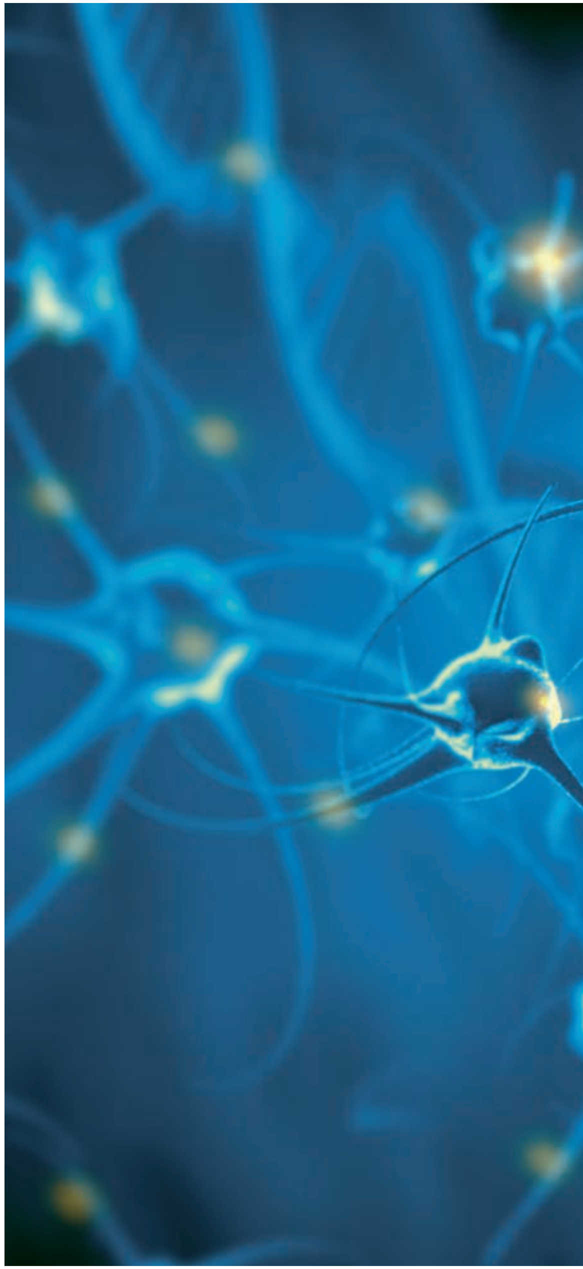
regeneus

living regenerative medicine

2018

Annual Report

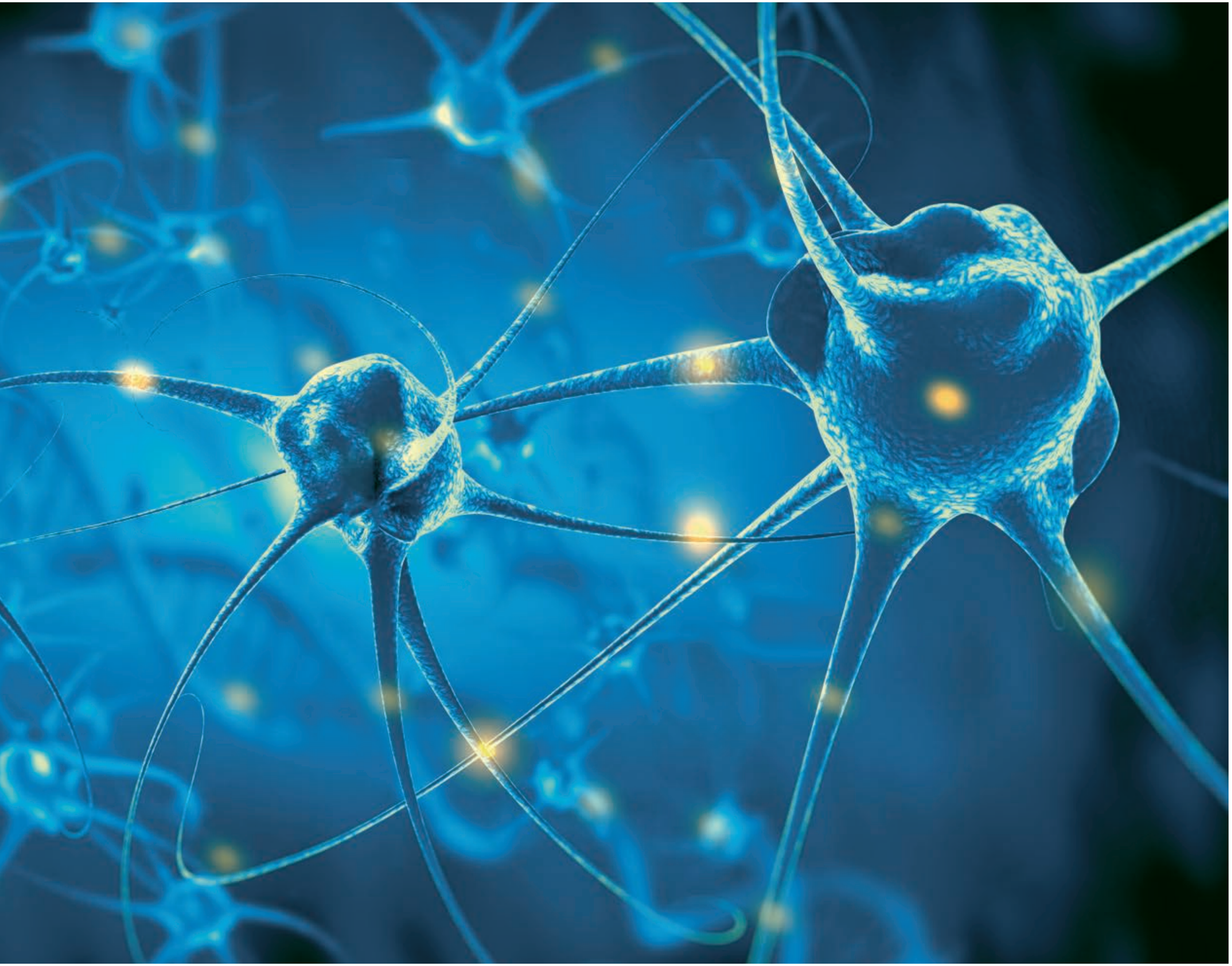
Regeneus Ltd (ASX: RGS) is an Australian clinical-stage regenerative medicine company developing a portfolio of novel cellular therapies targeting significant unmet medical needs with a licence driven strategy.



Our initial focus is on osteoarthritis and other inflammatory conditions, cancer, and dermatology. Our allogeneic stem cell and secretions technologies have the ability to be clinically developed to treat multiple indications.

The Company's product pipeline is underpinned by proprietary stem cell and immuno-oncology technologies.

More information about Regeneus Ltd can be found at regeneus.com.au.



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Letter from the Chairman and the CEO

Dr. Roger Aston, Chairman

John Martin, Chief Executive Officer

Dear Shareholders

On behalf of the Board of Directors we are pleased to report on the progress we have made during the financial year ending 30 June 2018. We also provide commentary on significant news since the end of the financial year and the date of this report.

During the period we achieved or made significant progress towards achieving our stated milestones that positions the company to unlock significant value in the business in FY19.

Progenza collaboration with AGC progressing well

In FY17 we granted AGC Inc., a leading Japanese and global manufacturer of biopharmaceuticals, exclusive rights to manufacture Progenza for all clinical applications in Japan. This was the first regenerative medicine cell therapy manufacturing collaboration of its type by an Australian company in Japan.

Through the successful transfer of know-how AGC has established a cell production facility at its Yokohama Research Centre and has recruited a knowledgeable team with considerable cell therapy experience. The AGC team is able to replicate the processes for the Progenza production method used in the STEP trial in Australia and is underway with process development to further industrialize and scale-up the manufacturing process. This foundation work will underpin AGC's goal of manufacturing Progenza under Current Good Manufacturing Practices (cGMP) for clinical studies and commercial supply in Japan.

Advancing partnering discussions for clinical development and commercialisation of Progenza in Japan

We are well advanced in our discussions and due diligence with potential licensees for the clinical development and commercialisation of Progenza in Japan. Regeneus Japan Inc, our Tokyo based 50/50 joint venture with AGC, has the exclusive rights for the clinical development and commercialisation of Progenza in Japan.

We are working closely with AGC and our Japanese advisers to secure the best outcome for the future of Progenza in Japan and anticipate entering into a licence agreement in Q2 FY19. The licensee will be responsible for sponsoring and funding the Phase 2 trial of Progenza for osteoarthritis (OA) and the commercialisation of Progenza in Japan.

Japan continues to be the go-to market for regenerative medicine licensing and business development opportunities globally. This was further evidenced with the announcement in January 2018 of the acquisition of TiGenix, a Euronext-listed Belgium-based regenerative medicine company, by Takeda Pharmaceutical Company, Japan's largest pharmaceutical company, for US$630m (€520m).

Publication of positive STEP trial results

On 7 March 2018, we announced the publication of the positive results from the Phase I safety trial of Progenza in patients with knee osteoarthritis (OA) in our first choice and the well-respected Journal of Translational Medicine. The study showed that a single injection into the knee of either dose of Progenza (3.9 million cells or 6.7 million cells) in patients appeared safe and was well tolerated.

Our strategy is to unlock value in our clinical-stage human and animal pipeline products through developing novel and scalable technology product platforms underpinned by registered intellectual property; generating positive clinical data; and licensing to commercial partners at the optimal value inflection point. As these patented technologies have broad application, the Company has the opportunity to license the manufacturing and clinical development and commercialisation rights for a range of therapeutic indications in multiple territories, generating multiple revenue streams.

We were also pleased to confirm that Progenza showed durable and clinically meaningful pain relief in patients with knee OA.

No serious adverse events occurred and a single injection of Progenza was well tolerated. No trends or findings of concern were identified from the data collected from patients' blood tests, physical examinations,

Progenza is the Company's patented and scalable cell therapy technology platform that is being developed for the treatment of osteoarthritis and other musculoskeletal diseases. It also has the potential to be used for other inflammatory conditions that have limited treatment options.

Progenza is made from expanded allogeneic mesenchymal stem cells (**MSCs**) from human adipose (or fat) tissue and contains the bioactive secretions of the cells. Progenza cells work by secreting cytokines, growth factors and exosomes that work to reduce inflammation and pain and promote healing and repair in the damaged or diseased tissue. It is a scalable technology that has the demonstrated capability to produce millions of doses of cells from a single donor.

ECG's, or other safety measurements, proving Progenza is safe and well tolerated.

Secondary endpoints were assessed to explore the impact of Progenza on efficacy outcomes.

We were pleased to find that patients treated at either dose of Progenza showed a statistically significant within-group reduction in pain. On the contrary, the placebo group showed no statistically significant reduction in pain during the study.

Examination of knee joint structure by MRI showed a statistically significant improvement in lateral tibial cartilage volume for patients treated with 3.9 million cells compared to a worsening in placebo patients. This builds on previously reported Regeneus preclinical findings in an OA model which showed that Progenza-treated joints showed no deterioration from the time of injection, in contrast to the vehicle control group, which continued to deteriorate.

Progenza granted ATMP status by European Medicines Agency

On 14 February 2018, we announced that Progenza has been granted an Advanced Therapy Medicinal Product (ATMP) classification by the Committee for Advanced Therapies of the European Medicines Agency.

The granting of the ATMP designation clarifies Progenza's status as a cell therapy for the European market and will allow the company to take advantage of the regulatory framework that has been designed to facilitate the development and authorisation of these regenerative medicine products.

United States patent allowed for Progenza

On 10 July 2018, we announced the United States Patent Office issued a notice of allowance for issuance of a key patent for the composition, manufacture and use of Progenza for the treatment of a wide range of inflammatory conditions including osteoarthritis. The US Patent, Application Number 14/342479 titled "Therapeutics using adipose cells and cell secretions", will provide commercial rights in the United States through to 2032. Corresponding grants have been made in Australia (2016) and Japan (2017) and are being pursued for grant in other key territories including Europe.

We anticipate receiving allowance of the grant of the Progenza patent in Europe in this half year.

Our patent coverage for Progenza in key markets will open up further licensing opportunities for us in FY19.

Human health development pipeline

Program	Technology platform	Pre-clinical	Phase 1	Phase 2	Phase 3	Filing	Approval
Progenza	Allogeneic adipose MSCs & secretions	Osteoarthritis					
RGSH4K	Immunotherapy for oncology	Solid Tumours					
Sygenus	Allogeneic adipose MSC secretions	Derm/Wound					

China introduces new regulatory framework for accelerated approval for cell therapy products

In another positive regulatory development, in December 2017, the Chinese government announced new laws to accelerate the approval pathway for cell therapy products like Progenza. Under the new regime, cell therapy products will need only to go through 2 clinical phases: an early phase focused on safety and a confirmatory phase to demonstrate probable efficacy. Cell therapy products will also be able to access government reimbursement.

This means that China now joins Japan, US and Europe with specific regulatory frameworks to address and accelerate the development and approval of regenerative medicines. Since the announcement, there has been an increase in licensing transactions for the Chinese market. We are currently exploring licensing opportunities that are emerging in the Chinese market.

Sygenus is the company's patented and scalable cell secretions technology platform. It utilises the molecules including cytokines, growth factors and exosomes that are secreted by donor mesenchymal stem cells. These bioactive molecules are known to reduce pain and inflammation and encourage accelerated healing and repair.

ARC funded research collaboration into chronic pain showing positive results

Chronic pain is a symptom of osteoarthritis and Progenza, in the STEP trial, has shown promise in reducing pain for osteoarthritis sufferers. The Company, as part of an ARC (Australian Research Council) funded research collaboration, is investigating the potential of Progenza and Sygenus stem cell technologies to reduce chronic pain unrelated to osteoarthritis and gain a deeper understanding of the mechanism of action and help lay the foundations for future pain management therapies. The investigations are being led by Professor Mark Hutchinson of the University of Adelaide and Professor Ewa Goldys of UNSW.

In September 2017, we announced promising results from a preclinical study in post-operative pain using Sygenus technology. Sygenus had a sustained analgesic effect above and beyond the anti-inflammatory effect that others have observed with MSCs. Sygenus applied topically to the wound area was tested head-to-head with morphine, the opioid analgesic. The analgesic properties of the treatments were assessed using a reflex response time to a thermal stimulus. Sygenus showed a dose dependent analgesia with the beneficial effect of the high dose lasting for up to 3 hours. In comparison, morphine had lost its effect within 3 hours.

As far as we know this is the first time that this type of analgesic effect has been reported for mesenchymal stem cells or their secretions. Previous studies reported in the scientific literature, have shown an impact on pain by the anti-inflammatory effects of MSCs but the discovery that MSCs have a stand-alone powerful analgesic capability is a world first. Regeneus has a strong patent position for both Progenza and Sygenus on treating pain.

Since September we have continued with further preclinical studies with both Sygenus and Progenza to understand the mechanism of action and to optimise the dose and routes of administration. Studies are also underway in preclinical models of neuropathic pain.

There is clearly a global need for alternatives to opiates. Both Progenza and Sygenus technologies have the potential to deliver significantly in this area.

Sygenus topical gel shows positive results in initial safety studies for acne and age spots

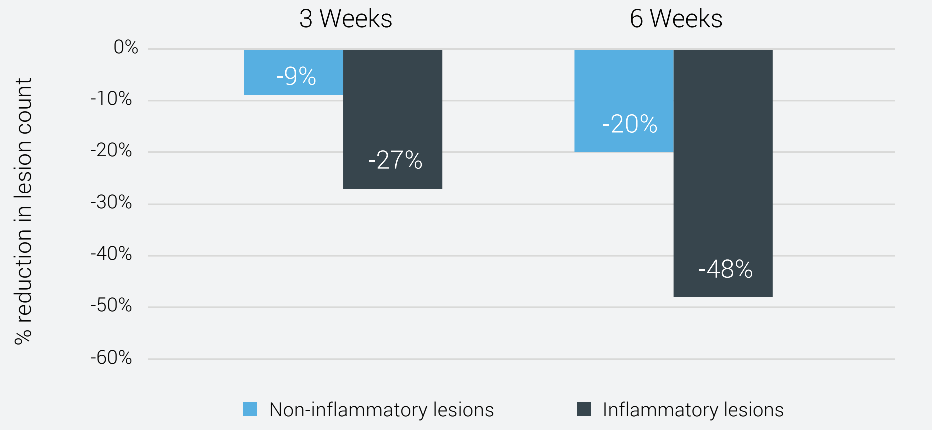
During the period, we tested the safety and tolerability of using Sygenus gel for topical application on acne and age spots. The studies were performed by a US-based dermatological testing facility in accordance with the principles of Good Clinical Practice. On 6 February, we reported the topical use of Sygenus gel for 6 weeks in 33 healthy volunteers with mild to moderate acne was well tolerated and showed a significant effect on the appearance of acne lesions as early as 3 weeks.

We can also report promising results for an 8-week study, conducted on 36 healthy female volunteers at least 35 years of age, measuring the effectiveness of the gel in reducing the colour and size of age spots and the tolerability of the gel. The subjects applied the gel twice daily for a period of eight weeks and were evaluated after four and eight weeks of use.

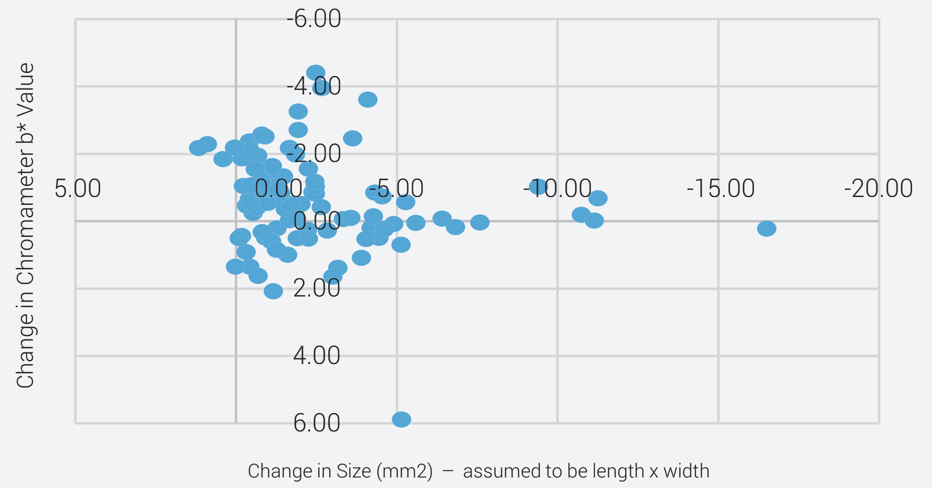
Age Spots

After eight weeks of use, twice-daily topical application of the gel was shown to significantly lighten the colour of age spots, as measured by chromameter (b* value) and significantly decrease the size of age spots, with significant decreases noted after the first four weeks, and incrementally at eight weeks,

Acne – Percentage Reduction in Lesion Counts by week



Age Spots – Change in Size/Chromameter Values at Week 8



as measured and compared to baseline images captured using a Visioscan® VC98; 95% of age spots were smaller, and 63% of age spots were both smaller and lighter at eight weeks; significantly improve skin smoothness after four and eight weeks compared to baseline using Visioscan® VC98; and are well tolerated, with no adverse effects related to the product, with tolerability measured objectively using a clinical grader, and subjectively based on reports by subjects.

No significant increase from baseline was observed in redness, dryness, swelling or peeling from the twice daily application of the gel.

This positive data will assist our discussions with potential licensees of the technology for acne and other inflammatory skin indications.

We continue our discussions with parties for the development and commercialisation opportunities for topical applications of Sygenus in both the therapeutic and cosmetic markets.

Chinese Patent granted for acne

In March 2018, we announced that the State Intellectual Property Office of the People's Republic of China had granted a patent covering the use of the Company's stem cell secretions technology for the topical treatment of acne.

The patent provides commercial rights in China through 2032. This was the first Regeneus patent to be granted in China. The granted patent is specific for the topical treatment of acne, however Regeneus has additional patent applications that cover the use of Sygenus for other skin conditions.

Cancer vaccine trial meets primary endpoint of safety with promising signs of immune stimulation

During the period we completed recruitment of patients to the Phase 1 trial (ACTIVATE) of RGSH4K, our cancer vaccine immunotherapy.

The trial was a single centre, open label, Phase 1 dose escalating study to evaluate the safety, tolerability and preliminary efficacy of RGSH4K and to identify the biologically active doses to take into future trials.

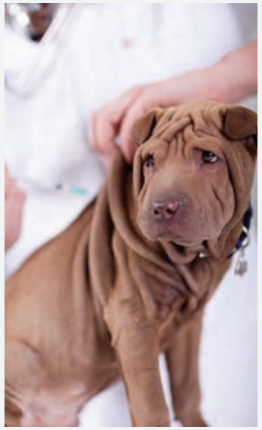
In this study, 12 heavily pre-treated patients with multiple types of advanced solid tumour received RGSH4K in 3 dose cohorts. A total of 3 vaccines were administered in the treatment phase, given at 3-week intervals, and patients had the option to continue dosing in an extension phase. All dose levels were safe and well tolerated, achieving the safety primary endpoint. There were no dose limiting toxicities and no serious adverse events related to the vaccine. Injection site reactions were the most common adverse event related to RGSH4K administration.

On 30 July 2018, we announced the trial of the vaccine had met its primary endpoint of safety and tolerability and showed encouraging signs of immune stimulation in patients from each cohort as demonstrated by changes in cancer markers, immune cells and cytokines. This immune stimulation was seen in one or more patients at all three dose levels. Preliminary indications of anti-tumour activity were seen in some patients however long term follow up on 50% of the patients continues.

The Principal Investigators for the trial are leading medical oncologists, Professor Stephen Clarke and Associate Professor Nick Pavlakis from University of Sydney's Northern Clinical School at the Kolling Institute of Medical Research located at Royal North Shore Hospital in St Leonards, Sydney. The trial was conducted through the Northern Cancer Institute in St Leonards.

We will open up licensing discussions with parties who have shown an interest in the cancer vaccine technology.

RGSH4K is a cancer vaccine technology developed at the Bill Walsh Cancer Research Laboratory at the Kolling Institute of Medical Research at Royal North Shore Hospital in St Leonards, Sydney. The technology uses a patient's tumour to harness the body's own immune system against cancer cells. **RGSH4K** combines a patient's tumour proteins with a bacterial adjuvant for immune recognition.



CryoShot is the company's patented and scalable cell therapy technology for the treatment of canine and equine osteoarthritis and other musculoskeletal disorders.

CryoShot is made from expanded allogeneic mesenchymal stem cells from canine or equine adipose (or fat) tissue. CryoShot cells work by reducing inflammation and promoting healing and repair in the damaged or diseased tissue. It is a scalable technology that has the demonstrated capability to produce commercial quantities of doses of cells from a single donor.

Animal health development pipeline

Program	Technology platform	Manufacturing & process development	Safety & efficacy studies	Pivotal trial	Market approval
CryoShot Canine	Allogeneic adipose MSCs	Osteoarthritis			
CryoShot Equine	Allogeneic adipose MSCs	Osteoarthritis			
Kvax	Immunotherapy for oncology	Naturally occurring advanced cancers (conditional approval)			

CryoShot – allogeneic stem cells for canine osteoarthritis

Currently, a pre-pivotal trial assessing CryoShot as a treatment for canine osteoarthritis is being recruited. It is a placebo-controlled trial of 80 dogs conducted at University of Pennsylvania School of Veterinary Medicine. The results of the trial will be used to finalise the design of a pivotal US Food and Drug Administration (**FDA**) trial.

During the period, we continued to recruit for the study. While recruitment has been slower than anticipated (53 dogs recruited to date), actions are being taken to accelerate recruitment to ensure trial completion in the FY19.

Upon completion of the trial, our collaboration partner has an option to exclusively licence the CryoShot technology. The terms of the licence include an upfront licence fee and development milestone payments to be agreed. If the option is exercised, the partner will be responsible for funding the pivotal trial and cGMP manufacture of CryoShot and will have exclusive global rights for sales and marketing for canine applications. Regeneus will additionally receive a royalty on all CryoShot sales.

Kvax - trial of animal cancer vaccine

Kvax is a canine cancer vaccine technology similar to RGSH4K.

During the period, recruitment continued for a 45 dog double-blind placebo controlled trial of Kvax in combination with chemotherapy for the treatment of canine lymphoma. Early indications are that there are no safety concerns.

The trial is being conducted by SASH (**Small Animal Specialist Hospital**) in North Ryde, Sydney.

This trial is seeking to build upon the positive results from last year's Kvax trial for canine osteosarcoma which showed that Kvax was safe, tolerable and conferred increased progression free interval and survival compared to historically reported dogs with osteosarcoma treated with limb amputation only.

The Company continues to build up clinical data to support licensing opportunities for Kvax.

IP Update

Regeneus has in excess of 70 patents or patent applications across multiple patent families relating to its regenerative medicine development products.

Financial highlights for FY18

Our financial results for FY18 showed continued financial discipline in the management of the business operations. Highlights for the period included:

- Operating loss of $5.18m (FY17: $3.27m profit), Operating expenses maintained at $7.96m (FY17: $8.05m)
- R&D tax incentive of $2.16m (FY17: $2.61)
- Quarterly cash used in operations (excluding R&D incentive and FY:17 Japan licence) maintained at $1.7m (FY17: $1.7m per quarter)
- Loan facility secured of $1.9m, extended subsequent to year end, repayable on the earlier of receipt of the next AGC Inc. milestone payment; receipt of the FY19 R&D Tax Incentive; and the 30 September 2019.

A more detailed financial review of operations is set out in the Directors' Report.

Looking forward

FY19 will be an important year in the development and progress of the Company with a number of key commercial, clinical and R&D milestones to be achieved including:

- Entering our first clinical licence for Progenza in Japan
- Progressing the clinical development of Progenza for OA in Japan
- Progressing the manufacturing of cGMP Progenza with AGC in Japan
- Advancing licensing opportunities for Progenza in other key territories including USA, China and EU
- Progressing the development of Progenza and Sygenus for pain
- Progressing the development of Sygenus for topical treatment of inflammatory skin conditions
- Advancing licensing discussions for RGSH4K cancer vaccine post the positive ACTIVATE trial results
- Complete and report on CryoShot canine pre-pivotal trial and advance licensing discussions

We look forward to meeting and capitalising on these milestones and other developments to continue to unlock value in the Company's clinical assets.

Thanks

We'd like to thank our fellow directors and the team at Regeneus and our research and clinical partners for their ongoing efforts and important contribution to the business over the last financial year.

Finally, we would like to thank our shareholders for their continued support for what we do and showing patience as we develop and seek to add value to our regenerative medicine products.

Dr. Roger Aston
Chairman

John Martin
Chief Executive Officer

30 August 2018

Directors' Report

Your Directors present their report for Regeneus Ltd and its controlled entities (the Group) for the financial year ended 30 June 2018.

Directors

The names of the Directors in office at any time during or since the end of the year are:

Dr. Roger Aston
Non-executive Chairman

John Martin
CEO and Executive Director

Professor Graham Vesey
CSO and Executive Director

Barry Sechos
Non-executive Director

Dr. Glen Richards
Non-executive Director

Leo Lee
Non-executive Director
Appointed 11 December 2017

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Chairman

Dr Roger Aston

Dr Roger Aston has served on the Board since 2013 and was appointed Chairman in November 2014. He is one of the most experienced and commercially astute people in drug commercialisation in Australia. Roger brings more than 20 years experience in the pharmaceutical and healthcare industries in senior roles in the United Kingdom, Asia Pacific and Australia. Roger is also a director or chairman on a number of boards carrying out late-stage drug development.

Other current directorships
PharmAust Ltd
Immuron Ltd
Oncosil Medical Ltd
ResApp Health Ltd

Previous directorships (last 3 years)
IDT Ltd
PolyNovo Ltd (Formerly Calzada Ltd)

Interests in shares
51,179

Interests in options
Nil

CEO - Executive Director

John Martin

John Martin has served on the Board since early 2009 and was appointed CEO in November 2014. John has over 20 years of experience as a business executive, director and corporate lawyer including roles as CEO and Director of ASX- listed and private emerging technology companies including BTF and Proteome Systems. John was a corporate and executive partner of Allens specialising in M&A, fundraising and life sciences.

Other current directorships
Concentrated Leaders Fund Ltd

Previous directorships (last 3 years)
None

Interests in shares
7,253,908

Interests in options
2,680,355

CSO – Executive Director

Professor Graham Vesey

Professor Graham Vesey is a co-founder and founding CEO of the Company and has served on the Board since incorporation. He was appointed Chief Scientific Officer in November 2014. Graham is a successful biotechnology entrepreneur, technology innovator and inventor and a highly regarded scientist. Graham was a co-founder and Executive Director of the successful biotech company, BTF, which was sold to bioMerieux in 2007. Graham is an Adjunct Professor at Macquarie University.

Other current directorships
None

Previous directorships (last 3 years)
None

Interests in shares
15,879,968

Interests in options
2,142,855

Non-executive Directors

Barry Sechos

Barry Sechos has served on the Board since 2012 and has over 20 years experience as a director, business executive and corporate lawyer with particular experience in investment and asset management. Barry is Executive Director of the Sherman Group (an early-stage investor in the Company) and sits on the board of many Sherman Group of companies and investee companies.

Other current directorships
Concentrated Leaders Fund Ltd
(formerly Aberdeen Leaders Fund Ltd)

Previous directorships (last 3 years)
None

Interests in shares
200,000

Interests in options
Nil

Dr. Glen Richards

Dr. Glen Richards has served on the Board since April 2015. Glen practised companion animal medicine and surgery in Brisbane, Townsville and London before establishing Greencross Vets in 1994. As Managing Director of Greencross Ltd (ASX:GXL) he created Australia's largest veterinary healthcare group with over 120 veterinary practices and 200 pet specialty stores. He resigned as MD in December 2014 and continues as a Non-executive Director.

Other current directorships
Greencross Ltd
1300Smiles Ltd
People Infrastructure Ltd

Previous directorships (last 3 years)
None

Interests in shares
2,333,333

Interests in options
Nil

Leo Lee

Leo Lee joined the Board on 11 December 2017. Leo brings more than 20 years of experience in pharmaceutical innovation, commercialsation, regulation and policy development and has worked extensively in North America and Asia. Most recently, Mr. Lee served as President, Japan, for Merck KGaA. Prior to this role, he served as President, Japan, for Allergan plc, a global pharmaceutical company. Leo has held sales and commercial roles in Merck & Co., IQVIA and Accelrys, Inc

Leo received a Bachelor of Science in Molecular Genetics and Microbiology from the University of California.

Other current directorships
None

Previous directorships (last 3 years)
None

Interests in shares

1,011,000

Interests in options

Nil

Company Secretary

Sandra McIntosh

Sandra McIntosh is the Company Secretary and Investor Relations Manager. Sandra has been with the Company since 2009, and has 20 years management experience in HR, customer service and finance.

Principal activities

Regeneus is an ASX-listed clinical-stage regenerative medicine company using stem cell and immuno-oncology technologies to develop a portfolio of cell-based therapies to address significant unmet medical needs in the human and animal health markets with a focus on osteoarthritis and other musculoskeletal disorders, oncology and dermatology diseases.

The company is focused on unlocking value in its clinical-stage human and animal pipeline products through generating positive clinical data, technology development and partnering.

Operating and financial review

Review of operations

During the year, Regeneus achieved significant milestones positioning the Group for future growth including:

AGC licensing of Progenza

– AGC Inc. have the exclusive rights to manufacture Progenza for Japan. The ongoing collaboration is progressing well with AGC establishing a cell production facility in Japan

Progenza human clinical STEP trial published

– Progenza STEP trial positive results were published in the well-respected Journal of Translational Medicine

Partnering and technology development

– Advancing partnering discussions for clinical development and commercialisation of Progenza in Japan
– Patent allowed for Progenza in US complementing patents in Australia and Japan
– Progenza granted ATMP status in Europe

Clinical trials

– RGSH4K ACTIVATE trial met primary endpoints of safety with promising signs of immune stimulation
– CryoShot pre-pivotal trial of the allogeneic off-the-shelf stem cells for canine osteoarthritis at University of Pennsylvania continues to be recruited
– Kvax trial of the autologous canine cancer vaccine for lymphoma at Small Animal Specialist Hospital in Sydney continues to be recruited

A more detailed review of operational highlights is set out in the Report from the Chairman and CEO.

Financial review

Operating results

The Group's operating result for the year is a loss of $5.2m (FY17: $3.3m profit). The current year loss is reflective of ongoing R&D expenditure, slightly reduced from prior year due to the successful completion of the Progenza phase 1 clinical trial in the prior year which had a particularly high 'burn rate'.

Revenue from operating activities

	2018 $'000	2017 $'000	Movement $'000
Operating activities			
Licence fee income	576	9,940	(9,364)
Income from sale of goods	–	54	(54)
Interest received	35	75	(40)
Total revenue	**611**	**10,069**	**(9,458)**

The FY17 results included licence fees from AGC of $8.9 m and while these are not repeated in FY18 there is anticipated increased licence fees in respect of the appointment of a clinical partner in Japan in FY19.

Expenses

	2018 $'000	2017 $'000	Movement $'000
Research and development	3,957	4,456	(499)
Occupancy	475	420	(55)
Corporate	3,462	3,150	(312)
Finance costs	26	16	(10)
Expenses from operations	**7,920**	**8,042**	**(122)**
Other expenses	–	1,300	(1,300)
Share of loss on investment	40	9	(31)
Total expenses	**7,960**	**9,351**	**(1,391)**

Research and development expenses

Research and development activities include staff and other costs associated with product research, preliminary manufacture and the conduct of clinical trials for the Company's products for humans and animals. Expenditure for the year was $4.0m (FY17 $4.4m). The reduction reflects the successful phase 1 for Progenza and expenditure now focussed on preparation for the next phase.

In line with the Group's policy and to comply with the accounting standards, all costs associated with research and development are fully expensed in the period in which they are incurred. The Directors do not consider the Group can demonstrate all the requirements of the accounting standards to capitalise development expenditure.

Occupancy costs

Occupancy costs of $475k are the direct lease costs of the Pymble corporate office and the associated utility costs. FY17 included a benefit of a retrospective rental adjustment.

Corporate expenses

This category of expenditure includes: corporate office employees, Directors, IP and compliance costs. While many costs increased slightly including salary, the single largest increase was attributed to bonuses exceeding $260k.

Other expenses

FY17 included individually significant expenses associated with the Japanese licence arrangements which are not recurring in FY18.

Cash flows

The net cash inflows for the period were:

	2018 $'000	2017 $'000
Net cash provided by (used in) operating activities	(4,247)	3,587
Net cash provided by (used in) investing activities	(151)	(227)
Net cash provided by (used in) financing activities	1,354	246
Net change in cash and cash equivalents held	(3,044)	3,606

Operating activities

Cash used in operating activities of $4.3m was a material decline from the cash provided by operating activities in the prior year. The prior year reflected the significant licence fees received from AGC $8.9m (US$6.5m) offset partially by the cash impact of withholding tax expense and fees associated with the licence arrangements of $1.2m.

Excluding the benefit of the R&D incentive and the net Japanese licence fees, the cash outflow from operations was $6.9m compared to FY17 $6.8m. This outcome is reflective of minor declines in revenue offset by savings in operating expenses.

Investing activities

This amount reflects the investment in capital equipment supporting the business.

Financing activities

The cash provided by financing activities incudes the initial $1m tranche of the debt facility provided by Paddington St Finance Pty Ltd and the early repayment of a further 23% of the shareholder loan.

Significant changes in state of affairs

There were no significant changes in the state of affairs of the Group during the reporting period.

Changes in accounting policy

There were no changes in accounting policy during the reporting period.

Events subsequent to the reporting period

In the period since 30 June 2018 to the signing of the financial report, the Board of Directors renegotiated the payment terms of the loan to Paddington St Finance Pty Ltd (refer Note 28). Paddington St Finance agreed to defer the repayment of the loan to the earlier of receipt of the next AGC Inc. milestone payment under the manufacturing licence; or the receipt of the FY19 R&D Tax Incentive; and 30 September 2019.

Paddington St Finance have charged an arrangement fee and will charge interest at a rate typical for this type of funding and the Directors (with Mr Sechos abstaining) considered the terms to be on arm's length terms and fair and reasonable from the perspective of the Regeneus security holders.

Apart from the above, there are no other matters or circumstances that have arisen since the end of the year that have significantly affected or may significantly affect either the entity's operations in future financial years, the results of those operations in future financial years or the entity's state of affairs in future financial years.

Likely developments, business strategies and prospects

FY19 will provide critical foundations for the long-term success of Regeneus. The following activities and business initiatives will be core elements of the strategic deliverables required for that success:

- Advance discussions to secure clinical partners for Progenza in Japan and ROW
- Complete and report on preclinical and clinical study activities for Sygenus topical secretions technology
- Complete and report on ACTIVATE Phase 1 cancer vaccine trial
- Complete and report on CryoShot canine pre-pivotal trial

Corporate Governance Statement

The board is committed to achieving and demonstrating the highest standards of corporate governance. As such, Regeneus Ltd and its controlled entities (the Group) have adopted the third edition of the Corporate Governance Principles and Recommendations which was released by the ASX Corporate Governance Council on 27 March 2014 and became effective for financial years beginning on or after 1 July 2014.

The Group's corporate governance statement for the financial year ending 30 June 2018 is dated as at 30 June 2018 and was approved by the Board on 28 August 2018. The corporate governance statement is available on Regeneus' website at: regeneus.com.au/about/corporate-governance

Directors' meetings

The number of meetings of Directors (including committees of Directors) held during the year and the number of meetings attended by each Director were as follows:

Directors' meetings

	Board meetings		Audit and risk committee		Remunerations and nominations charter	
Directors' name	**A**	**B**	**A**	**B**	**A**	**B**
Roger Aston	7	7	1	1	2	2
John Martin	7	7	1	1	2	1
Graham Vesey	7	7	–	–	–	–
Barry Sechos	7	7	1	1	2	2
Glen Richards	7	7	–	–	–	–
Leo Lee [1]	4	4	–	–	–	–

Column A is the number of meetings the director was entitled to attend
Column B is the number of meetings the director did attend

1 Leo Lee joined the Board in December 2017. The number of meetings entitled to attend is for the period from appointment to year end.

Dividends paid or recommended

No dividends have been paid or declared since the start of the financial year (2017: Nil).

Date of granting	Expiry date	Exercise price of option $	Number under option
01/07/2010	30/06/2020	0.136	770,100
21/02/2011	20/02/2021	0.136	1,001,674
01/07/2011	30/06/2021	0.280	500,000
16/09/2013	15/09/2018	0.250	4,323,210
04/12/2013	03/12/2018	0.250	1,665,000
21/10/2014	20/10/2019	0.160	900,000

During 2018, no unlisted options were issued (2017: nil).

All unexercised, vested options expire on the earlier of their expiry date or within a period set out in the plans. These options were issued under the Employee Share Option Plan and Option Trust Share plans, and have been allotted to individuals on condition that they meet the agreed milestones before the options vest.

As part of the IPO, 12,740,252 employee options, that had an exercise price of less than 20 cents, were exercised prior to the listing on 19 September 2013. These were financed by a full recourse loan provided by the Company to the option holders.

Shares issued during or since the end of the year as a result of exercise of options

During or since the end of the year, no shares were issued by the Company as a result of the exercise of options (2017: nil).

Remuneration report (audited)

The Directors of the Group present the Remuneration Report for Executive Directors, Non-executive Directors and other key management personnel prepared in accordance with the Corporations Act 2001 and the Corporations Regulations 2001.

The Remuneration Report is set out under the following main headings:

a. Principles used to determine the nature and amount of remuneration
b. Details of remuneration
c. Service agreements
d. Share-based remuneration
e. Bonuses and
f. Other information

a. Principles used to determine the nature and amount of remuneration

The principles of the Group's executive strategy and supporting incentive programs and frameworks are to:

- Align rewards to business outcomes that deliver value to shareholders
- Drive a high performance culture by setting challenging objectives and rewarding high performing individuals
- Ensure remuneration is competitive in the relevant employment market place to support the attraction, motivation and retention of executive talent

Regeneus has structured a remuneration framework that is market competitive and complementary to the reward strategy of the Group. The Board has established a Remuneration and Nominations Committee which operates in accordance with its charter as approved by the Board and is responsible for making recommendations to the Board for reviewing and approving compensation arrangements for the Directors and the Executive team. The remuneration structure that has been adopted by the Group consists of the following components:

- Fixed remuneration being annual salary
- Short and long term incentives, being employee bonuses and options

The Remuneration and Nominations Committee assesses the appropriateness of the nature and amount of remuneration on a periodic basis by reference to recent employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive team.

All bonuses, options and incentives are linked to predetermined performance criteria.

Short term incentive (STI)

Regeneus performance measures involve the use of annual performance objectives, metrics, and performance appraisals.

The performance measures are set annually after consultation with the Directors and Executives and are specifically tailored to the areas where each executive has a level of control. The measures target areas the Board believes hold the greatest potential for expansion and profit and cover financial and non-financial measures.

The KPIs for the Executive team are summarised as follows:

Performance area:

- Financial - operating results
- Non-financial - strategic goals set for each individual

The Board may, at its discretion, award bonuses for exceptional performance in relation to each person's pre-agreed KPIs and extraordinary achievements.

Voting and comments made at the Company's last Annual General Meeting

Regeneus received 43,796,282 – 98.9% 'For' votes on its Remuneration Report for the financial year ending 30 June 2017 (2016: 22,909,276 - 75.8%). The Company received no specific feedback on its Remuneration Report at the Annual General Meeting.

Consequences of performance on shareholder wealth

In considering the Group's performance and benefits for shareholder wealth, the Board has regard to the following indices in respect of the current financial year and the previous five (5) financial years:

Consequences of performance on shareholder wealth

Item	2018	2017	2016	2015	2014
EPS (cents)	(0.025)	0.016	(0.017)	(0.032)	(0.05)
Dividends (per share)	$0	$0	$0	$0	$0
Net profit (loss) ($000)	(5,185)	3,271	(3,574)	(6,607)	(7,523)
Share price ($)	$0.12	$0.12	$0.14	$0.15	$0.40

b. Details of remuneration

Details of the nature and amount of each element of key management personnel (KMP) remuneration are shown in the table below:

Details of remuneration

		Short term		Post employ	Long term		
Executive Directors		**Cash salary & fees $**	**Incentive $**	**Super-annuation $**	**Other benefits $**	**Total $**	**Perfor-mance related**
John Martin	2018	325,000	250,000	30,875	7,015	612,890	41%
	2017	304,679	–	28,944	8,131	341,754	0%
Graham Vesey	2018	212,000	–	20,140	5,659	237,799	0%
	2017	200,000	–	19,000	11,200	230,200	0%
Non-executive Directors							
Roger Aston	2018	84,166	–	–	–	84,166	0%
	2017	75,000	–	–	–	75,000	0%
Barry Sechos	2018	54,167	–	–	–	54,167	0%
	2017	45,000	–	–	–	45,000	0%
Glen Richards	2018	54,167	–	–	–	54,167	0%
	2017	45,000	–	–	–	45,000	0%
Leo Lee	2018	27,500	–	–	–	27,500	0%
	2017	–	–	–	–	–	0%
Total	**2018**	**757,000**	**250,000**	**51,015**	**12,674**	**1,070,689**	
Total	**2017**	**669,679**	**–**	**47,944**	**19,331**	**736,954**	

Other long term benefits include the movement in the annual leave provision and long service leave provision in accordance with AASB 119 Employee Benefits. Where the provision is reduced due to leave taken exceeding leave accrued the movement is negative.

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed remuneration	At risk – STI	At risk – options
John Martin	59%	41%	–
Graham Vesey	100%	–	–
Roger Aston	100%	–	–
Barry Sechos	100%	–	–
Glen Richards	100%	–	–
Leo Lee	100%	–	–

c. Service agreements

Remuneration and other terms of employment for the Executive Directors and other key management personnel are formalised in a service agreement. The major provisions of the agreements relating to remuneration are set out below:

Service agreements

Name	Base salary $	Term of agreement	Notice period
John Martin	325,000	Unspecified	3 months
Graham Vesey	212,000	Unspecified	3 months
Roger Aston	85,000	Unspecified	Nil
Barry Sechos	55,000	Unspecified	Nil
Glen Richards	55,000	Unspecified	Nil
Leo Lee	55,000	Unspecified	Nil

There are no termination payments provided for in these agreements, other than those required by statute.

d. Share-based remuneration

Options granted over unissued shares.
All options are for ordinary shares in the Company and are exercisable on a one-for-one basis.

The options were provided at no cost to the recipients. All options expire on the earlier of their expiry date or within the time period set out in the plan, from termination of the individual's employment. Details of options over ordinary shares in the Company that were granted as remuneration to each key management personnel are set out below.

Share-based remuneration

Name	Number granted	Grant date	Value per option at grant date $	Number vested	Exercise price $	First exercise date	Last exercise date
Graham Vesey	714,285	16/09/2013	0.1561	714,285	0.25	01/07/2013	15/09/2018
Graham Vesey	714,285	16/09/2013	0.1561	714,285	0.25	30/06/2014	15/09/2018
Graham Vesey	714,285	16/09/2013	0.1561	714,285	0.25	30/06/2015	15/09/2018
John Martin	714,285	16/09/2013	0.1561	714,285	0.25	30/06/2013	15/09/2018
John Martin	714,285	16/09/2013	0.1561	714,285	0.25	30/06/2014	15/09/2018
John Martin	714,285	16/09/2013	0.1561	714,285	0.25	30/06/2015	15/09/2018
Wild Rose Pty Ltd - John Martin	37,500	16/09/2013	0.1561	37,500	0.25	11/09/2013	15/09/2018
John Martin	500,000	01/07/2011	0.1758	500,000	0.28	31/12/2011	30/06/2021

During 2018 no key management personnel options were forfeited (2017: nil)

e. Short term incentives included in remuneration

Details of the short-term incentive awarded as remuneration to each key management personnel, the percentage of the available incentive that was paid in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the incentive is payable in future years.

Short term incentives included in remuneration

Name	Included in remuneration $	Percentage vested in year	Percentage forfeited in year
John Martin	250,000	100%	–
Graham Vesey	–	–	–
Roger Aston	–	–	–
Barry Sechos	–	–	–
Glen Richards	–	–	–
Leo Lee	–	–	–

f. Other information

Options held by key management personnel

The number of options to acquire shares in the Company held during the 2018 reporting period by each of the key management personnel of the Group, including their related parties are set out below.

Options held by key management personnel

Name	Balance at 1 July 2017	Other changes	Balance at end of year	Vested and exercisable at 30 June 2018	Vested, un-exercisable at 30 June 2018
John Martin	2,680,355	–	2,680,355	2,680,355	–
Graham Vesey	2,142,855	–	2,142,855	2,142,855	–
Roger Aston	–	–	–	–	–
Barry Sechos	–	–	–	–	–
Glen Richards	–	–	–	–	–
Leo Lee	–	–	–	–	–
Totals	**4,823,210**	**–**	**4,823,210**	**4,823,210**	**–**

Shares held by key management personnel

The number of ordinary shares in the Company during the 2018 reporting period held by each of the Group's key management personnel, including their related parties, are set out below:

Shares held by key management personnel

Name	Held at 1 July 2017	Granted as remuneration	Purchased	Held at 30 June 2018
John Martin	7,253,908	–	–	7,253,908
Graham Vesey	15,879,968	–	–	15,879,968
Roger Aston	51,179	–	–	51,179
Barry Sechos	200,000	–	–	200,000
Glen Richards	2,333,333	–	–	2,333,333
Leo Lee	–	–	1,011,000	1,011,000
Totals	**25,718,388**	**–**	**1,011,000**	**26,729,388**

Loans to key management personnel

These loans relate to the shareholder loan, the terms of which are disclosed in Note 13.

Loans to key management personnel

Name	Loan at 1 July 2017	Loans repaid	Loans Advanced	Loan at 30 June 2018
John Martin	295,925	–	–	295,925
Graham Vesey	150,552	–	–	150,552
Totals	**446,477**	**–**	**–**	**446,477**

Loans by key management personnel

This loan relates to R&D loan facility provided by Paddington St Finance Pty Ltd which is further detailed in Note 28.

Loans by key management personnel

Name	Loan at 1 July 2017	Loans Advanced	Loans Repaid	Loan at 30 June 2018
Barry Sechos	–	1,000,000	–	1,000,000
Totals	**–**	**1,000,000**	**–**	**1,000,000**

End of audited remuneration report.

Environmental legislation

Regeneus' operations are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory in Australia.

Indemnities given to auditors and officers and insurance premiums paid

During the year, Regeneus paid a premium to insure officers of the Group. The officers of the Group covered by the insurance policy include all Directors.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else to cause detriment to the Group.

Details of the amount of the premium paid in respect of the insurance policies is not disclosed as such disclosure is prohibited under the terms of the contract.

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

Non-audit services

From time to time, Grant Thornton, the Group's auditors, perform certain other services in addition to their statutory audit duties. The Board considers any non-audit services provided during the year by the auditor and satisfies itself that the provision of these non-audit services during the year is compatible with, and does not compromise, the auditor independence requirements of the Corporations Act 2001.

Details of the amounts paid to the auditors of the Group, Grant Thornton Audit Pty Ltd, and its related practices for audit and non-audit services provided during the year are set out in Note 25 to the Financial Statements.

Proceedings on behalf of the Group

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

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 19 and forms part of this Directors' report.

Signed in accordance with a resolution of the Board of Directors:

John Martin
CEO and Executive Director

Dated this day 30 August 2018

Auditor’s Independence Declaration

Grant Thornton

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Auditor’s Independence Declaration

To the Directors of Regeneus Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Regeneus Limited for the year ended 30 June 2018, 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.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

LWorsley.

L M Worsley
Partner – Audit & Assurance

Sydney, 30 August 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2018	Notes	2018 $	2017 $
Revenue	6	610,511	10,068,580
Cost of sales		–	(55,062)
Gross profit		**610,511**	**10,013,518**
Other income	6	2,164,595	2,608,222
Research and development expenses		(3,956,639)	(4,456,201)
Occupancy expenses		(474,939)	(420,296)
Corporate expenses		(3,462,416)	(3,149,709)
Finance costs	7	(25,862)	(16,220)
Other expenses	8	–	(1,299,615)
Share of loss on investments accounted for using equity method	16	(39,850)	(9,107)
Profit/(loss) before income tax		**(5,184,600)**	**3,270,592**
Income tax (expense) / benefit	24	–	–
Profit/(loss) for the year		**(5,184,600)**	**3,270,592**
Other comprehensive (expense) / income		–	–
Total comprehensive profit/(loss) for the year		**(5,184,600)**	**3,270,592**

Earnings per share			
Basic earnings per share			
Earnings per share from continuing operations	26	(0.025)	0.016
Diluted earnings per share			
Earnings per share from continuing operations	26	(0.025)	0.016

Note: This statement should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Financial Position

As as 30 June 2018	Notes	2018 $	2017 $
Current Assets			
Cash and cash equivalents	9	1,091,579	4,135,136
Trade and other receivables	10	–	87,877
Inventories	11	15,336	21,948
R&D incentive receivable	12	2,164,595	2,608,222
Other current assets	13	1,041,464	1,407,741
Total current assets		**4,312,974**	**8,260,924**
Non-current assets			
Property, plant and equipment	14	417,248	610,127
Intangible assets	15	1,644	5,759
Investments accounted for using the equity method	16	41,263	78,000
Other non-current assets	17	210,000	210,000
Total non-current assets		**670,155**	**903,886**
Total assets		**4,983,129**	**9,164,810**
Current liabilities			
Trade and other payables	18	707,209	743,209
Provisions	19	111,398	115,484
Other current liabilities	20	1,000,000	17,502
Total current liabilities		1,818,607	876,195
Non-current liabilities			
Provisions	19	242,757	188,707
Total non-current liabilities		**242,757**	**188,707**
Total liabilities		**2,061,364**	**1,064,902**
Net assets		**2,921,765**	**8,099,908**
Equity			
Issued capital	21.1	31,076,819	31,076,819
Accumulated losses		(29,774,504)	(24,629,684)
Reserves	21.2	1,619,450	1,652,773
Total equity		**2,921,765**	**8,099,908**

Note: This statement should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2018	Share capital $	Share option reserve $	Retained earnings $	Total attributable to parent owners $	Total equity $
Balance at 1 July 2016	31,076,819	1,624,566	(27,916,645)	4,784,740	4,784,740
Reported loss for the year	–	–	3,270,592	3,270,592	3,270,592
Reported other comprehensive income (expense)	–	–	–	–	–
Employee share-based payment option expense	–	44,576	–	44,576	44,576
Transfer from reserves to retained earnings for options forfeited	–	(16,369)	16,369	–	–
Balance at 30 June 2017	**31,076,819**	**1,652,773**	**(24,629,684)**	**8,099,908**	**8,099,908**
Balance at 1 July 2017	**31,076,819**	**1,652,773**	**(24,629,684)**	**8,099,908**	**8,099,908**
Reported profit for the year	–	–	(5,184,600)	(5,184,600)	(5,184,600)
Reported other comprehensive income (expense)	–	–	–	–	–
Employee share-based payment option expense	–	6,457	–	6,457	6,457
Transfer from reserves to retained earnings for options forfeited	–	(39,780)	39,780	–	–
Balance at 30 June 2018	**31,076,819**	**1,619,450**	**(29,774,504)**	**2,921,765**	**2,921,765**

Note: This statement should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2018	Notes	2018 $	2017 $
Operating activities			
Receipts from customers		616,216	10,140,776
Payments to suppliers and employees		(7,458,867)	(7,978,201)
Interest received		13,250	8,340
Other material expenses	8	–	(1,299,615)
R&D incentive refund		2,608,223	2,732,110
Finance costs		(25,862)	(16,220)
Net cash provided by / (used in) operating activities	27	**(4,247,040)**	**3,587,190**
Investing activities			
Payments for investments		–	(87,107)
Purchase of property, plant and equipment		(150,966)	(149,949)
Receipts from sale of property, plant and equipment			9,600
Net cash (used in) by investing activities		**(150,966)**	**(227,456)**
Financing activities			
Proceeds from related party loan		1,000,000	1,250,000
Repayment of related party loan		–	(1,250,000)
Receipts from shareholder loan		354,449	246,732
Net cash provided by financing activities		**1,354,449**	**246,732**
Net change in cash and cash equivalents held		(3,043,557)	3,606,466
Cash and cash equivalents at beginning of financial year		**4,135,136**	**528,670**
Cash and cash equivalents at end of financial year	9	**1,091,579**	**4,135,136**

Note: This statement should be read in conjunction with the notes to the financial statements.

Notes to the Consolidated Financial Statements

1. Nature of operations

Regeneus is a Sydney based ASX listed clinical stage regenerative medicine company that develops innovative cell-based therapies for human and animal health markets, with a focus on osteoarthritis and musculoskeletal disorders as well as oncology and dermatology diseases. The portfolio of therapeutic products is being developed using the Company's proprietary stem cell and immuno-oncology technology platforms.

Regenerative medicine is a rapidly growing multidisciplinary specialty that is focused on the repair or regeneration of cells, tissues and organs. The primary goal is to enhance the body's natural ability to replace tissue damaged or destroyed by injury or disease.

Where commercial opportunities are identified, the Group seeks to license appropriate parties.

2. General information and statement of compliance

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations), other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Regeneus is a for-profit entity for the purpose of preparing the financial statements.

The financial statements cover Regeneus and its controlled entities as a consolidated entity (the Group). As at the 30 June 2018, Regeneus is a Public Group, incorporated and domiciled in Australia.

The address of its registered office and its principal place of business is 25 Bridge St., Pymble, NSW 2073, Australia.

Statement of compliance

Compliance with Australian Accounting Standards ensures that the financial statements and notes of Regeneus comply with International Financial Reporting Standards (IFRS) as issued by the IASB.

The consolidated financial statements for the year ended 30 June 2018 were approved and authorised for issue by the Board of Directors on 30 August 2018.

Basis of preparation

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets and financial instruments for which the fair value basis of accounting has been applied.

New and revised standards that are effective for these financial statements

A number of new and revised standards became effective for the first time to annual periods beginning on or after 1 July 2017. Information on the more significant standard(s) is presented below:

AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses

AASB 2016-1 amends AASB 112 Income Taxes to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.

AASB 2016-1 is applicable to annual reporting periods beginning on or after 1 January 2017

The adoption of these standards has not had a material impact on the Group.

AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107

AASB 2016-2 amends AASB 107 Statement of Cash Flows to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

AASB 2016-2 is applicable to annual reporting periods beginning on or after 1 January 2017.

The adoption of this standard has not had a material impact on the Group

Accounting standards issued but not yet effective and not adopted early by the Group

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group. Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

AASB 9 Financial Instruments (December 2014)

The standard introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking expected loss' impairment model and a substantially-changed approach to hedge accounting. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.

The main changes are:

a. Financial assets that are debt instruments will be classified based on:
   i. the objective of the Group's business model for managing the financial assets
   ii. the characteristics of the contractual cash flows

c. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument

d. Introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments

e. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases

f. Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows:
   – the change attributable to changes in credit risk are presented in Other Comprehensive Income (OCI)
   – the remaining change is presented in profit or loss

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Otherwise, the following requirements have been carried forward unchanged from AASB 139 into AASB 9:

– classification and measurement of financial liabilities
– de-recognition requirements for financial assets and liabilities

AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in the financial statements.

Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward-looking information and applies to all financial instruments that are subject to impairment accounting.

When this standard is first adopted for the year ending 30 June 2019, there will be no material impact on the transactions and balances recognised in the financial statements.

The Group has undertaken a detailed assessment of the impact of AASB 9 and based on the Group's assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

AASB 15 Revenue from Contracts with Customers

AASB 15:

– Replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations:
   – establishes a new revenue recognition model
   – changes the basis for deciding whether revenue is to be recognised over time or at a point in time
   – provides new and more detailed guidance on specific topics (e.g., multiple element arrangements, variable pricing, rights of return, warranties and licensing)
   – expands and improves disclosures about revenue

Based on our preliminary assessment, when this Standard is first adopted for the year ending 30 June 2019, there will be no material impact on the transactions and balances recognised in the financial statements. However, we note that the AGC contract is complex and the assessment is still being finalised.

AASB 16 Leases

AASB 16:

– Replaces AASB 117 Leases and some lease-related interpretations
– Requires all leases to be accounted for 'on-balance sheet' be lessees, other than short-term and low value asset leases
– Provides new guidance on the application of the definition of lease and on sale and lease back accounting
– Largely retains the existing lessor accounting requirements in AASB 117
– Requires new and different disclosures about leases.

Based on the Groups assessment, it is expected that the first-time adoption of AASB 16 for the year ending 30 June 2020 will have a material impact on the transactions and balances recognised in the financial statements, in particular:

– Lease assets and financial liabilities on the balance sheet will, based on the facts at the date of the assessment, increase by approximately $1.5m.
– There will be a reduction in the reported equity as the carrying amount of lease assets will reduce more quickly than the carrying amount of lease liabilities
– EBIT in the statement of profit or loss and other comprehensive income will be higher as the implicit interest in lease payments for former off balance sheet leases will be presented as part of finance costs rather than being included in operating expenses
– Operating cash outflows will be lower and financing cash flows will be higher in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities. Interest can also be included within financing activities.

3. Summary of accounting policies

Overall considerations

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised below.

The consolidated financial statements have been prepared using the measurement bases specified by the Australian Accounting Standards for each type of asset, liability, income and expense. The measurement bases are more fully described in the following accounting policies.

a. Basis of consolidation

Controlled entities

The Group financial statements consolidate those of the Parent Company and all of its subsidiaries as of 30 June 2018. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 30 June.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective.

Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

Investments in associates and joint arrangements

Associates are those entities over which the Group is able to exert significant influence but which are not subsidiaries.

A joint venture is an arrangement that the Group controls jointly with one or more other investors, and over which the Group has rights to a share of the arrangement's net assets rather than direct rights to underlying assets and obligations for underlying liabilities. A joint arrangement in which the Group has direct rights to underlying assets and obligations for underlying liabilities is classified as a joint operation.

Investments in all joint ventures are accounted for using the equity method.

Interests in joint operations are accounted for by recognising the Group's assets (including its share of any assets held jointly), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of the revenue from the sale of output by the joint operation), and its expenses (including its share of any expenses incurred jointly). These are incorporated in the financial statements under the appropriate headings.

Any goodwill or fair value adjustment attributable to the Group's share in the associate or joint venture is not recognised separately and is included in the amount recognised as investment.

The carrying amount of the investment in associates and joint ventures is increased or decreased to recognize the Group's share of the profit or loss and other comprehensive income of the associate and joint venture, adjusted where necessary to ensure consistency with the accounting policies of the Group.

Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

If an entity's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the entity discontinues recognising its share of further losses The interest in an associate or a joint venture is the carrying amount of the investment in the associate or joint venture determined using the equity method together with any long-term interests that, in substance, form part of the entity's net investment in the associate or joint venture. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate or joint venture. Such items may include preference shares and long-term receivables or loans, but do not include trade receivables, trade payables or any long-term receivable for which adequate collateral exists, such as secured loans. Losses recognized using the equity method in excess of the entity's investment in ordinary shares are applied to the other components of the entity's interest in an associate or a joint venture in the reverse order of their seniority (ie priority in liquidation).

After the entity's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports profits, the entity resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

b. Segment reporting

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

The Group's operating segment is based on the internal reports that are reviewed and used by the Board of Directors (being the CODM) in assessing performance and determining the allocation of resources.

Reports provided to the CODM reference the Group operating in one segment, being the development of innovative cell-based therapies to address significant unmet medical needs in human and veterinary health. Initial focus is osteoarthritis and other musculoskeletal disease as well as oncology and dermatology. The information reported to the CODM, on a monthly basis, is profit or loss before tax, assets and liabilities and cash flow.

c. Going concern basis of accounting

The Group incurred a loss after income tax of $5,184,600 for the year ended 30 June 2018 (2017: $3,270,592 profit), had net cash outflows from operating activities of $4,247,040 (2017: $3,587,890 inflow) and as at 30 June 2018 has accumulated losses of $29,774,504 (2017: $24,629,684).

Having achieved an initial manufacturing licence in 2017 and after due consideration of additional commercial licensing opportunities, the Directors have prepared the financial statements on a going concern basis which contemplates continuity of normal activities and realisation of assets and settlement of liabilities in the normal course of business. As at 30 June 2018 Regeneus had positive net assets of $2,921,765 (2017: $8,099,908).

The Directors in making their assessment have considered the extension of the $1.9m R&D loan (refer subsequent events Note 35) and based on the progress of discussions and due diligence procedures with potential marketing partners the Directors are expecting that during the first half of FY19 the Group will enter into a clinical development and commercialisation licence with a Japanese partner. This licence arrangement will provide upfront funding and future payments contributing to the Group's funding requirements for the next 18 months. The Directors continue to have a number of additional strategies available to maintain the Group in a positive cash flow position including further product licensing or raising additional capital, including issuance of securities.

Should the above transactions or assumptions not materialise, there is material uncertainty whether the consolidated entity will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in these financial statements.

d. Comparative figures

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

e. Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

f. Income tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income). Current and deferred income tax expense (income) is charged or credited directly to other comprehensive income instead of the profit or loss when the tax relates to items that are credited or charged directly to other comprehensive income.

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, the Australian Taxation Office (ATO) and other fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilised against future taxable income, based on the Group's forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of land) or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

g. Inventories

Inventories are measured at the lower of cost and net realisable value. The average cost method has been used to value inventory. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

h. Plant and equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

i. Depreciation

The depreciable amount of fixed assets are depreciated on a straight line over their useful lives to the Consolidated entity commencing from the time the asset is held ready for use. Leased assets are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the assets.

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

Class of fixed asset	Depreciation rate (%)
Office equipment straight line	25%-50%
Laboratory equipment straight line	20%-30%
Office fit-out straight line	Life of lease
Leasehold improvements straight line	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period date. 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 included in the statement of profit or loss and other comprehensive income.

j. Intangibles

Intangible assets include acquired software. Intangible assets are accounted for using the cost model whereby capitalised costs are amortised on a reducing balance basis over their estimated useful lives, as these assets are considered finite. Amortisation commences from the date the asset is brought into use. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and install the specific software. Subsequent expenditure is expensed as incurred.

Costs associated with maintaining intangibles are expensed as incurred.

The amortisation rate used for acquired software is 25% straight line.

The Group has reviewed its policy not to capitalise development costs unless they meet the criteria as set in AASB 138. All development costs not meeting the recognition criteria of AASB 138 are expensed.

k. Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that the assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required (i.e. intangible assets with indefinite useful lives and intangible assets not yet available for use), the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash generating unit to which it belongs.

When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

To determine the value-in-use, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each asset or cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

l. Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the Group are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

m. Foreign currency transactions and balances

Functional and presentation currency

The functional currency of each entity is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the consolidated entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of profit or loss and other comprehensive income.

n. Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are de-recognised 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 de-recognised when it is extinguished, discharged, cancelled or expires. Financial assets and financial liabilities are measured initially at fair value adjusted by transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently as described.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counter-party will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counter-party and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counter-play default rates for each identified group.

Financial liabilities

The Group's financial liabilities include trade and other payables.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognised in profit or loss.

o. Equity and reserves

Share capital represents the fair value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share capital, net of any related income tax benefits.

Other components of equity include the following:

- Option reserve. Comprises equity settled share-based remuneration plans for the Group's employees
- Retained earnings/(Accumulated losses) include all current and prior period retained profits/(losses)

p. Employee benefits

Short-term employee benefits

Short-term employee benefits are benefits, other than termination benefits, that are expected to be settled wholly within twelve (12) months after the end of the period in which the employees render the related service. Examples of such benefits include wages and salaries, non-monetary benefits and accumulating sick leave. Short-term employee benefits are measured at the undiscounted amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The Group's liabilities for long service leave are included in other long term benefits as they are not expected to be settled wholly within twelve (12) months after the end of the period in which the employees render the related service. They are measured at the present value of the expected future payments to be made to employees. The expected future payments incorporate anticipated future wage and salary levels, experience of employee departures and periods of service, and are discounted at rates determined by reference to market yields at the end of the reporting period on high quality corporate bonds that have maturity dates that approximate the timing of the estimated future cash outflows. Any re-measurements arising from experience adjustments and changes in assumptions are recognised in profit or loss in the periods in which the changes occur.

The Group presents employee benefit obligations as current liabilities in the statement of financial position if the Group does not have an unconditional right to defer settlement for at least twelve (12) months after the reporting period, irrespective of when the actual settlement is expected to take place.

Defined contribution plans

The Group pays fixed contributions into independent entities in relation to several state plans and insurance for individual employees. The Group has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognised as an expense in the period that relevant employee services are received.

q. Provisions, contingent liabilities and contingent assets

Provisions for product warranties, legal disputes, make good obligations, onerous contracts or other claims are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

No liability is recognised if an outflow of economic resources as a result of present obligation is not probable. Such situations are disclosed as contingent liabilities, unless the outflow of resources is remote in which case no liability is recognised.

r. Share-based employee remuneration

The Group operates equity settled share-based remuneration plans for its employees.

This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions).

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to share option reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs are allocated to share capital.

s. Revenue

Revenue is recognised when it is probable that economic benefits associated with the transaction will flow to the Consolidated Group. Revenue is measured at the fair value of the consideration received or receivable. Licence fee income is recognised on a straight-line basis over the period that the licence covers. Licence fee income – Japan is recognised on the achievement of contracted milestones.

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

Revenue relating to the provision of services is recognised when the services are provided.

Interest revenue is recognised using the effective interest rate method. All revenue is stated net of the amount of goods and services tax (GST).

t. 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. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

u. Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. The research and development incentive is calculated and accrued at year end and is recognised in accordance with 'AASB 120 Accounting for Government Grants'. The amount is credited to other income and the receivable is included in the Consolidated Statement of Financial Position as a current R&D incentive receivable.

v. Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin. Expenditure for warranties is recognised and charged against the associated provision when the related revenue is recognised.

w. Significant management judgments and estimates in applying accounting policies

The Directors evaluate estimates and judgments incorporated into the financial report 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.

When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expense is provided below. Actual results may be substantially different.

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and IT equipment.

Inventories

Management estimates the net realisable values of inventories, taking into account the most reliable evidence available at each reporting date.

Share options and performance rights

Share options were valued using a variation of the binomial option pricing model. Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements. For purposes of the valuation the assumed life of the options was based on the historical exercise patterns, which may not eventuate in the future. No special features inherent to the options granted were incorporated into measurement of fair value.

Research and development claim

In calculating the R&D incentive, the Group has treated certain research and development activities as eligible expenditure under the Australian Government tax incentive. Management has assessed these activities and expenditures undertaken in Australia and overseas to determine which are likely to be eligible under the incentive scheme. At each period end, management estimates the refundable R&D incentive available to the Group based on current information. This estimate is also reviewed by external tax advisors. For the years ended 30 June 2018 and 2017, the Group has recognised income of $2.36 million and $2.16 million respectively. Refer Notes 6 and 12.

Uncertainties in the estimate relate to expenditure that can be claimed under the scheme including in some cases the claimable percentages applied to certain expenditure.

Joint venture assessment

In respect of Regeneus Japan Inc. management has determined that the Group does not have control in accordance with the criteria outlined in AASB 10. Management has made an assessment that the joint arrangement represents a joint venture rather than a joint operation in accordance with the requirements of AASB 11 and has therefore accounted for the investment using the equity method.

Revenue recognition

Management has determined that the Group has met the revenue criteria outline in AASB 118 in respect of the milestone payments received during the prior year under the AGC Manufacturing Licence Agreement. As part of this assessment management has made judgements relating to the probability of obtaining future milestone payments and the probability that any of the payments received to date may be subject to repayment or claw back provisions.

4. Controlled entities

Set out below are details of the subsidiaries held directly by the Group.

Name of the subsidiary	Country of incorporation & principal place of business	Principal activity	Group proportion of ownership interests 30 June 2018	Group proportion of ownership interests 30 June 2017
Regeneus Animal Health Pty Ltd	Australia – 25 Bridge Street, Pymble NSW 2073	Non-trading	100%	100%
Cell Ideas Pty Ltd	Australia – 25 Bridge Street, Pymble NSW 2073	Non-trading owns various IP	100%	100%

5. Segment reporting

Identification of reportable income segments

The Group's operating segment is based on the internal reports that are reviewed and used by the Board of Directors (being the Chief Operating Decision Makers (CODM)) in assessing performance and in determining the allocation of resources.

Following an assessment of the information provided to the CODM, it has been concluded that the Group operates in only one segment, being the development of innovative cell-based therapies to address significant unmet medical needs in human and veterinary health.

The segment result is as shown in the statement of profit or loss and other comprehensive income. Refer to statement of financial position for assets and liabilities.

6. Revenue

	2018 $	2017 $
Operating activities		
Licence fee income	575,406	1,028,514
Licence fee income - Japan	–	8,912,000
Income from sale of goods	–	53,550
Interest received	35,105	74,516
Total revenue	**610,511**	**10,068,580**
Other income		
R&D incentive	2,164,595	2,608,222
Total other income	**2,164,595**	**2,608,222**

7. Results for the year

The results for the year have been arrived at after charging the following items:

	2018 $	2017 $
a. Expense		
Cost of sales	–	55,062
Rental expense on operating leases – minimum lease payment	382,826	329,301
Amortisation of intangible assets	4,115	5,495
Depreciation	343,845	320,693
Loss on disposal of assets	–	11,092
Employment expenses (excludes share-based payment)	2,974,821	2,605,482
Superannuation expense	253,577	240,772
Share-based payments	6,457	44,576
b. Finance costs		
Interest expense	2,350	12,802
Bank and finance charges	23,512	3,418
Total finance costs	**25,862**	**16,220**

8. Other expenses

	2018 $	2017 $
Individually significant items of expenditure relating to AGC licence		
Withholding tax on Licence Fees	–	445,640
Legal, consulting and other professional fees	–	502,664
Exchange loss on US$ account	–	351,311
Total other material expenses	**–**	**1,299,615**

9. Cash and cash equivalents

Cash and cash equivalents include the following components:

	2018 $	2017 $
Cash on hand	11	38
Cash at bank (AUD account)	1,011,077	35,817
Cash at bank (USD account)	80,491	4,099,281
Total cash and cash equivalents	**1,091,579**	**4,135,136**

10. Trade and other receivables

Trade and other receivables consists of the following:

	2018 $	2017 $
Trade receivables	–	770
Other receivables	–	87,107
Total trade and other receivables	**–**	**87,877**

All amounts are short term. The net carrying value of trade receivables is considered a reasonable approximation of fair value. All of the Group's trade and other receivables have been reviewed for indicators of impairment of which none were noted.

11. Inventories

Inventories consist of the following:

	2018 $	2017 $
Raw materials and consumables at cost	31,733	46,132
Less: Provisions	(16,397)	(24,184)
Total inventories	**15,336**	**21,948**

Inventories are utilised in R&D projects and other operational activities.

12. R&D incentive receivable

The results for the year have been arrived at after charging the following items:

	2018 $	2017 $
Current		
R&D incentive receivable	2,164,595	2,608,222
Total R&D incentive receivable	**2,164,595**	**2,608,222**

13. Other current assets

	2018 $	2017 $
Other current assets		
Prepayments	44,044	70,330
Security deposits	38,743	38,743
GST receivable	62,520	69,217
Other receivables	–	700
Shareholder loan	896,157	1,228,751
Total other current assets	**1,041,464**	**1,407,741**

The shareholder loan is a full recourse, interest-free loan for 4 years initially maturing September 2017. Having extended the maturity to the 15 June 2018 the Directors considered that it was in all shareholders interest If the loan repayment was extended a further 12 months to 15 June 2019.

Included within the shareholder loan are balances owing by the Directors as follows:

	2018 $	2017 $
John Martin	295,925	295,925
Graham Vesey	150,552	150,552

14. Plant and equipment

Details of the Group's property, plant and equipment and their carrying amounts are as follows:

	Office equipment $	Lab equipment $	Equipment in clinics $	Office fit-out $	Total $
Gross carrying amount					
Balance 1 July 2017	119,613	487,593	52,116	1,168,665	1,827,987
Additions	27,197	123,769	–	–	150,966
Disposals	–	–	–	–	–
Balance 30 June 2018	**146,810**	**611,362**	**52,116**	**1,168,665**	**1,978,953**
Depreciation and impairment					
Balance 1 July 2017	(56,644)	(346,941)	(49,820)	(764,455)	(1,217,860)
Disposals	–	–	–	–	–
Depreciation	(29,256)	(65,363)	(2,296)	(246,930)	(343,845)
Balance 30 June 2018	**(85,900)**	**(412,304)**	**(52,116)**	**(1,011,385)**	**(1,561,705)**
Carrying amount 30 June 2018	**60,910**	**199,058**	**–**	**157,280**	**417,248**
Gross carrying amount					
Balance 1 July 2016	111,064	399,196	102,917	1,168,665	1,781,842
Additions	61,552	88,397	–	–	149,949
Disposals	(53,003)	–	(50,801)	–	(103,804)
Balance 30 June 2017	**119,613**	**487,593**	**52,116**	**1,168,665**	**1,827,987**
Depreciation and impairment					
Balance 1 July 2016	(90,607)	(296,393)	(75,755)	(517,525)	(980,280)
Disposals	50,192	–	32,921	–	83,113
Depreciation	(16,229)	(50,548)	(6,986)	(246,930)	(320,693)
Balance 30 June 2017	**(56,644)**	**(346,941)**	**(49,820)**	**(764,455)**	**(1,217,860)**
Carrying amount 30 June 2016	**62,969**	**140,652**	**2,296**	**404,210**	**610,127**

15. Intangible assets

Details of the Group's intangible assets and their carrying amounts are as follows:

	Acquired software licenses $	Total $
Gross carrying amount		
Balance at 1 July 2017	82,561	82,561
Balance at 30 June 2018	**82,561**	**82,561**
Amortisation and impairment		
Balance at 1 July 2017	(76,802)	(76,802)
Amortisation	(4,115)	(4,115)
Balance at 30 June 2018	**(80,917)**	**(80,917)**
Carrying amount 30 June 2018	**1,644**	**1,644**
Gross carrying amount		
Balance at 1 July 2016	82,561	82,561
Balance at 30 June 2017	**82,561**	**82,561**
Amortisation and impairment		
Balance at 1 July 2016	(71,307)	(71,307)
Amortisation	(5,495)	(5,495)
Balance at 30 June 2017	**(76,802)**	**(76,802)**
Carrying amount 30 June 2017	**5,759**	**5,759**

16. Investments accounted for using the equity method

The Group has one material joint venture - Regeneus Japan Inc, an entity incorporated in Japan with its principal place of business in Shibuya-ku, Tokyo. The company is owned 50% by Regeneus Ltd and 50% by AGC Inc. and its purpose is the 'Management of Domestic (ie Japanese) licences (Development and Marketing) and all business incidental to this purpose'.

The investment is accounted for using the equity method in accordance with AASB 128. Summarised financial information for Regeneus Japan Inc. is set out below:

	2018 $	2017 $
Total assets (a)	82,526	156,000
Total liabilities	–	–
Net assets	**82,526**	**156,000**
(a) Includes cash and cash equivalents	82,526	156,000
Revenue	–	–
Expenses	(79,700)	(18,214)
Total comprehensive loss for the year	**(79,700)**	**(18,214)**
Share of comprehensive loss for the year	**(39,850)**	**(9,107)**
Exchange gain / (loss) on investment	3,113	–
Loss on investment accounted for using equity method	**(36,737)**	**(9,107)**

A reconciliation of the above summarised financial information to the carrying amount of the investment in Regeneus Japan Inc. is set out below:

Total net assets of Regeneus Japan Inc	82,526	156,000
Proportion of ownership interests held by the Group	50%	50%
Carrying amount of the investment in Regeneus Japan inc.	**41,263**	**78,000**

The joint venture has no commitments or contingent liabilities as at 30 June 2018 (2017:nil)

17. Other non-current assets

	2018 $	2017 $
Non-current		
Security deposit	210,000	210,000
Total other non-current assets	**210,000**	**210,000**

18. Trade and other payables

Trade and other payables consists of the following:

	2018 $	2017 $
Current		
Trade payables	372,157	350,317
Accruals	266,078	331,184
PAYG Payable	68,974	61,708
Total trade and other payables	**707,209**	**743,209**

All amounts are short term and the carrying values are considered to be a reasonable approximation of fair value.

18.1 Foreign currency risk

The carrying amount of trade and other payables denominated in foreign currencies is:

	2018 $	2017 $
US dollar	111,150	17,436

19. Provisions

	2018 $	2017 $
Current: Annual leave		
Opening balance 1 July	115,484	99,273
Benefits accrued / (expensed)	(4,086)	16,211
Balance as at 30 June	**111,398**	**115,484**
Total current provisions	**111,398**	**115,484**
Non-current: Long service leave		
Opening balance 1 July	136,707	94,182
Benefits accrued	52,350	42,525
Balance as at 30 June	**189,057**	**136,707**

	2018 $	2017 $
Non-current: Make good		
Opening balance 1 July	52,000	50,300
Provision accrued	1,700	1,700
Balance as at 30 June	**53,700**	**52,000**
Total non-current provisions	**242,757**	**188,707**

The provision for Make good is estimated future cost of the make good of the operating lease and is based on management's best estimate of the cost to restore the leased premises to their agreed pre-fitout state at the expiration of the lease agreement.

20. Other current liabilities

	2018 $	2017 $
Current		
Related party loan	1,000,000	–
Deferred income	–	17,502
Total other current liabilities	**1,000,000**	**17,502**

The Related party loan is the initial tranche of an R&D loan facility with Paddington St Finance Pty Ltd and fully disclosed in Note 28.

21. Equity

21.1 Share capital

The share capital of Regeneus Ltd consists only of fully paid ordinary shares which do not have a par value. All shares are equally eligible to receive dividends and the repayment of capital, and represent one vote at the shareholders' meeting of Regeneus Ltd.

	2018 shares	2017 shares	2018 $	2017 $
Shares issued and fully paid				
Beginning of the year	208,885,143	208,885,143	31,076,819	31,076,819
Shares issued	–	–	–	–
Closing balance at the end of the year	**208,885,143**	**208,885,143**	**31,076,819**	**31,076,819**

During 2018, no shares or options were issued. (2017: nil).

21.2 Reserves

The details of reserves are as follows:

	Share option reserve $	Total reserves $
Balance at 30 June 2016	**1,624,566**	**1,624,566**
Share options expense	44,576	44,576
Options exercised	–	–
Transfer from reserves to retained earnings for options forfeited	(16,369)	(16,369)
Balance at 30 June 2017	**1,652,773**	**1,652,773**
Share options expense	6,457	6,457
Options exercised	–	–
Transfer from reserves to retained earnings for options forfeited	(39,780)	(39,780)
Balance at 30 June 2018	**1,619,450**	**1,619,450**

22. Employee remuneration

22.1 Share-based employee remuneration

As at 30 June 2018 the Group maintained share-based option plans as part of employee remuneration. No Options have been awarded since October 2014.

Share options and weighted average exercise prices are as follows for the reporting periods presented.

Share options	Employee share option plan		Option share trust		Total share options	
	Number	Weight avg exercise price $	Number	Weight avg exercise price $	Number	Weight avg exercise price $
Outstanding at 1 July 2016	2,733,834	0.16	6,938,210	0.24	9,672,044	0.22
Granted	–	–	–	–	–	–
Forfeited	–	–	(50,000)	0.25	(50,000)	0.25
Exercised	–	–	–	–	–	–
Outstanding at 30 June 2017	**2,733,834**	**0.16**	**6,888,210**	**0.24**	**9,622,044**	**0.22**

Share options	Employee share option plan		Option share trust		Total share options	
	Number	Weight avg exercise price $	Number	Weight avg exercise price $	Number	Weight avg exercise price $
Granted	–	–	–	–	–	–
Forfeited	(462,060)	0.14	–	–	(462,060)	0.14
Exercised	–	–	–	–	–	–
Outstanding at 30 June 2018	**2,271,774**	**0.17**	**6,888,210**	**0.24**	**9,159,984**	**0.22**
Exercisable at 30 June 2017	2,733,834	0.16	6,538,210	0.25	9,272,044	0.22
Exercisable at 30 June 2018	2,271,774	0.17	6,888,210	0.24	9,159,984	0.22

Other details of options currently outstanding:

- The range of exercise prices is $0.136 to $0.280
- The weighted average remaining contractual life is less than 1 year

The share options were valued using a variation of the binomial option pricing model. The following principal assumptions were used in the valuation:

Valuation assumptions			
Grant date	**1 Jul 2010**	**21 Feb 2011**	**1 Jul 2011**
Share price at date of grant	$0.136	$0.136	$0.280
Volatility	45%	45%	45%
Option life	10 years	10 years	10 years
Dividend yield	0%	0%	0%
Risk free investment rate	5.10%	5.60%	5.30%
Fair value at grant date	$0.085	$0.085	$0.180
Exercise price at date of grant	$0.136	$0.136	$0.280

Grant date	16 Sep 2013	4 Dec 2013	21 Oct 2014
Share price at date of grant	$0.250	$0.470	$0.160
Volatility	65%	65%	244%
Option life	5 years	5 years	5 years
Dividend yield	0%	0%	0%
Risk free investment rate	3.40%	3.50%	2.80%
Fair value at grant date	$0.156	$0.327	$0.179
Exercise price at date of grant	$0.250	$0.250	$0.160

In total, $6,457 (2017: $44,576), of employee remuneration expense (all of which related to equity settled share-based payment transactions) has been included in profit or loss and credited to share option reserve.

Volatility has been determined based on the historic share price volatility as it is assumed that this is indicative of future movements.

Option life is based on the nominated expiry date of the option and historical exercise patterns, which may not eventuate.

23. Leasing

23.1 Operating leases as lessee

In November 2013 the Group entered a 5 year 4 month operating lease for its office and production facilities. The lease payments are secured by a cash deposit of $210,000. The future minimum lease payments are as follows:

	Minimum lease payments due			
	Within 1 year $	1-5 years $	After 5 years $	Total $
30 June 2018	225,165	–	–	225,165
30 June 2017	277,798	225,165	–	502,963

The operating lease includes an option for a further 5 (five) years. It is management's intention to exercise the option.

24. Income tax expense

The major components of tax expense and the reconciliation of the expected tax expense based on the domestic effective tax rate of Regeneus Ltd at 27.5% (2017: 30%) and the reported tax expense in profit or loss are as follows:

	2018 $	2017 $
The prima facie tax on (loss) / profit before income tax is reconciled to the income tax as follows		
Prima facie tax receivable on (loss) / profit before income tax at 27.5% (2017: 30%)	(1,425,765)	981,178
Less:		
Tax effect of:		
- Research and development incentive	(595,264)	(782,467)
- Tax losses applied / (not brought to account)	–	(1,736,323)
Add:		
Tax effect of:		
- Non-deductible expenses	1,978,301	1,438,929
- Timing differences	42,728	98,683
Income tax benefit	**–**	**–**
The applicable weighted average effective tax rates are as follows:	**0%**	**0%**

	2018 $	2017 $
Deferred tax losses not recognised		
Tax losses not recognised	2,610,199	876,033
Capital losses not recognised	833,534	833,534
Other deferred tax assets not recognised	1,676,068	1,433,723
Total	**5,119,801**	**3,143,290**
Potential tax benefit	**1,407,945**	**942,987**

25. Auditor's remuneration

	2018 $	2017 $
Audit and review of financial statements		
- Auditors of Regeneus Ltd	95,000	91,500
Remuneration for audit and review of financial statements	**95,000**	**91,500**
Other services		
Other services	–	–
Total other services remuneration	**–**	**–**
Total auditor's remuneration	**95,000**	**91,500**

26. Earnings per share

Both the basic and diluted earnings per share have been calculated using the loss attributable to shareholders of the Parent Company as the numerator (i.e. no adjustments to the loss were necessary in 2018 or 2017).

The reconciliation of the weighted average number of shares for the purposes of diluted earnings per share to the weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:

	2018 $	2017 $
Earnings per share		
Basic earnings per share from continuing operations	(0.025)	0.016
The weighted average number of ordinary shares used as the denominator on calculating the EPS	208,885,143	208,885,143
Diluted earnings per share		
Diluted earnings per share from continuing operations	(0.025)	0.016
The weighted average number of ordinary shares used as the denominator on calculating the DEPS	208,885,143	208,885,143

Share options have not been included in the diluted EPS calculation because they are anti-dilutive.

27. Reconciliation of cash flows from operating activities

	2018 $	2017 $
Cash flows from operating activities		
(Loss) / Profit for the period	(5,184,600)	3,270,592
Non cash adjustments for:		
– Depreciation	343,845	320,693
– Amortisation	4,115	5,495
– Loss on disposal of plant and equipment	–	11,091
– Profit on disposal of plant and equipment	–	–
– Equity settled share-based transactions	6,457	44,576
– Interest - unwinding of shareholder loan	(21,855)	(66,176)
– Unrealised foreign exchange gain / (loss)	(3,113)	–
– Share of loss of on investments accounted for using the equity method	39,850	9,107
Net changes in working capital:		
– Change in inventories	6,612	8,128
– Change in trade and other receivables	770	21,004
– Change in other assets	120,791	(76,043)
– Change in trade and other payables	(43,266)	(46,029)
– Change in other employee obligations	7,266	(117,074)
– Change in tax assets	443,627	123,888
– Change in other liabilities	(17,502)	17,502
– Change in provisions	49,964	60,436
Net cash inflow / (outflow) from operating activities	**(4,247,040)**	**3,587,190**

28. Related party transactions and loans

During the period the Group entered into an R&D loan facility agreement with Paddington St Finance Pty Ltd, a related party. The facility forward funded, via a loan, the lesser of 80% of the expected claim or $2m. The loan facility was announced on the 29 June with the initial drawdown of $1m completed at that time.

The loan was finalised after Regeneus received a waiver from the ASX listing rule 10.1 necessitated as Mr Barry Sechos, a Director of Regeneus is also a Director of Paddington St Finance a commercial R&D financier. The waiver permitted Regeneus to grant security by way of a first ranking fixed and floating charge over all of its assets and undertakings in favour of Paddington St Finance. Regeneus had considered funding from other sources and determined that Paddington St Finance was the most attractive commercial arrangement and entered into the necessary arrangements on arm's length terms that the Directors (with Mr Sechos abstaining) consider to be fair and reasonable from the perspective of the Regeneus security holder. Interest is charged at a rate typical for this type of funding. The repayment date for this loan was on receipt of FY18 R&D Tax Incentive receipt. Refer Note 35 for the subsequent change in terms.

Related party transactions	2018 $	2017 $
Sherman Group Pty Ltd		
Loan received	–	1,250,000
Loan repaid	–	(1,250,000)
Interest charged	–	(10,575)
Total paid to related parties	**–**	**(10,575)**
Paddington St Finance Pty Ltd		
Loan received	1,000,000	–
Loan repaid	–	–
Interest charged	–	–
Total received from related parties	1,000,000	–

Related party loan receivable	2018 $	2017 $
John Martin	295,925	295,925
Graham Vesey	150,552	150,552
Total related party loans	**446,477**	**446,477**

These loans relate to the shareholder loan, the terms of which are disclosed in Note 13.

29. Transactions with key management personnel

Key management personnel remuneration includes the following expenses:

	2018 $	2017 $
Salaries	757,000	669,679
Short term incentive	250,000	–
Total short-term employee benefits	**1,007,000**	**669,679**
Defined contribution pension plans	51,015	47,944
Other long-term benefits	12,674	19,331
Share-based payments	–	–
Total remuneration	**1,070,689**	**736,954**

During the year, no options were exercised.

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

30. Contingent liabilities

The Group has no contingent liabilities as at 30 June 2018 (30 June 2017: $nil).

31. Capital expenditure commitments

There were no capital commitments as at the 30 June 2018 (30 June 2017: $nil).

32. Financial instruments

a. Capital risk management

The Group's financial instruments consist mainly of deposits with banks, accounts receivable, deposits, shareholder loans, accounts payable and financial liabilities.

b. Categories of financial instruments

The total for each category of financial instrument, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statement, are as follows:

Financial assets	2018 $	2017 $
Trade and other receivables	–	770
Cash and cash equivalents	1,091,579	4,135,136
Shareholder loan	896,157	1,228,751
Total financial assets	**1,987,736**	**5,364,657**

Financial liabilities	2018 $	2017 $
Trade and other payables	638,235	681,501
Related party loan	1,000,000	–
Total financial liabilities	**1,638,235**	**681,501**

c. Financial risk management objective

The Group is exposed to various risks in relation to financial instruments. The main types of risks are foreign currency risk, credit risk and liquidity risk.

The Group's risk management is coordinated in close operation with the Board of Directors, and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes. The most significant financial risks to which the Group is exposed are described below.

d. Foreign exchange risk

Foreign exchange risk is the risk of an adverse impact on the Group's financial performance as a result of exchange rate volatility.

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group is exposed to foreign exchange risk arising primarily from transactions with foreign suppliers and the effect of foreign exchange rate volatility on a US denominated bank account, balance at 30 June 2018 US$59,462 (30 June 2017: $3,141,693). Other exposure to currency risk arises from foreign currency transactions and is limited to trade payables. The Group does not frequently transact with foreign suppliers and the total AUD balance of trade payables denominated in a foreign currency (USD) at 30 June 2018 is $111,150 (2017: $17,436), therefore the Group's net exposure is minimal.

Management have assessed the risk of movement in interest rates, and foreign exchange, and do not believe the impact would be material to the accounts.

The following table illustrates the sensitivity of profit in regards to the Group's financial assets and financial liabilities and the $USD / $AUD exchange rate 'all other things equal'. It assumes a +/- 10% change of the $AUD / $USD exchange rate for the year ended at 30 June 2018 (2017: 10%). This percentage has been determined based on the average market volatility in exchange rates in the previous twelve (12) months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting date.

Movements in the $AUD / $USD would have the following impact:

Profit / (loss) impact of exchange rate sensitivity	2018 $	2017 $
If the $AUD had strengthened against the $USD by 10% (2017: 10%)	6,358	(372,662)
If the $AUD had weakened against the $USD by 10% (2017: 10%)	(7,770)	455,476

Exposure to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless the analysis above is considered to be representative of the Group's exposure to currency risk.

e. Liquidity risk analysis

Liquidity risk is risk that the Group might be unable to meet its obligations. The Group manages its liquidity needs by monitoring forecast cash inflows and outflows due in day-to-day business. The data used for analysing these cash flows consistent with that used in the contractual maturity analysis below. Liquidity needs are monitored in a rolling 365 day projection.

The Group's objective is to maintain cash and deposits to meet its liquidity requirements for 180 day periods at a minimum. This objective was met for the reporting periods.

The Group considers expected cash flows from financial assets in assessing and managing liquidity risk in particular its cash resources and trade receivables.

As at 30 June 2018 the Group's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarised below:

	2018 $ Current within 6 months	2017 $ Current within 6 months
Trade and other payables	638,235	681,501
Related party loan	1,000,000	–
Total financial liabilities	**1,638,235**	**681,501**

f. Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in a financial loss to the Group.

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposure to customers, including outstanding receivables and committed transactions.

The Group has adopted a policy of only dealing with creditworthy counter parties as a means of mitigating the risk of financial loss from defaults.

There are no significant concentrations of credit risk within the Group.

g. Capital management policies and procedures

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern
- To provide an adequate return to shareholders

The Group monitors capital on the basis of the carrying amount of equity less cash and cash equivalents as presented on the face of the statement of financial position and cash flow.

Management assesses the Group's capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leakage. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

33. Fair value measurement

Fair value hierarchy

The Group's assets and liabilities measured or disclosed at fair value are valued using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurements date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

There were no transfers between levels during the financial year.

34. Parent entity information

Set out below is the supplementary information about Regeneus Ltd, the parent entity.

	2018 $	2017 $
Statement of financial position		
Current assets	4,312,874	8,260,824
Total assets	4,983,029	9,164,710
Current liabilities	1,818,607	876,195
Total liabilities	2,061,364	1,064,902
Net assets	2,921,665	8,099,808
Issued capital	31,076,819	31,076,819
Retained earnings	(29,774,604)	(24,629,784)
Option reserve	1,619,450	1,652,773
Total equity	**2,921,665**	**8,099,808**
Statement of profit or loss and other comprehensive income		
Profit / (Loss) for the year	(5,184,600)	3,270,592
Other comprehensive income		–
Total comprehensive profit or (loss)	**(5,184,600)**	**3,270,592**

35. Subsequent events

In the period since 30 June 2018 to the signing of the financial report, the Board of Directors renegotiated the payment terms of the loan to Paddington St Finance Pty Ltd (refer Note 28). Paddington St Finance agreed to defer the repayment of the loan to the earlier of receipt of the next AGC Inc. milestone payment under the manufacturing licence; the receipt of the FY19 R&D Tax Incentive; and 30 September 2019.

Paddington St Finance have charged an arrangement fee and will charge interest at a rate typical for this type of funding and the Directors (with Mr Sechos abstaining) considered these to be fair and reasonable from the perspective of the Regeneus security holders.

Apart from the above, there are no other matters or circumstances that have arisen since the end of the year that have significantly affected or may significantly affect either the entity's operations in future financial years, the results of those operations in future financial years or the entity's state of affairs in future financial years.

Directors' declaration

1. In the opinion of the Directors of the Group:
   a. The consolidated financial statements and notes are in accordance with the Corporations Act 2001, including:
      i. Giving a true and fair view of its financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
      ii. Complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
   b. There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and the chief financial officer for the financial year ended 30 June 2018.
3. Note 2 confirms that the consolidated financial statements also comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the Board of Directors:

CEO and Executive Director
John Martin

Dated the 30th day of August 2018.

Auditor's Report

Grant Thornton

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Independent Auditor's Report

To the Members of Regeneus Limited

Report on the audit of the financial report

Opinion

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

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

a giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

Grant Thornton

Material uncertainty related to going concern

We draw attention to Note 3c. in the financial statements, which indicates that the Group incurred a net loss of $5,184,600 during the year ended 30 June 2018, and as of that date, the Group's total assets exceeded its total liabilities by $2,921,765. As stated in Note 3c., these events or conditions, along with other matters as set forth in Note 3c., indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Recognition of the R&D tax incentive (Note 6)	
The Group receives a 43.5% refundable tax offset (2017: 43.5%) of eligible expenditure under the research and development ("R&D") tax incentive scheme, under the condition that the entity's turnover is less than $20 million per annum. A registration of R&D activities is filed with AusIndustry in the following financial year and, based on this filing, the Group expects to receive the incentive in cash within a month of lodgement date. Management, with the assistance of a management expert, performed a comprehensive review of the Group's total R&D expenditure. This enables management to estimate the refundable tax offset receivable under the R&D tax incentive legislation. The receivable recorded at year-end represents an estimated claim for the period 1 July 2017 to 30 June 2018. This area is a key audit matter due to the degree of judgement and interpretation of the R&D tax legislation that is required by management to assess the eligibility of R&D expenditure under the scheme.	Our procedures included, amongst others: • making enquiries with management to obtain and document an understanding of the process to calculate the R&D tax incentive receivable; • obtaining management's calculation of the R&D tax incentive receivable and comparing the eligible expenditure used in the R&D incentive to expenditure recorded in the general ledger; • evaluating the qualification and expertise of management's expert in order to assess their professional competence and capabilities as they relate to the work undertaken; • reviewing historical estimates for accuracy against the final amounts received, to support the reliability of the estimate; • engaging our R&D tax specialists to review the expenditure methodology employed by management for consistency with the R&D tax offset rules; • inspecting copies of relevant correspondence with AusIndustry and the ATO; and • reviewing relevant disclosures in the financial statements.

Information other than the financial report and auditor's report thereon

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

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

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

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

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Responsibilities of the Directors' for the financial report

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

In preparing the financial report, the Directors are responsible for assessing the Group'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 Group 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 this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 14 to 17 of the Directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Regeneus Limited, for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

LWorsley.

L M Worsley
Partner – Audit & Assurance

Sydney, 30 August 2018

Additional Shareholder Information

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. The information is effective 26 August 2018.

Corporate governance statement

In accordance with the ASX principles and recommendations, Regeneus Ltd's corporate governance statements can be reviewed on the Company website at: regeneus.com.au/about-us/corporate-governance

Buy back of shares

There is no buy back of shares on offer

Substantial shareholders

The number of substantial shareholders and their associates are set out below:

Shareholder	Number of shares
Vesey Investments	14,399,642

Voting rights

Ordinary shares

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

Options

No voting rights

Distribution of equity security holders

Holding	Shares	Options
100,001 and over	173,969,245	9,159,984
10,001 to 100,000	31,739,572	–
5,001 to 10,000	2,257,765	–
1,001 to 5,000	902,553	–
1 to 1,000	16,008	–
	208,885,143	**9,159,984**
Unmarketable parcels	331,159	

Buy back of shares

There is no buy back of shares on offer

Unissued equity securities

Options issued under the options plans total 9,159,984

Ordinary shares

Twenty largest shareholders	Number held	% of issued shares
VESEY INVESTMENTS PTY LTD	14,399,642	6.89
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	11,709,152	5.61
J P MORGAN NOMINEES AUSTRALIA LIMITED	6,446,599	3.09
MR THOMAS GEORG MECHTERSHEIMER	6,133,433	2.94
JOHN MARTIN	3,759,682	1.80
DR BENJAMIN ROSS HERBERT	3,399,462	1.63
MLB HOLDINGS PTY LTD	3,000,000	1.44
DR MARC RONALD WILKINS	2,985,161	1.43
MR PIERRE FREDERIC MALOU	2,790,542	1.34
SMC CAPITAL PTY LTD	2,716,726	1.30
MRS JULIA CAROLINE HUGHES	2,283,299	1.09
KBROSS PTY LTD	2,000,000	0.96
BUBBLING WELLS PTY LTD	2,000,000	0.96
BACAU PTY LTD	1,940,732	0.93
ROSE MARTIN	1,863,642	0.89
MRS CIARA YVONNE KELLY & MR PAUL DOMINIC KELLY	1,779,423	0.85
PARROS PTY LTD	1,677,623	0.80
DR MICHAEL MULLER	1,571,896	0.75
DUNCAN THOMSON & DONNA THOMSON	1,534,183	0.73
DR TERENCE CECIL VARDY & MRS BELINDA JANE VARDY	1,507,692	0.72
Total	**75,498,889**	**36.14**
Balance of register	**133,386,254**	**63.86**
Grand total	**208,885,143**	**100.00**

Securities exchange

The Company was listed on the Australian Securities Exchange on 19 September 2013.

Electronic communications

Regeneus encourages shareholders to receive information electronically.

Shareholders who currently receive information by post can log in at www.linkmarketservices.com.au to provide their email address and elect to receive electronic communications

Electronic communications allows Regeneus to communicate with shareholders faster and reduce its use of paper.

Cash usage

Since listing on the ASX on 19 September 2013, the Group has used its cash and assets in a form readily converted to cash that it had at the time of admission to the official list of ASX in a manner consistent with its business objectives

Corporate Directory

Registered Office and Principal Place of Business

25 Bridge Street
Pymble, NSW 2073

Board of Directors

Dr. Roger Aston
(Non-executive Chairman)

John Martin
(Executive Director)

Professor Graham Vesey
(Executive Director)

Barry Sechos
(Non-executive Director)

Dr. Glen Richards
(Non-executive Director)

Leo Lee
(Non-executive Director)

Company Secretary

Sandra McIntosh

Website

regeneus.com.au

Lawyers

Dentons Australia Pty Ltd
77 Castlereagh Street
Sydney NSW 2000

Auditors

Grant Thornton Audit Pty Ltd
Level 17, 383 Kent Street
Sydney NSW 2000

Patent Attorneys

Spruson & Ferguson
Level 35, 31 Market Street
Sydney, NSW 2000

Share Registry

Link Market Services Limited
Level 12, 680 George Street
Sydney, NSW 2000

Stock Exchange Listing

Australian Stock Exchange
ASX Code: RGS

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regeneus.com.au