shares           | 13,732,581        | 48,723,581         |
| Cancellation of ordinary shares    | (356,394)         | -                  |
| At the end of the reporting period | <u>163,945,61</u> | <u>150,569,426</u> |

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**13. ISSUED CAPITAL (continued)**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll each share is entitled to one vote. Incremental costs directly attributable to the issue of the new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

|                             | Number of<br>options | Exercise Price |
|-----------------------------|----------------------|----------------|
| <b>(b) Options on issue</b> |                      |                |
| <b>Expiry date</b>          |                      |                |
| 16 October 2020             | 600,000              | \$0.17         |
| 1 November 2020             | 234,472              | \$0.17         |
| 30 June 2021 *              | 23,348,803*          | \$0.25         |
| 14 November 2021            | 25,000               | \$0.25         |
| 14 November 2021            | 130,000              | \$0.50         |
| 14 November 2021            | 100,000              | \$1.00         |
| 14 November 2021            | 100,000              | \$0.75         |
| 27 February 2022            | 620,535              | \$0.24         |
| 1 November 2022             | 375,000              | \$0.25         |
| 20 March 2023               | 100,000              | \$0.085        |
| 20 March 2023               | 100,000              | \$0.085        |
| 20 March 2023               | 200,000              | \$0.085        |
| 20 March 2023               | 200,000              | \$0.085        |
| 26 November 2025            | 492,906              | \$0.25         |
| 26 November 2025            | 1,478,718            | \$0.25         |
| 26 November 2025            | 1,478,718            | \$0.25         |
| 26 November 2025            | 1,478,718            | \$0.25         |
|                             | <u>31,062,870</u>    | <u>-</u>       |

\*1ADO options issued as outlined in the Prospectus issued dated 23 May 2019. Options are exercisable at 25 cents, expiring 30 June 2021.

**14. RESERVES**

|                                    | 2020<br>\$     | 2019<br>\$     |
|------------------------------------|----------------|----------------|
| <b>Share Based Payment Reserve</b> |                |                |
| At beginning of reporting period   | 273,564        | 172,866        |
| Recognised during the year         | 590,458        | 100,698        |
| At the end of the reporting period | <u>864,022</u> | <u>273,564</u> |

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**14. RESERVES (continued)**

The weighted average remaining contractual life of options on issue at 30 June 2020 is 634 days.

| Expiry Date                            | Exercise Price | No. at the start of year | Granted in the year | Exercised | Expired/Cancelled | No. at the end of year |
|--|----------------|--------------------------|---------------------|-----------|-------------------|------------------------|
| 1-Nov-20                               | \$0.17         | 234,472                  | -                   | -         | -                 | 234,472                |
| 16-Oct-20                              | \$0.17         | 600,000                  | -                   | -         | -                 | 600,000                |
| 14-Nov-21                              | \$0.25         | 775,000                  | -                   | -         | (375,000)         | 400,000                |
| 14-Nov-21                              | \$0.50         | 650,000                  | -                   | -         | (520,000)         | 130,000                |
| 14-Nov-21                              | \$0.75         | 350,000                  | -                   | -         | (250,000)         | 100,000                |
| 14-Nov-21                              | \$1.00         | 350,000                  | -                   | -         | (250,000)         | 100,000                |
| 30-Sep-21                              | \$0.31         | 200,000                  | -                   | -         | (200,000)         | -                      |
| 30-Sep-22                              | \$0.31         | 200,000                  | -                   | -         | (200,000)         | -                      |
| 1-Nov-22                               | \$0.25         | 375,000                  | -                   | -         | (375,000)         | -                      |
| 27-Feb-22                              | \$0.24         | 620,535                  | -                   | -         | -                 | 620,535                |
| 30-Jun-21                              | \$0.25         | 16,482,513               | -                   | -         | -                 | 16,482,513             |
| 30-Jun-21                              | \$0.25         | -                        | 6,866,290           | -         | -                 | 6,866,290              |
| 26-Nov-25                              | \$0.25         | -                        | 492,906             | -         | -                 | 492,906                |
| 26-Nov-25                              | \$0.25         | -                        | 1,478,718           | -         | -                 | 1,478,718              |
| 26-Nov-25                              | \$0.25         | -                        | 1,478,718           | -         | -                 | 1,478,718              |
| 26-Nov-25                              | \$0.25         | -                        | 1,478,718           | -         | -                 | 1,478,718              |
| 20-Mar-23                              | \$0.085        | -                        | 100,000             | -         | -                 | 100,000                |
| 20-Mar-23                              | \$0.085        | -                        | 100,000             | -         | -                 | 100,000                |
| 20-Mar-23                              | \$0.085        | -                        | 200,000             | -         | -                 | 200,000                |
| 20-Mar-23                              | \$0.085        | -                        | 200,000             | -         | -                 | 200,000                |
|  |                | 20,837,520               | 12,395,350          | -         | (2,170,000)       | 31,062,870             |
| <b>Weighted average exercise price</b> |                | \$0.28                   |                     |           |                   | \$0.25                 |

**15. RELATED PARTY TRANSACTIONS**

**Related Parties**

The Company's main related parties are as follows:

| <b>Non-executive Directors</b> | <b>Position</b>   |
|--------------------------------|---|
| Dr Paul MacLeman               | Non-Executive Chairman  |
| Ms Elizabeth McCall            | Non-Executive Director  |
| Dr Robert Peach                | Non-Executive Director  |
| Dr James Williams              | Alternate Director to Elizabeth McCall (transitioned from Non-Executive Director to Alternate Director on 27/03/2020) |
| Dr John Chiplin                | Non-Executive Director (resigned 3/1/2020)  |
| Dr Rosalind Wilson             | Non-Executive Director (appointed 1/8/2019 - resigned 27/3/2020)  |
| <b>Executive Directors</b>     |   |
| Ms Samantha Cobb               | Chief Executive Officer and Managing Director (resigned 25/8/2019)  |
| Dr Timothy Oldham              | Chief Executive Officer and Managing Director (appointed 8/10/2019)   |

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**15. RELATED PARTY TRANSACTIONS (continued)**

The Company had no other key management personnel during the period.

**(a) Key management personnel**

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether executive or otherwise) of that entity, is considered key management personnel.

**Remuneration of key management personnel**

| 2020                           | Short-term employee benefits |          | Post-employment benefits | Share-based payment | Total          |
|--------------------------------|------------------------------|----------|--------------------------|---------------------|----------------|
|                                | Salary & fees                | Other    | Superannuation           | Options             |                |
|                                | \$                           | \$       | \$                       | \$                  | \$             |
| <b>Non-executive Directors</b> |                              |          |                          |                     |                |
| Paul MacLeman <sup>1</sup>     | 71,198                       | -        | 6,764                    | -                   | 77,962         |
| James Williams <sup>2</sup>    | 33,750                       | -        | -                        | -                   | 33,750         |
| Liddy McCall <sup>2</sup>      | 33,750                       | -        | -                        | -                   | 33,750         |
| John Chiplin                   | 22,500                       | -        | -                        | -                   | 22,500         |
| Robert Peach                   | 33,750                       | -        | -                        | -                   | 33,750         |
| Rosalind Wilson                | 27,397                       | -        | 2,603                    | -                   | 30,000         |
| <b>Executive Directors</b>     |                              |          |                          |                     |                |
| Samantha Cobb                  | 160,376                      | -        | 9,491                    | 12,423              | 182,290        |
| Timothy Oldham                 | 209,987                      | -        | 15,079                   | 167,712             | 392,778        |
| <b>Total</b>                   | <b>592,708</b>               | <b>-</b> | <b>33,937</b>            | <b>180,135</b>      | <b>806,780</b> |

<sup>1</sup>Paul MacLeman filled the role as Executive Director during the transition of outgoing CEO and Managing Director Samantha Cobb and incoming CEO and Managing Director Timothy Oldham. During this time Paul MacLeman was remunerated \$21,086 in addition to the Non-Executive Chair fees.

<sup>2</sup>Yuuwa Capital LP received a payment for services amounting to \$67,500 in 2019/20 in respect of Director services provided by James Williams and Liddy McCall. Yuuwa Capital LP is a venture capital fund that is managed by its General Partner, Yuuwa Management LP/Yuuwa Capital Management Pty Ltd which are associated with James Williams and Liddy McCall.

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**15. RELATED PARTY TRANSACTIONS (continued)**

| 2019                           | Short-term employee benefits |               | Post-employment   | Share-based   | Total          |
|--------------------------------|------------------------------|---------------|-------------------|---------------|----------------|
|                                | Salary & fees                | Other \$      | Superannuation \$ | Options \$    |                |
| <b>Non-executive Directors</b> |                              |               |                   |               |                |
| Paul MacLeman                  | 59,361                       | -             | 5,639             | -             | 65,000         |
| James Williams <sup>1</sup>    | 45,000                       | -             | -                 | -             | 45,000         |
| Liddy McCall <sup>1</sup>      | 45,000                       | -             | -                 | -             | 45,000         |
| John Chiplin                   | 45,000                       | -             | -                 | -             | 45,000         |
| Robert Peach                   | 45,000                       | -             | -                 | 5,305         | 50,305         |
| <b>Executive Directors</b>     |                              |               |                   |               |                |
| Samantha Cobb                  | 260,000                      | 46,685*       | 29,135            | 12,423        | 348,243        |
| <b>Total</b>                   | <b>499,361</b>               | <b>46,685</b> | <b>34,774</b>     | <b>17,728</b> | <b>598,548</b> |

<sup>1</sup>Yuuya Capital LP received a payment for services amounting to \$90,000 in 2018/19 in respect of Director services provided by James Williams and Liddy McCall. Yuuya Capital LP is a venture capital fund that is managed by its General Partner, Yuuya Management LP/Yuuya Capital Management Pty Ltd which are associated with James Williams and Liddy McCall.

Share options were issued to key management personnel as remuneration during the financial year as set out in the following table. Key management personnel that participated in the Entitlement Offer under the Prospectus dated 23 May 2019 were issued 100,001 options (2019:Nil). No share options were exercised by key management personnel during the year (2019: Nil).

| 2020           | Balance at 1 July No. | Granted as compensation No. | Net other Change No.     | Balance at 30 June No. |
|----------------|-----------------------|-----------------------------|--------------------------|------------------------|
| Timothy Oldham | -                     | 4,929,060                   | -                        | 4,929,060              |
| Samantha Cobb  | 1,750,000             | -                           | (1,750,000) <sup>1</sup> | -                      |
| Paul MacLeman  | 30,000                | -                           | 16,667 <sup>2</sup>      | 46,667                 |
| James Williams | -                     | -                           | 66,667 <sup>2</sup>      | 66,667                 |
| Liddy McCall   | -                     | -                           | 16,667 <sup>2</sup>      | 16,667                 |
| John Chiplin   | 20,000                | 20,000                      | (20,000) <sup>1</sup>    | -                      |
| Robert Peach   | 200,000               | -                           | -                        | 200,000                |
| <b>Total</b>   | <b>2,000,000</b>      | <b>4,949,060</b>            | <b>(1,669,999)</b>       | <b>5,259,061</b>       |

<sup>1</sup> Balance of options held at date of resignation as a Director.

<sup>2</sup> Listed options issued under the Prospectus dated 23 May 2019.

**15. RELATED PARTY TRANSACTIONS (continued)**

| <b>2019</b>    | <b>Balance at<br/>1 July No.</b> | <b>Granted as<br/>compensation No.*</b> | <b>Cancelled</b>       | <b>Balance at<br/>30 June No.</b> |
|----------------|----------------------------------|---|------------------------|-----------------------------------|
| Samantha Cobb  | 1,750,000                        | 375,000                                 | (375,000) <sup>1</sup> | 1,750,000                         |
| Paul MacLeman  | 30,000                           | -                                       | -                      | 30,000                            |
| James Williams | -                                | -                                       | -                      | -                                 |
| Liddy McCall   | -                                | -                                       | -                      | -                                 |
| John Chiplin   | 20,000                           | -                                       | -                      | 20,000                            |
| Robert Peach   | 200,000                          | -                                       | -                      | 200,000                           |
| <b>Total</b>   | <b>2,000,000</b>                 | <b>375,000</b>                          | <b>(375,000)</b>       | <b>2,000,000</b>                  |

<sup>1</sup>As announced on 29 April 2019 options issued to Samantha Cobb were cancelled as the vesting criteria could never be met as the criteria referred to the Company's previous lead compound, AD-114 which has ceased development. The value of the options at their date of grant has been taken as zero because, at the time of grant, the Company was an unlisted entity and the equity structure operated such that any returns were paid to convertible note holders with any residual being paid to holders of Series A Preference shares with any final amount being available to ordinary shareholders. Based on the Company's net assets at the date of grant there was no value attributable to ordinary shares.

**16. CONTINGENT LIABILITIES & CONTINGENT ASSETS**

The Directors are not aware of any matters or circumstances which may give rise to a contingent liability or asset.

**17. EVENTS AFTER THE REPORTING PERIOD**

On 22 July 2020, the Company appointed Dr. David Fuller as a Non-Executive Director.

On 23 July 2020, the Company announced that the first participants in the Phase I clinical trial of AD-214 had been dosed with no dose limiting adverse events. Dose escalation is proceeding in line with protocol and the recommendations of the Safety Management Committee and participants at three dose levels have now been treated.

On 11 August 2020, the Company announced it had received \$4 million in commitments from existing and new institutional and sophisticated investors in an oversubscribed Placement and was launching a one (1) for four (4) Entitlement Offer for Eligible Shareholders with strong indications of support to raise up to an additional \$4.1 million. Both Placement and Entitlement Offer were priced at \$0.10 per share. The Placement was made under available capacity in accordance with ASX Listing Rules 7.1 and 7.1A, does not require shareholder approval and completed on 18 August 2020 with the issue of 40,000,000 ordinary shares. The Entitlement Offer closes on 2 September 2020 and includes Top-Up and Shortfall Facilities.

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**18. COMMITMENTS**

a) **Lease commitments**

The Company had a lease agreement with Collins Street Business Centre at the business address of Level 5, 330 Collins Street Melbourne. This lease terminated on 30 September 2019.

|   | 2020<br>\$ | 2019<br>\$   |
|---|------------|--------------|
| <b>Payable – minimum lease payments</b> |            |              |
| Not later than 12 months                | -          | 7,932        |
| Between 12 months and 5 years           | -          | -            |
| Total                                   | <u>-</u>   | <u>7,932</u> |

b) **Capital commitments**

The Company has no capital commitments.

c) **Other commitments**

The Company has significant expenditure expected to be incurred in relation to manufacturing costs for its Phase I human study.

**19. FINANCIAL RISK MANAGEMENT**

The Company does not have any complex financial instruments or derivatives.

a) **Terms, conditions and accounting policies**

The Company's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the reporting date, are as follows:

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**19. FINANCIAL RISK MANAGEMENT (Continued)**

| Recognised<br>Financial<br>Instruments | Statement<br>of<br>Financial<br>Position<br>Notes | Accounting Policies  | Terms and Conditions   |
|--|---|--|--|
| <i>ij) Financial assets</i>            |   |  |  |
| Cheque account                         | 5   | Carried at face value.   | The cheque account is at call with an interest rate of 0.00% (2019: 0.00%).  |
| Cash reserve                           | 5   | Carried at face value.   | The cash reserve account is at call with an interest rate of 0.05% (2019: 0.05%).  |
| Savings                                | 5   | Carried at face value.   | The savings bonus account is at call with an interest rate of 0.25% (2019: 0.50%).   |
| Term Deposit                           | 5   | Carried at face value.   | The term deposit has an interest rate of 1.40% (2019: 2.60%).  |
| R & D tax incentive                    | 6   | Recognised on an accrual basis.  | The incentive is claimed annually under an Australia Taxation Office mechanism which designed to promote research and development.                                 |
| Trade receivables                      | 6   | Recognised on an accrual basis.  | Normal invoice terms are 14-60 days.   |
| Goods & services tax paid              | 6   | Recognised on an accrual basis.  | Business activity statements are lodged on a quarterly basis.  |
| <i>ii) Financial liabilities</i>       |   |  |  |
| Trade and other creditors              | 9   | Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the company. | The majority of costs are invoiced on a quarterly basis and hence liabilities accrue for up to 90 days. Trade liabilities are normally settled on 14-30 day terms. |
| Other liabilities                      | 11  | Carried at face value.   | Forward exchange contract is entered into on specific terms as agreed by the Foreign Exchange intermediary and the Company.  |
| Borrowings                             | 12  | Carried at face value.   | The Loan is a Secured Loan, with an interest rate of 15% per annum. The Security is the R&D Tax Incentive refund for the financial year ending 30 June 2020.       |
| <i>iii) Equity</i>                     |   |  |  |
| Ordinary shares                        | 13  | Ordinary share capital is recognised at the fair value of the consideration received by the company.                                   | Details of the shares issued and the terms and conditions of the options outstanding over ordinary shares at balance date are set out in Note 13.                  |



## 19. FINANCIAL RISK MANAGEMENT (Continued)

b) The carrying value of financial assets and liabilities approximates their fair value

c) Financial risk management

The Company's activities expose it to a variety of financial risks; market risk (fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

*(i) Market risk*

The Company is not exposed to either equity securities price risk or commodity price risk.

The Company has an exposure to foreign currency risk because several contracts relating to cost of services are denominated in foreign currencies. When the service agreement is signed the Company seeks to lock-in a foreign exchange rate to minimise the risks associated with fluctuating currency markets.

*(ii) Credit Risk*

The maximum credit risk is total current assets of which the vast majority is either in the form of cash or amounts receivable from the Australian Taxation Office in the form of the Research and Development tax incentive and GST refundable.

*(iii) Liquidity Risk*

Prudent liquidity risk management implies maintaining sufficient cash and short-term assets to enable the Company to settle its liabilities.

The contractual undiscounted cash flows of the Company's borrowing commitments is set out in the table below. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

| Contractual maturities<br>30 June<br>2020 | <1 year   | >1 year –<br>5years | >5<br>years | Total<br>contractual<br>cash flow | Carrying<br>amount |
|---|-----------|---------------------|-------------|-----------------------------------|--------------------|
| Loan – R&D<br>Advance                     | 2,191,327 | -                   | -           | 2,191,327                         | 2,191,327          |

## 19. FINANCIAL RISK MANAGEMENT (Continued)

### c) Financial risk management

#### *(iii) Interest Rate Risk*

The main interest rate risk arises from cash and cash equivalents with variable interest rates which expose the Company to cash flow interest rate risk. Excess cash and cash equivalents are invested in fixed interest term reserve accounts which do not expose the Company to cash flow interest rate risk. Cash and cash equivalents required for working capital are held in variable and non-interest bearing accounts.

|                                      | Weighted<br>average | Balance<br>\$ | Fixed Interest<br>Rate | Variable<br>Interest Rate<br>\$ |
|--------------------------------------|---------------------|---------------|------------------------|---------------------------------|
| 2020<br>Cash and cash<br>Equivalents | 0.05%               | 3,366,503     | 3,341,263              | 25,240                          |
| 2019<br>Cash and cash<br>Equivalents | 1.02%               | 5,555,875     | 5,431,025              | 124,850                         |

#### *(iv) Cash flow and fair value interest rate risk*

As the Company has no interest-bearing liabilities, cash out flows are not exposed to changes in market interest rates.

The Company maintains a current cheque account balance sufficient to meet day to day expenses with the balance of cash held in accounts designed to maximise interest income.

#### *(v) Foreign exchange risk*

The Company has contracts denominated in foreign currencies, predominantly in US dollars, Euros and Great Britain Pounds and may enter into forward exchange contracts where appropriate in light of anticipated future purchases and sales, conditions in foreign markets, commitments with suppliers and customers and past experience and in accordance with Board-approved limits.

## 20. CASH FLOW INFORMATION

| (a) Reconciliation of Cash  | 2020<br>\$         | 2019<br>\$         |
|---|--------------------|--------------------|
| Cash at the end of financial year as included in the statement of cash flows is reconciled to the related items in the statement of financial position as follows |                    |                    |
| Cheque account  | 25,240             | 124,849            |
| Cash reserve account  | 3,341,263          | 1,419,794          |
| Savings - bonus   | -                  | -                  |
| Term Deposit  | -                  | 4,011,232          |
|   | 3,366,503          | 5,555,875          |
| <br>(b) Reconciliation of cash flow from operations with profit after income tax  |                    |                    |
| Loss attributable to members  | (6,006,457)        | (5,918,193)        |
| Non-cash flows in profit:   |                    |                    |
| Depreciation  | 41,833             | 32,498             |
| Shares based payments recognised  | 590,457            | 100,698            |
| Changes in working capital:   |                    |                    |
| (Increase) / decrease in receivables  | 249,050            | (1,483,140)        |
| (Increase) / decrease in non-current assets   | (75,318)           | -                  |
| Increase / (decrease) in payables   | (910,253)          | 1,454,961          |
| Increase / (decrease) in provisions   | (48,314)           | (2,367)            |
| Increase / (decrease) in other current liabilities  | 153,702            | -                  |
| Cost of issuing shares  | 542                | (542)              |
| Interest expense and borrowing costs  | 115,546            | -                  |
| <b>Net cash provided by (used in) operating activities</b>  | <b>(5,889,212)</b> | <b>(5,816,085)</b> |

## 21. DIVIDENDS

No dividends were paid or declared since the start of the financial year and no recommendation for payment of dividends has been made.

## 22. AUDITORS REMUNERATION

### Audit services

|                                  |        |        |
|----------------------------------|--------|--------|
| Auditors of the Company          |        |        |
| Butler Settineri (Audit) Pty Ltd | 14,148 | 19,576 |

## 23. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 11th March 2020 the World Health Organisation declared an ongoing global outbreak of a novel coronavirus, known as 'coronavirus disease 2019' ('COVID-19') as a pandemic. AdAlta has largely maintained its operational activity during 2020. La Trobe University (who manage the operating environment for the laboratories where the Company's internal research is conducted) and AdAlta have implemented a series of precautionary occupational health and safety measures in line with the Victorian Government recommendations including enhanced cleaning and personal protective equipment requirements, staff and researchers working from home wherever possible, educating all staff and researchers on appropriate hygiene and social distancing requirements and activating business continuity plans internally and with business partners. AdAlta implements and complies with the La Trobe University COVID Safe Plan for the safety of all employees and visitors.

While the broader economy has been impacted significantly, AdAlta has experienced a limited impact from the COVID-19 operating environment. The COVID-19 operating environment has in some cases affected operations at some of our research partners and suppliers that has caused minor delays to some projects to date. Amendments to the GEHC collaboration agreement have been made to accommodate the COVID operating environment resulting in rephrasing of revenue with cost but not affecting overall revenue potential or cost. There have been no other significant implications to either revenue or operational expenditure in the current period. There may be longer term implications beyond the balance date as the COVID-19 operating environment evolves, the extent of which the Company cannot estimate.

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**DIRECTOR DECLARATION**

In accordance with a resolution of the Directors of AdAlta Ltd, the Directors of the Company declare that:

1. The financial statements and notes as set out on pages 28 to 52 presents fairly the Company's financial position as at 30 June 2020 and its performance for the year ended on that date in accordance with Australian Accounting Standards;
2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
3. The Directors have been given the declarations required by s 295A of the Corporations Act 2001.

The declaration is made in accordance with a resolutions of the Board of Directors pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors:

**Director**



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**Paul Macleman**

**Dated**

**27 August 2020**

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF ADALTA LIMITED**

**Report on the Financial Report**

**Opinion**

We have audited the financial report of AdAlta Limited (the Company), which comprises the statement of financial position as at 30 June 2020, the statement of profit and loss and other comprehensive income, the statement of changes in equity and the 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 AdAlta Limited, is in accordance with the Corporations Act 2001, including:

- i) giving a true and fair view of the Company's financial position as at 30 June 2020 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 have 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 Company 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 (including Independence Standards) (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our ethical requirements 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 date of this auditor's report.

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

**Key Audit Matters**

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

| Key Audit Matter  | How our audit addressed the key audit matter  |
|---|---|
| <p><b>Intellectual Property Rights and Obligations arising from Research and Development Agreements</b></p> <p>The Company has in place multiple agreements with research and development providers whereby certain services and facilities are supplied in exchange for payment. To enable the delivery of these services and facilities, the Company's intellectual property is made available to the research and development providers.</p> <p>Management have written specific clauses into the Research and Development Agreements to protect the Company's intellectual property rights and also exercise their judgment in interpreting the agreements and the recognition of any potential liabilities and/or commitments arising therefrom.</p> | <p>Our audit procedures included obtaining copies of major agreements and reviewing them to determine if any commitments, provisions or payables needed to be accounted for and disclosed in line with the applicable Australian Accounting Standards.</p> <p>Furthermore, we reviewed the agreements to ensure clauses were present to protect the intellectual property rights of AdAlta Limited.</p> |
| <p><b>Equity and Capital Structure</b><br/><i>Refer note 13</i></p> <p>During the year, the Company successfully issued fully paid ordinary shares as well as various options of which some have been exercised.</p>  | <p>Our audit procedures included an examination of each issue of, fully paid ordinary shares during the year as shown in note 13. We also assessed whether or not share-based payments should have been recognised in relation to the Employee Share Option Plan. Further, we reconciled the third party share registry to information announced to the public.</p>                                     |
| <p><b>Research and Development Tax Incentive</b><br/><i>Refer notes 2 and 6</i></p> <p>Management utilise key assumptions, judgements and estimates in determining the R&amp;D Tax Incentive disclosed in note 2 and 6 which is material to the financial statements.</p>   | <p>Our audit procedures included an evaluation of the assumptions, methodologies and conclusions used by the Company in preparing the R&amp;D Tax Incentive application. We also focused on the adequacy of financial report disclosures regarding these assumptions as disclosed at note 1.</p>  |
| <p><b>Deferred Taxation</b><br/><i>Refer note 3</i></p> <p>Management utilise key assumptions, judgements and estimates in calculating the deferred tax disclosed in note 1 which are material to the financial statements.</p>   | <p>Our audit procedures included an evaluation of the assumptions, methodologies and conclusions used by the company in preparing their estimate of deferred taxes. We also focused on the adequacy of financial report disclosures regarding these assumptions as disclosed at note 1.</p>   |

|   |   |
|---|---|
| <p><b>Revenue Recognition</b><br/><i>Refer note 2</i></p> <p>During the year the company entered into a revenue contract with a customer for the use of research and development information and intellectual property.</p> | <p>Our audit procedures included a review of the revenue contract with the customer to satisfy ourselves that distinct performance obligation exist and have been met at year end to substantiate revenue recognised in the financial report.</p> |
|---|---|

### **Other information**

The directors are responsible for the other information. The other information comprises the information in the Company's annual report for the year ended 30 June 2020, 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 the 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 Company's ability 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 Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.



As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

## **Report on the Remuneration Report**

### ***Opinion on the Remuneration Report***

We have audited the Remuneration Report included on pages 17 to 25 of the directors' report for the year ended 30 June 2020.

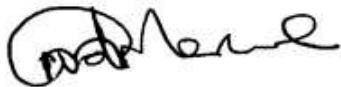
In our opinion, the Remuneration Report of AdAlta Limited, for the year ended 30 June 2020, complies with section 300A of the Corporations Act 2001.

### ***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.

BUTLER SETTINERI (AUDIT) PTY LTD



MARIUS VAN DER MERWE CA  
Director

Perth  
Date: 27 August 2020

# SHAREHOLDER INFORMATION

Additional information required by Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 19 August 2020.

**(a) Distribution of equity securities**

Analysis of numbers of quoted equity security holders by size of holding:

i) Quoted Options, exercisable at \$0.25 expiring on 30 June 2021

|                 | Number of holders | Number of units   | % Issued Share |
|-----------------|-------------------|-------------------|----------------|
| 1 - 1,000       | 54                | 27,908            | 0.12%          |
| 1,001 - 5,000   | 60                | 149,150           | 0.64%          |
| 5,001 - 10,000  | 17                | 102,490           | 0.44%          |
| 10,00 - 100,000 | 57                | 1,932,125         | 8.28%          |
| 100,01 and over | 27                | 21,137,130        | 90.53%         |
|                 | <b>215</b>        | <b>23,348,803</b> | <b>100.00%</b> |

ii) Ordinary Shares

|                 | Number of holders | Number of units    | % Issued Share |
|-----------------|-------------------|--------------------|----------------|
| 1 - 1,000       | 16                | 423                | 0.00%          |
| 1,001 - 5,000   | 117               | 445,977            | 0.22%          |
| 5,001 - 10,000  | 186               | 1,526,205          | 0.75%          |
| 10,00 - 100,000 | 575               | 24,023,051         | 11.78%         |
| 100,01 and over | 206               | 177,949,957        | 87.25%         |
|                 | <b>1,100</b>      | <b>203,945,613</b> | <b>100.00%</b> |

The number of shareholders holding less than a marketable parcel of shares are 106

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**(b) Voting rights**

**i) Options**

No voting rights. The names of the twenty largest holders of quoted options are:

| Position | Holder Name  | Holding           | % IC           |
|----------|--|-------------------|----------------|
| 1        | BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>            | 4,274,768         | 18.31%         |
| 2        | UBS NOMINEES PTY LTD   | 2,557,397         | 10.95%         |
| 3        | CS FOURTH NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 11 A/C> | 2,494,508         | 10.68%         |
| 4        | CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>  | 2,333,333         | 9.99%          |
| 5        | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED                    | 1,333,334         | 5.71%          |
| 6        | JAGEN PTY LTD  | 1,250,001         | 5.35%          |
| 7        | MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED               | 1,232,590         | 5.28%          |
| 8        | MEURS HOLDINGS PTY LTD <P&M MEURS SUPERANNUATION A/C>        | 833,334           | 3.57%          |
| 9        | MR ANTHONY JOHN LOCANTRO                                     | 793,979           | 3.40%          |
| 10       | COFACTOR LLC   | 481,333           | 2.06%          |
| 11       | SACAVIC PTY LTD <MORRIS SUPER FUND A/C>                      | 375,353           | 1.61%          |
| 12       | CITYCASTLE PTY LTD   | 335,000           | 1.43%          |
| 13       | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2            | 308,148           | 1.32%          |
| 14       | MR STUART ROSS MORRIS  | 280,063           | 1.20%          |
| 15       | NATIONAL NOMINEES LIMITED                                    | 256,205           | 1.10%          |
| 16       | MRS VANESSA RUBEN  | 221,267           | 0.95%          |
| 17       | DARBY TO FAMILY PTY LIMITED <TO FAMILY A/C>                  | 208,333           | 0.89%          |
| 17       | GACHIS ADVISORY LTD  | 208,333           | 0.89%          |
| 18       | BOYLAN CONSULTANCY PTY LTD                                   | 199,999           | 0.86%          |
| 19       | MARCO AUSTRALIA PTY LIMITED <SUPERANNUATION FUND A/C>        | 175,223           | 0.75%          |
| 20       | MCKELL PLACE NOMINEES PTY LTD                                | 167,499           | 0.72%          |
|          | <b>Totals</b>  | <b>20,320,000</b> | <b>87.03%</b>  |
|          | <b>Total Issued Capital</b>                                  | <b>23,348,803</b> | <b>100.00%</b> |

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ii) **Ordinary Shares**

Each fully paid ordinary share carries voting rights of one vote per share.

The names of the twenty largest holders of quoted ordinary shares are:

| Position | Holder Name   | Holding            | % IC           |
|----------|---|--------------------|----------------|
| 1        | YUUWA CAPITAL LP  | 54,059,848         | 26.51%         |
| 2        | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED                             | 25,442,860         | 12.48%         |
| 3        | MEURS HOLDINGS PTY LTD <P&M MEURS SUPERANNUATION A/C>                 | 10,356,001         | 5.08%          |
| 4        | KNIGHT61 INVESTMENTS PTY LTD <KNIGHT61 INVESTMENTS A/C>               | 4,200,000          | 2.06%          |
| 5        | CITYCASTLE PTY LTD  | 3,441,856          | 1.69%          |
| 6        | CS FOURTH NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 11 A/C>          | 3,346,498          | 1.64%          |
| 7        | LA TROBE UNIVERSITY   | 3,041,330          | 1.49%          |
| 8        | ILWELLA PTY LTD   | 3,000,000          | 1.47%          |
| 9        | SACAVIC PTY LTD <MORRIS SUPER FUND A/C>                               | 2,955,525          | 1.45%          |
| 10       | CITICORP NOMINEES PTY LIMITED   | 2,736,373          | 1.34%          |
| 11       | JAGEN PTY LTD   | 2,500,000          | 1.23%          |
| 12       | NATIONAL NOMINEES LIMITED   | 1,853,811          | 0.91%          |
| 13       | RADIATA SUPER PTY LTD <R & E SYPKES FAMILY SF A/C>                    | 1,749,999          | 0.86%          |
| 14       | MR ROBIN ARTHUR BEAUMONT & MS HELEN ELAINE SHINGLER <LRF PENSION A/C> | 1,700,000          | 0.83%          |
| 15       | BARE SUPER PTY LTD <BALLARD READ SF A/C>                              | 1,277,358          | 0.63%          |
| 16       | BAULDIA PTY LTD <BONAVENTURE SUPER FUND A/C>                          | 1,125,409          | 0.55%          |
| 17       | DR GRAEME LESLIE MERRINGTON   | 1,050,000          | 0.51%          |
| 18       | MR IVAN MAXWELL TREVASKIS & MRS HELEN ISOBEL TREVASKIS                | 1,000,000          | 0.49%          |
| 18       | KOHEN ENTERPRISES PTY LTD   | 1,000,000          | 0.49%          |
| 18       | VEDDEREDDIE PTY LIMITED <QUIDDITY SF A/C>                             | 1,000,000          | 0.49%          |
| 18       | MR JOHN CHIPLIN   | 1,000,000          | 0.49%          |
| 19       | COFACTOR LLC  | 962,666            | 0.47%          |
| 20       | QUTBLUEBOX PTY LTD  | 898,116            | 0.44%          |
|          | <b>Totals</b>   | <b>129,697,650</b> | <b>63.59%</b>  |
|          | <b>Total Issued Capital</b>   | <b>203,945,613</b> | <b>100.00%</b> |

(c) **Substantial shareholders**

The names of substantial shareholders in accordance with section 671B of the *Corporations Act 2001* are:

| Position | Shareholder                        | Number of Shares | % IC   |
|----------|------------------------------------|------------------|--------|
| 1        | YUUWA CAPITAL LP                   | 54,059,848       | 26.51% |
| 2        | PLATINUM INVESTMENT MANAGEMENT LTD | 25,000,067       | 12.26% |
| 3        | MEURS HOLDINGS PTY LTD <P&M MEURS  | 10,356,001       | 5.08%  |

**ADALTA LTD**  
**ABN 92 120 332 925**

**(d) Unquoted equity securities:**

| Number    | Number of holders | Class   | Holders of more than 20%   |
|-----------|-------------------|---|----------------------------|
| 7,714,067 | 10                | OPTION EXPIRING VARIOUS DATES<br>VARIOUS PRICES | Timothy Oldham (4,929,060) |

**(e) Use of funds**

Since admission the Company has used its cash in a way consistent with its business objectives.



