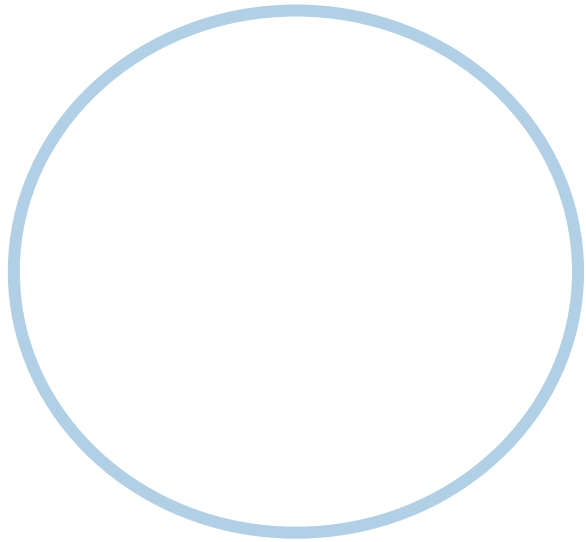




# Annual Report 2019

Regeneus Ltd

ABN 13 127 035 358

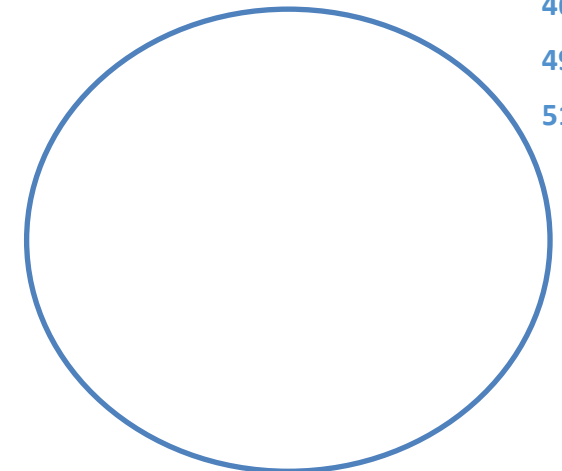


## WHO WE ARE

Regeneus Ltd (ASX: RGS) is a Sydney-based clinical-stage regenerative medicine company using stem cell technologies to develop a portfolio of novel cell-based therapies to address significant unmet medical needs in the human health markets with a focus on osteoarthritis and other musculoskeletal disorders, neuropathic pain and dermatology.

## Contents

<b>Letter from the Chairman and the CEO</b>	<b>i</b>
<b>Directors' report</b>	<b>3</b>
<b>Auditor's independence declaration</b>	<b>14</b>
<b>Consolidated statement of profit or loss and other comprehensive income</b>	<b>15</b>
<b>Consolidated statement of financial position</b>	<b>16</b>
<b>Consolidated statement of changes in equity</b>	<b>17</b>
<b>Consolidated statement of cash flows</b>	<b>18</b>
<b>Notes to the consolidated financial statements</b>	<b>19</b>
<b>Directors' declaration</b>	<b>45</b>
<b>Independent auditor's report</b>	<b>46</b>
<b>Additional Shareholder Information</b>	<b>49</b>
<b>Corporate Directory</b>	<b>51</b>



# Letter from the Chairman and the CEO

## Dear fellow shareholders

On behalf of the Board of Directors we are pleased to present Regeneus' annual report for the 2019 financial year.

2019 was a productive year with a number of important milestones. In particular, we announced the appointment of a new Chief Executive Officer, Leo Lee, who announced a new vision and refreshed strategy for Regeneus. We are pleased to report the team has already taken steps to execute this strategy over the last few months. As we move into the 2020 fiscal year, we are focused on continuing this momentum.

We believe Regeneus is now in a strong position to execute our new strategy: to develop and commercialise therapies that treat pain and modify the underlying diseases which cause pain.

## Operational changes to support revised Company strategy

In January 2019, we appointed Leo Lee as CEO. Leo has strong experience in the global pharmaceutical industry, being the former president of Japan for both Merck and Allergan, and has already made significant contributions to Regeneus in his role by establishing our new strategic direction.

***Regeneus is now in a strong position to execute our new strategy: to develop and commercialise therapies that treat pain and modify the underlying diseases which cause pain.***

Leo's appointment was followed by the appointment of two new Non-Executive Directors, Dr John Chiplin and Dr Alan W. Dunton, who joined Regeneus in April. Both John and Alan are industry leaders and bring significant experience in leading large-scale life sciences and biotechnology companies internationally. Their appointments were in conjunction with Barry Sechos being appointed as Non-Executive Chairman.

Since Leo's appointment, the Company has outlined its new strategy focused on addressing the large and growing pain market currently worth US\$69 billion. This is a significant market opportunity and we believe Regeneus' platform technologies can play an important role in helping meet an unmet clinical need.

A key priority to begin capturing this market, and executing on our strategy, is the completion of a Phase 2 trial and the commercialisation of Progenza for the treatment of osteoarthritis. This is our immediate focus in the 2020 financial year. Regeneus is targeting a product launch in Japan in 2023 and is focused on securing a Japanese commercialisation partnership in the near term.

Japan is a well-developed market for osteoarthritis and other musculoskeletal diseases and we look forward to updating shareholders on progress on this front.

To help optimise the commercial potential for Regeneus' technologies, in parallel to the Japan commercialisation deal, the Company is also aiming to secure a commercial partner in the EU and US to advance clinical developments in these important markets.

At the same time, we will seek to explore

***Regeneus is targeting a product launch in Japan for Progenza for the treatment of osteoarthritis in 2023 and is focused on securing a Japanese commercialisation deal in the near term to support this.***

additional therapies in pain using the Progenza and Sygenus platform. Pre-clinical animal studies for both technologies have demonstrated positive outcomes in the treatment of pain and disease modification, and we intend to pursue a scientific partnership model to develop a second indication for Progenza, and a first indication for Sygenus for commercialisation

## Clinical and regulatory milestones support platform technology commercialisation

During the year, we secured a number of clinical milestones for our platform technologies.

In particular, the Company announced positive preclinical trial results for Progenza for the treatment of allodynia, a condition in pain occurs from what is normally non-painful stimulation of the skin, such as a light touch. These early-stage results are encouraging and support the opportunity for the Progenza platform technology to treat pain as well as modify the underlying diseases which cause pain.

We are pleased to have also secured a range of patents in China and Europe for the use of mesenchymal stem cells (MSCs), which help support our MSCs therapies in these important markets. Worthy of note is that Regeneus received a notice of intent from the European Patent Office to grant a European patent for Progenza across multiple countries, laying the foundations for the development of this platform in the region.

Aside from our progress in Progenza and Sygenus, we also announced positive results for our Phase I safety and tolerability ACTIVATE trials, the first trial for RGSH4K, our autologous tumour vaccine product for solid tumours. These results are encouraging and enhance the value of this asset as we explore the potential to divest it under our revised corporate strategy.

## Financial highlights

Our financial results for the 2019 financial year demonstrate our commitment to deliver on our restructure and revised strategy.

The Board and management had already outlined a clear target to reduce borrowings. The \$3.8 million in borrowings, as at 30 June 2019, was reduced to \$1.1 million in October 2019, following the recent receipt of the R&D Tax Incentive rebate.

During the first quarter of 2020, the company completed a \$5.5 million capital raise. This capital raise was well-supported by new and existing investors and directors. This is an important validation of our revised strategic direction and overall vision for Regeneus.

While lying outside the financial year, we recently announced a series of cost-containment initiatives that align with our strategic priorities. This includes reducing our operating costs to \$250,000 a month, representing a 50 per cent reduction year-on-year. We believe these activities will strengthen the Company's cash position while we focus on commercialising Progenza for osteoarthritis in Japan.

## Outlook

Looking ahead into the 2020 financial year, the Company is now more robust with our restructure and we look forward to advancing our platform technologies, particularly Progenza.

In the new financial year, we are focused on completing Phase 2 trial and the commercialisation of Progenza for the treatment of osteoarthritis, with the aim of a product launch in Japan in 2023. In parallel, we expect our new scientific partnership model - which sees us partnering with leading university and research bodies - will allow us to develop both the Progenza and Sygenus platforms and generate long term shareholder value.

***The adoption of a scientific partnership model, where Regeneus partners with leading university and research bodies, will support the funding and clinical activities required to develop therapies using Progenza and Sygenus to target new indications.***

We look forward to continuing the rollout of our revised Company strategy and meeting the milestones for the year ahead.

We would like to thank our fellow directors, the team and our clinical and research partners for their ongoing efforts and important contributions to the business over the past financial year.

Finally, we thank our shareholders for continuing to support Regeneus as we continue to execute our new strategic direction to address the global pain market. As we roll out these initiatives, we appreciate your patience and look forward to updating you on our progress.

**Barry Sechos**  
Chairman

**Leo Lee**  
Chief Executive Officer

# Directors' Report

Your Directors present their report for Regeneus Ltd and its controlled entities (the Group) for the financial year ended 30 June 2019.

## Directors

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

**Barry Sechos**

Non-executive Chairman

**Leo Lee**

CEO and Executive Director

**Professor Graham Vesey**

CSO and Executive Director

**Dr. Glen Richards**

Non-executive Director

**Dr Alan Dunton**

Non-executive Director

Appointed 28 April 2019

**Dr John Chiplin**

Non-executive Director

Appointed 28 April 2019

**Dr. Roger Aston**

Non-executive Director

Resigned 28 April 2019

**John Martin**

Executive Director

Resigned 28 April 2019

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

## Chairman

**Barry Sechos** has served on the Board since 2012 and has over 30 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

**Previous directorships** (last 3 years)

None

**Interests in shares**

200,000

**Interests in options**

Nil

**Interests in options**

Nil

## CEO - Executive Director

**Leo Lee** joined the Board on 11 December 2017. Leo brings more than 20 years of experience in pharmaceutical innovation, commercialisation, 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**

5,000,000

## CSO - Executive Director

**Professor Graham Vesev** 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

Nil

## Non-executive Directors

**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

**Dr. Alan Dunton** joined the Board in April 2019. Dr Dunton is a senior pharmaceutical and biotechnology industry leader with over 35 years of experience in senior company leadership roles.

Dr Dunton has served as a director of 18 companies and is based in Florida, USA. He is the founder and principal of Danerius, LLC a consultancy that provides specialised advisory services to pharmaceutical and biotechnology organisations both in the private and public sectors. Over the last few years, Dr Dunton has also served as an independent board director for a variety of publicly-listed biopharmaceutical and drug development companies such as Palatin Technologies, Oragenics and CorMedix and the private company Cytogel Pharma.

### Other current directorships

None

### Previous directorships (last 3 years)

None

### Interests in shares

Nil

### Interests in options

Nil

**Dr. John Chiplin** joined the Board in April 2019. Dr. Chiplin is Managing Director of Newstar Ventures Ltd and has significant operational, investment and transactions experience in the international life science and technology industries. Between 1995 and 2014, Dr Chiplin served as CEO at three leading publicly-listed software, biotechnology and cancer immunotherapy companies.

Based in London, UK, Dr. Chiplin currently serves on the boards of Adalta (ASX: 1AD), Batu Biologics, Scancell Holdings plc (LSE: SCLP, Chairman) and ScienceMedia.

### Other current directorships

Adalta Ltd

### Previous directorships (last 3 years)

Cynata Therapeutics Ltd

### Interests in shares

Nil

### Interests in options

Nil

## Company Secretary

**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 Ltd (ASX: RGS) is a Sydney-based clinical-stage regenerative medicine company using stem cell technologies to develop a portfolio of novel cell-based therapies to address significant unmet medical needs in the human health markets with a focus on osteoarthritis and other musculoskeletal disorders, neuropathic pain and dermatology.

## Operating and financial review

### Review of operations

The 2019 year was one of consolidation of activities and development of licence opportunities. During the year, R&D was focussed on Progenza and Sygenus.

Highlights of the year in review include:

- Appointed Leo Lee as CEO (previously non-executive Director) and appointed two new Non-executive Directors; Dr John Chiplin and Dr Alan W. Dunton
- Received \$2.4m by way of R&D Tax Incentive
- Directors provided \$2.5m loan funding and the Paddington St Finance debt instrument of \$1.3m was extended until the early of September 2019 or the receipt of 2019 R&D Tax Incentive
- Chinese patent for Biomarkers to monitor disease progression for mesenchymal stem cell (MSC) therapy for inflammatory conditions
- Received European Patent office notice of intent to grant European Patent for Progenza
- Cash utilised in operating activities before receipt of the R&D tax incentive is less than \$500k per month (FY18: \$571k)
- Strategic review commenced in Q4 2019. Implemented cost containment activities in Q1 2020.

## Financial review

### Operating results

The Group's operating results for the year was a loss of \$6.0 million (FY18: \$5.2 million). The increased current year loss is reflective of additional Corporate and Finance costs partially offset by reductions in Research and Development expenditure and the associated impact of a reduced R&D Tax Incentive.

## Revenue from operating activities

	2019 \$'000	2018 \$'000	Movement \$'000
<b>Operating activities</b>			
Licence fee income	-	576	(576)
Income from sale of goods	-	-	-
Interest received	19	35	(16)
Other income	6	-	6
<b>Total revenue</b>	<b>25</b>	<b>611</b>	<b>(586)</b>

The FY18 results included residual technology licence fees. It is anticipated that licence fees will increase in FY20 resulting from the appointment of a clinical partner in Japan.

## Expenses

	2019 \$'000	2018 \$'000	Movement \$'000
Research and development	2,433	3,957	(1,524)
Occupancy	512	475	37
Corporate	3,922	3,462	460
Finance costs	403	26	377
<b>Expenses from operations</b>	<b>7,270</b>	<b>7,920</b>	<b>(650)</b>
Other expenses	180	-	180
Share of loss on investment	41	40	1
<b>Total expenses</b>	<b>7,491</b>	<b>7,960</b>	<b>(469)</b>

## 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. Expenditure for the year was \$2.4m (FY18 \$4.0m). The continuing reduction in R&D expenditure is a reflection of R&D being predominantly internal and is associated with finalising testing and related activities for Progenza and Sygenus. The costs incurred will enable the Group to capitalise on Progenza's successful phase 1 clinical trial and initiate phase 2 clinical trials.

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 \$512k are the direct lease costs of the Pymble corporate office and the associated utility costs. They are slightly higher than the prior year which is reflective of the lease expiring and the premises now being leased on a monthly term at a higher rate.

### Corporate expenses

This category of expenditure includes: corporate office employees, Directors, IP, compliance, depreciation and business development costs. In 2019 the expenditure was \$3.92 million (FY:18 \$3.46 million).

The increase in expenditure was driven by a number of one-off expenses including: options expense \$100k, provision of \$300k against the shareholder loans (pursuant to AASB9 expected credit loss model) and an increase in estimate to costs associated with vacating the premises of \$155k.

### Finance costs

Finance costs includes Interest expense on the Paddington St Finance Loan and the Directors Loans.

### Other expenses

This expense is the Unrealised foreign exchange loss on financial liability associated with AGC Inc. of Japan US\$2.5 million financial liability.

### Financial Position

Significant changes in the Consolidated Statement of Financial Position gave rise to negative net assets. This was particularly the result of increased current liabilities.

Other Current Liabilities at \$3.8million (FY18: \$1.0 million) are the loans provided by Paddington St Finance of \$1.3 million and the Directors loans of \$2.5 million.

Paddington St Finance agreed to extend the repayment of both principal and accrued interest on its R&D loan to the earlier of the end of September 2019 and receipt of the Company's 2019 R&D Tax Incentive. The drawn down loan of \$1.3 million and associated interest should be primarily covered by the tax incentive which is expected to be received Q1 2020.

The Directors' Loans of \$2.5 million advanced to the Company in February 2019 is repayable in March 2020 if not converted earlier as part of an equity raising. In August 2019 as part of the equity raising \$1.4 million of the Directors Loans was converted to capital in the Company.

Financial Liabilities of \$3.6 million reflects the adoption of AASB 15 and the recognition of the AGC having the opportunity to use US\$2.5 million, previously paid to the Company as milestone payments, to subscribe for shares in Regeneus in certain circumstances. This arrangement is more fully detailed in the notes to the Financial Statements.

### Cash flows

The net cash inflows for the period were:

	2019 \$'000	2018 \$'000
Net cash provided by (used in) operating activities	(3,608)	(4,247)
Net cash provided by (used in) investing activities	(8)	(151)
Net cash provided by (used in) financing activities	2,780	1,354
<b>Net change in cash and cash equivalents held</b>	<b>(836)</b>	<b>(3,044)</b>

### Operating activities

Cash continued to be managed tightly with the full year cash used in operating activities being \$3.6 million (FY18: \$4.3 million). Excluding the R&D Tax incentive receipt, the full year cash used in operating activities was \$6.0 million (FY18: \$6.9 million) reflecting a monthly cash expenditure of less than \$500k compared to the prior year's monthly cash expenditure of in excess of \$570k.

### Investing activities

This amount reflects the minor investment in capital equipment required to support the business.

### Financing activities

Cash provided by financing activities includes further net draw-downs from Paddington St Finance of \$0.28 million and Directors' loans provided in February 2019 of \$2.50 million.

### 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 other than the adoption of AASB 9 and AASB 15.



## Events subsequent to the reporting period

In the period from 30 June 2019 through to the signing of the financial report a number of important events have occurred:

On 31 July 2019, AGC and Regeneus signed a variation to the joint venture agreements previously entered into, under which the parties acknowledge AGC has the right to terminate the joint venture arrangements and related agreements on the earlier of 31 December 2019 or such other date as may be agreed between the parties. Further, within 120 days of such termination AGC may elect to use US\$2,500,000 of upfront and milestone payments previously paid to Regeneus to subscribe for shares in Regeneus at a fixed subscription price of AUD\$0.16 per share. Upon such termination, RGS will acquire all of AGC's shares in the joint venture at a price equal to 50% of the Company's value as at 31 December 2018.

On August 1 the Company made a private placement of 29,250,000 shares at 8 cents per share, which raised new capital of \$2.34 million. The Company also announced a 1 for 6 rights issue which was partly underwritten by the conversion of \$1.4 million of the Directors' loans and Directors' subscribing for a further \$0.4 million of shares.

On August 30 the Company announced the results of the non renounceable rights issue. 7,751,973 new shares were issued at 8 cents per share raising a further \$620k. Additionally, as part of the underwriting arrangements entered into between the Company and some of its Directors in respect of this rights issue:

- 1 \$1.4 million, previously loaned to the Company by these Directors in February 2019 (and which was repayable in March 2020), has been converted to 17.5 million ordinary shares, to be issued to these participating Directors (or related parties) at 8 cents per share; and
- 2 an additional \$400k has been contributed by some Directors in cash, with 5 million ordinary shares to be issued to these Directors (or related parties) under the rights issue at 8 cents per share.

The shortfall following the underwriting is 9,437,872 New Shares (Shortfall Shares). The directors of Regeneus reserve the right, subject to the requirements of the Corporations Act and the ASX Listing Rules, to place any Shortfall Shares within 3 months of the closing date at the Directors' discretion and at a price not less than the Offer Price.

Costs associated with these capital raising are not expected to exceed \$300k.

On August 13 the Company announced the implementation of strategic focus and cost containment activities. The outcome of these activities is the reduction in recurring operating costs to \$250k per month. Further one off cash costs of implementation are expected to be less than \$800k.

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

FY20 success will be measured by the appointment of a clinical partner in Japan and the implementation of a definitive timetable to commence Phase 2 clinical trials. Activities including ongoing clinical trials of Sygenus and the further development of 'pain' applications will continue throughout the year.

## 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 2019 is dated as at 30 June 2019 and was approved by the Board on 25 September 2019. The corporate governance statement is available on Regeneus' website at: [regeneus.com.au/about/corporate-governance](http://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' name	Board meetings		Audit and risk committee		Remunerations and nominations charter	
	A	B	A	B	A	B
Barry Sechos	11	11	2	2	-	-
Leo Lee	11	10	-	-	-	-
Graham Vesey	11	11	-	-	-	-
Glen Richards	11	10	-	-	-	-
John Chiplin <sup>1</sup>	1	1	-	-	-	-
Alan Dunton <sup>2</sup>	1	1	-	-	-	-
John Martin <sup>3</sup>	10	9	1	1	-	-
Roger Aston <sup>4</sup>	10	10	2	2	-	-

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

Where a Director joined the Board during the year or resigned their position during the year then the number of meeting entitled to attend is for the relevant period.

1. John Chiplin joined the Board 29 April 2019.
2. Alan Dunton joined the Board 29 April 2019
3. John Martin resigned from the Board 29 April 2019
4. Roger Aston resigned from the Board 29 April 2019

## Dividends paid or recommended

No dividends have been paid or declared since the start of the financial year (2018: Nil).

## Unissued shares under option

Unissued ordinary shares of Regeneus Ltd under option at the date of this report are:

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
21/10/2014	20/10/2019	0.160	900,000
31/01/2019	30/01/2024	0.200	2,500,000
31/01/2019	30/01/2024	0.250	2,500,000

During 2019, 5 million options over ordinary shares were issued subject to shareholder approval (2018: 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 (2018: 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:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based remuneration
- Bonuses and
- 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 40,474,751 – 93.7% 'For' votes on its Remuneration Report for the financial year ending 30 June 2018 (2017: 43,796,282 – 98.9% %). 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:

Item	2019	2018	2017	2016	2015
EPS (cents)	(0.029)	(0.025)	0.016	(0.017)	(0.032)
Dividends (per share)	\$0	\$0	\$0	\$0	\$0
Net profit (loss) (\$000)	(6,025)	(5,185)	3,271	(3,574)	(6,607)
Share price (\$)	\$0.085	\$0.12	\$0.12	\$0.14	\$0.15

## 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:

Executive Directors		Short term				Share based payments	Total \$	Performance related
		Cash salary & fees \$	Incentive \$	Other benefits \$	Post employ Super-annuation \$			
Leo Lee <sup>1</sup>	2019	174,000	-	-	-	100,490	274,490	44%
	2018	27,500	-	-	-	-	27,500	0%
Graham Vesey	2019	212,000	-	10,396	20,140	-	242,536	0%
	2018	212,000	-	5,659	20,140	-	237,799	0%
John Martin <sup>3</sup>	2019	345,011	-	(45,275)	20,583	-	320,319	0%
	2018	325,000	250,000	7,015	30,875	-	612,890	41%
Non-executive Directors								
Barry Sechos	2019	60,000	-	-	-	-	60,000	0%
	2018	54,167	-	-	-	-	54,167	0%
Glen Richards	2019	55,000	-	-	-	-	55,000	0%
	2018	54,167	-	-	-	-	54,167	0%
John Chiplin <sup>2</sup>	2019	9,166	-	-	-	-	9,166	0%
	2018	-	-	-	-	-	-	0%
Alan Dunton <sup>2</sup>	2019	9,166	-	-	-	-	9,166	0%
	2018	-	-	-	-	-	-	0%
Roger Aston <sup>3</sup>	2019	70,833	-	-	-	-	70,833	0%
	2018	84,166	-	-	-	-	84,166	0%
<b>Total</b>	<b>2019</b>	<b>886,512</b>	<b>-</b>	<b>(34,879)</b>	<b>40,723</b>	<b>100,490</b>	<b>1,041,510</b>	
<b>Total</b>	<b>2018</b>	<b>757,000</b>	<b>250,000</b>	<b>12,674</b>	<b>51,015</b>		<b>1,070,689</b>	

1. Leo Lee joined the Board as a non-executive Director in December 2017 and appointed CEO and executive Director 23 January 2019
2. John Chiplin and Alan Dunton were appointed as non-executive Directors 29 April 2019
3. John Martin resigned from the role of CEO 23 January 2019 providing 3 months' notice and both he and Roger Aston resigned from the Board 29 April 2019

Other 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 share based payment of \$100,490 is share based remuneration in the form of options (refer following notes).

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
Leo Lee	56%	-	44%
Graham Vesey	100%	-	-
Barry Sechos	100%	-	-
Glen Richards	100%	-	-
John Chiplin	100%	-	-
Alan Dunton	100%	-	-
John Martin	100%	-	-
Roger Aston	100%	-	-

#### 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.

Name	Number granted	Grant date	Value per option at grant date \$	Number vested	Exercise price \$	First exercise date	Last exercise date
Leo Lee	2,500,000	31/01/2019	0.0673	-	0.20	31/01/2020	31/01/2024
Leo Lee	2,500,000	31/01/2019	0.0583	-	0.25	31/12/2021	31/01/2024

Options for Leo Lee require shareholder approval at the AGM.

During 2019 4,823,210 (average exercise price \$0.25) management personnel options were forfeited (2018: nil)

#### 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:

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

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

### 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.

Name	Included in remuneration \$	Percentage vested in year	Percentage forfeited in year
Leo Lee	-	-	-
Graham Vesey	-	-	-
Barry Sechos	-	-	-
Glen Richards	-	-	-
John Chiplin	-	-	-
Alan Dunton	-	-	-
John Martin	-	-	-
Roger Aston	-	-	-

### f. Other information

#### Options held by key management personnel

The number of options to acquire shares in the Company held during the 2019 reporting period by each of the key management personnel of the Group, including their related parties are set out below.

Name	Balance at 1 July 2018	Granted	Other changes	Balance at end of year	Vested and exercisable at 30 June 2019	Vested, un-exercisable at 30 June 2019
Leo Lee	-	5,000,000	-	5,000,000	-	5,000,000
Graham Vesey	2,142,855	-	(2,142,855)	-	-	-
Barry Sechos	-	-	-	-	-	-
Glen Richards	-	-	-	-	-	-
John Chiplin	-	-	-	-	-	-
Alan Dunton	-	-	-	-	-	-
John Martin	2,680,355	-	(2,680,355)	-	-	-
Roger Aston	-	-	-	-	-	-
<b>Totals</b>	<b>4,823,210</b>	<b>5,000,000</b>	<b>176,790</b>	<b>5,000,000</b>	<b>-</b>	<b>5,000,000</b>

The 5,000,000 options issued to Leo Lee require shareholder approval at the AGM. Both Graham Vesey and John Martin's options lapsed or expired during the year.

#### Shares held by key management personnel

The number of ordinary shares in the Company during the 2019 reporting period held by each of the Group's key management personnel, including their related parties, are set out below:

Name	Held at 1 July 2018	Granted as remuneration	Purchased	Other movement	Held at 30 June 2019
Leo Lee	1,011,000	-	-	-	1,011,000
Graham Vesey	15,879,968	-	-	-	15,879,968
Barry Sechos	200,000	-	-	-	200,000
Glen Richards	2,333,333	-	-	-	2,333,333
John Chiplin	-	-	-	-	-
Alan Dunton	-	-	-	-	-
John Martin	7,253,908	-	-	(7,253,908)	-
Roger Aston	51,179	-	-	(51,179)	-
<b>Totals</b>	<b>26,729,388</b>	<b>-</b>	<b>-</b>	<b>(7,253,908)</b>	<b>19,475,480</b>

John Martin resigned as a Director 29 April 2019.

#### Loans to key management personnel

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

Name	Loan at 1 July 2018	Loans repaid	Loans Advanced	Other movement	Loan at 30 June 2019
John Martin	295,925	-	-	(295,925)	-
Graham Vesey	150,552	-	-	-	150,552
<b>Totals</b>	<b>446,477</b>	<b>-</b>	<b>-</b>	<b>(295,925)</b>	<b>150,552</b>

John Martin resigned as a Director 29 April 2019. The loan to John Martin of \$295,925 remains payable as at 30 June 2019.

#### Loans by key management personnel

These loans are either the R&D loan facility provided by Paddington St Finance Pty Ltd or the loans provided by the Directors in February 2019. These loans are further detailed in note 28.

Name	Loan at 1 July 2018	Loans Advanced	Loans Repaid	Others Repaid	Loan at 30 June 2019
Barry Sechos (Paddington St Finance)	1,000,000	2,160,000	1,880,000	-	1,280,000
Barry Sechos (Other)	-	250,000	-	-	250,000
Leo Lee	-	2,100,000	-	-	2,100,000
Glen Richards	-	100,000	-	-	100,000
John Martin	-	50,000	-	(50,000)	-
<b>Totals</b>	<b>1,000,000</b>	<b>4,660,000</b>	<b>1,880,000</b>	<b>(50,000)</b>	<b>3,730,000</b>

John Martin resigned as a Director 29 April 2019. This loan from John Martin of \$50,000 remains outstanding at 30 June 2019 and is subject to the original loan agreement.

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

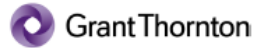
A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 14 and forms part of this Directors' report.

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



Leo Lee  
CEO and Executive Director  
Dated this day 25<sup>th</sup> September 2019

# Auditor's independence declaration



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## Auditor's Independence Declaration

To the Directors of Regeneus Ltd

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Regeneus Ltd for the year ended 30 June 2019, 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 Audit Pty Ltd  
Chartered Accountants

L M Worsley  
Partner – Audit & Assurance

Sydney, 25 September 2019

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Grant Thornton Audit Pty Ltd ACN 130 913 594  
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

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

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# Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June	Note	2019 \$	2018 \$
Revenue	6	25,077	610,511
Other income	6	1,441,782	2,164,595
Research and development expenses		(2,432,564)	(3,956,639)
Occupancy expenses		(512,311)	(474,939)
Corporate expenses		(3,922,731)	(3,462,416)
Finance costs	7b	(402,800)	(25,862)
Share of loss on investments accounted for using equity method	15	(40,903)	(39,850)
Unrealised foreign exchange loss on contract liability		(180,150)	-
<b>Profit/(loss) before income tax</b>		<b>(6,024,600)</b>	<b>(5,184,600)</b>
Income tax (expense) / benefit	24	-	-
<b>Profit/(loss) for the year</b>		<b>(6,024,600)</b>	<b>(5,184,600)</b>
Other comprehensive (expense) / income		-	-
<b>Total comprehensive profit/(loss) for the year</b>		<b>(6,024,600)</b>	<b>(5,184,600)</b>
<b>Earnings per share</b>			
<b>Basic earnings per share</b>			
Earnings per share from continuing operations	26	(0.029)	(0.025)
<b>Diluted earnings per share</b>			
Earnings per share from continuing operations	26	(0.029)	(0.025)

# Consolidated statement of financial position

As at 30 June	Note	2019 \$	2018 \$
<b>Current Assets</b>			
Cash and cash equivalents	8	255,463	1,091,579
Inventories	9	8,615	15,336
R&D incentive receivable	10	1,249,440	2,164,595
Other current assets	11	257,016	145,307
Financial assets at amortised cost	12	596,157	896,157
<b>Total current assets</b>		<b>2,384,691</b>	<b>4,312,974</b>
<b>Non-current assets</b>			
Property, plant and equipment	13	153,448	417,248
Intangible assets	14	-	1,644
Investments accounted for using the equity method	15	3,675	41,263
Other non-current assets	16	-	210,000
<b>Total non-current assets</b>		<b>157,123</b>	<b>670,155</b>
<b>Total assets</b>		<b>2,541,814</b>	<b>4,983,129</b>
<b>Current liabilities</b>			
Trade and other payables	17	1,055,946	707,209
Provisions	18	352,677	111,398
Borrowings	19	3,780,000	1,000,000
Financial liabilities	20	3,564,300	-
<b>Total current liabilities</b>		<b>8,752,923</b>	<b>1,818,607</b>
<b>Non-current liabilities</b>			
Provisions	18	175,386	242,757
<b>Total non-current liabilities</b>		<b>175,386</b>	<b>242,757</b>
<b>Total liabilities</b>		<b>8,928,309</b>	<b>2,061,364</b>
<b>Net assets</b>		<b>(6,386,495)</b>	<b>2,921,765</b>
<b>Equity</b>			
Issued capital	21.1	31,076,819	31,076,819
Accumulated losses		(37,875,379)	(29,774,504)
Reserves	21.2	412,065	1,619,450
<b>Total equity</b>		<b>(6,386,495)</b>	<b>2,921,765</b>

## Consolidated statement of changes in equity

For the year ended 30 June	Share capital \$	Share option reserve \$	Retained earnings \$	Total attributable to parent owners \$	Total equity \$
<b>Balance at 1 July 2017</b>	<b>31,076,819</b>	<b>1,652,773</b>	<b>(24,629,684)</b>	<b>8,099,908</b>	<b>8,099,908</b>
Reported loss 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	-	-
<b>Balance at 30 June 2018</b>	<b>31,076,819</b>	<b>1,619,450</b>	<b>(29,774,504)</b>	<b>2,921,765</b>	<b>2,921,765</b>
<b>Balance at 1 July 2018</b>	<b>31,076,819</b>	<b>1,619,450</b>	<b>(29,774,504)</b>	<b>2,921,765</b>	<b>2,921,765</b>
Restatement for adoption of accounting standard AASB 15	-	-	(3,384,150)	(3,384,150)	(3,384,150)
<b>Restated balance at 1 July 2018</b>	<b>31,076,819</b>	<b>1,619,450</b>	<b>(33,158,654)</b>	<b>(462,385)</b>	<b>(462,385)</b>
Reported loss for the year	-	-	(6,024,600)	(6,024,600)	(6,024,600)
Reported other comprehensive income (expense)	-	-	-	-	-
Employee share-based payment option expense	-	100,490	-	100,490	100,490
Transfer from reserves to retained earnings for options forfeited	-	(1,307,875)	1,307,875	-	-
<b>Balance at 30 June 2019</b>	<b>31,076,819</b>	<b>412,065</b>	<b>(37,875,379)</b>	<b>(6,386,495)</b>	<b>(6,386,495)</b>

# Consolidated statement of cash flows

For the year ended 30 June	Note	2019 \$	2018 \$
<b>Operating activities</b>			
Receipts from customers		-	616,216
Payments to suppliers and employees		(5,866,152)	(7,458,867)
Interest received		19,077	13,250
Grant Received		6,000	-
R&D incentive refund		2,356,937	2,608,223
Finance costs		(124,358)	(25,862)
<b>Net cash provided by / (used in) operating activities</b>	<b>27</b>	<b>(3,608,496)</b>	<b>(4,247,040)</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(7,620)	(150,966)
<b>Net cash (used in) by investing activities</b>		<b>(7,620)</b>	<b>(150,966)</b>
<b>Financing activities</b>			
Proceeds from related party loan		4,660,000	1,000,000
Repayment of related party loan		(1,880,000)	-
Receipts from shareholder loan		-	354,449
<b>Net cash provided by financing activities</b>		<b>2,780,000</b>	<b>1,354,449</b>
Net change in cash and cash equivalents held		(836,116)	(3,043,557)
Cash and cash equivalents at beginning of financial year		1,091,579	4,135,136
<b>Cash and cash equivalents at end of financial year</b>	<b>9</b>	<b>255,463</b>	<b>1,091,579</b>

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 30 June 2019, 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 2019 were approved and authorised for issue by the Board of Directors on 25 September 2019.

### 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 2018. Information on the more significant standard(s) is presented below:

### AASB 9: Financial instruments

This standard replaces AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculation of impairment on financial assets, and new general hedge accounting requirements. It also carries forward guidance on recognition and derecognition of financial instruments from AASB 139.

When adopting AASB 9, the Group has applied transitional relief and elected not to restate prior periods. Rather, differences arising from the adoption of AASB 9 in relation to classification, measurement, and impairment are recognised in opening retained earnings as at 1 July 2018.

On adoption of AASB 9, the Group has changed the accounting for impairment losses for financial assets and contract assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach, and has calculated ECLs based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

No adjustment was raised upon initial adoption. In addition, the adoption of AASB 9 has affected the classification of financial assets including the loans to shareholders of \$936,956 being reclassified on 1 July 2018 from other current assets into financial assets held at amortised cost. There is no change to the underlying accounting as 'amortised cost' applied under AASB 139 continue to apply under AASB 9.

### Reconciliation of financial instruments on adoption of AASB 9

On the date of initial application, 1 July 2018, the financial instruments of the Group were reclassified as follows:

	Notes	Measurement Category		Carrying Amounts		
		Original AASB 139 category	New AASB 9 category	Closing balance 30 June 2018 AASB 139 \$	Adoption of AASB 9 \$	Opening Balance 1 July 2018 AASB 9 \$
<b>Current financial assets</b>						
Trade and other receivables		Loans and receivables	Amortised cost	-	-	-
Cash and cash equivalents	8	Loans and receivables	Amortised cost	1,091,579	-	1,091,579
Shareholder loan	12	Held to maturity	Amortised cost	896,157	-	896,157
<b>Total financial assets</b>				<b>1,987,736</b>		<b>1,987,736</b>
<b>Current financial liabilities</b>						
Trade and other payables	17	Amortised cost	Amortised cost	638,235	-	638,235
Related party loans	19	Amortised cost	Amortised cost	1,000,000	-	1,000,000
<b>Total financial liabilities</b>				<b>1,638,235</b>	<b>-</b>	<b>1,638,235</b>

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments as well as loans to shareholders that were previously classified as held to-maturity under AASB 139.

#### AASB 15: Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. It replaced AASB 118 Revenue and AASB 111 Construction Contracts and related interpretations.

The Group has adopted AASB 15 from 1 July 2018 which resulted in changes in accounting policies, and an adjustment recognised in the half-year consolidated financial statements. In accordance with the transition provisions of AASB 15, the Group has adopted the modified retrospective transition approach, where any adjustment to historical revenue

transactions (that impacts net profit) would be recorded against opening retained earnings as at 1 July 2018 and comparatives are not restated.

The Group undertook a detailed review of its revenue contracts that were entered into during the transition period and concluded that an adjustment relating to the AGC Manufacturing Licence of \$3,384,150 (representing US\$2.5m translated at the spot rate on the date of transition) was required to the opening balances as a result of AASB 15 having a higher threshold in respect of constrained revenue than AASB 118.

For licence revenue, and in order to determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer,
2. Identifying the performance obligations,
3. Determining the transaction price,
4. Allocating the transaction price to the performance obligations,
5. Recognising revenue when/as performance obligation(s) are satisfied.

The Group will enter into licence transactions and receive upfront and milestone payments as part of research and development collaborations or out-licensing agreements.

The total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices using the residual method and cost method.

Revenue is recognised either at a point in time or over time, when (or as) the

Group satisfies performance obligations by transferring the promised goods or services to its customers. The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations or where revenue is constrained and reports these amounts as contract liabilities in the statement of financial position.

Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Licence revenue is determined with reference to performance obligations to provide either patents or IP.

Licence revenues are considered a right to use and recognised at a point in time, net of any revenue constraints. All revenue is licence revenue.

The assessment of the criteria for income recognition and the determination of the appropriate period during which income is recognised are subject to judgement where variable consideration that is constrained and revenue is recognised only when it is highly probable that there will not be a significant reversal of revenue.

The adjustment resulted in an increase in contract liability on initial recognition as follows:

Impact Area	Other equity \$	Retained earnings \$	Total equity \$
<b>Current liabilities</b>	-	3,384,150	3,384,150

The tables below highlight the impact of AASB 15 on the Group's statement of financial position for the year ending 30 June 2019. The adoption of AASB 15 did not have a material impact on the Group's statement of profit or loss and other comprehensive income and the statement of cash flows.

Statement of financial position (extract)	Amounts under AASB 118 & 111 \$	Adjustments \$	Amounts under AASB 15 \$
<b>Current liabilities</b>			
Contract liabilities		(3,384,150)	(3,384,150)
<b>Equity</b>			
Retained earnings	(29,774,504)	(3,384,150)	(33,158,654)

## 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 16 Leases

AASB 16:

- Replaces AASB 117 Leases and some lease-related interpretations
- Requires all leases to be accounted for 'on-balance sheet' by 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 and that the Group currently has no material leases, it is expected that the first-time adoption of AASB 16 for the year ending 30 June 2020 will not have a material impact on the transactions and balances recognised in the financial statements.

## 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 2019. 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 recognised 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 \$6,024,600 for the year ended 30 June 2019 (2018: \$5,184,600), had net cash outflows from operating activities of \$3,608,496 (2018: \$4,247,040) and as at 30 June 2018 has accumulated losses of \$37,875,379 (2018: \$29,774,504). The cash balance at 30 June was \$255,463.

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 2019 Regeneus had net liabilities of \$6,386,495 (2018: \$2,921,765 positive net assets).

During August 2019, as referred to in the subsequent event (Note 35) \$3.36 million was raised through the issue of equity. This was through a private placement of \$2.34 million, including \$1.4m of converted Director Loans, a rights issue of \$0.62 million, and an additional Directors subscription of \$0.40 million. Costs associated with the capital raisings are expected to be approximately \$0.3 million.

The funds raised have been used to pay creditors, accruals and restructuring costs. The restructuring completed subsequent to year end cost \$0.8 million and has reduced cash burn to approximately \$250k per month.

The Group will need to find additional sources of funding in order to continue as a going concern.

The Company continues to engage with brokers and other third parties to seek to

place the rights issue shortfall of circa \$750k before costs. The Directors are continuing to engage in discussions to enter into a clinical development and commercialisation licence with a Japanese partner. The discussions are positive and the Directors are expecting that formal agreement of terms will be achieved before the end of the calendar year 2019. If signed, it is expected that the licence arrangement will provide upfront funding and future payments contributing to the Group's funding requirements for the next 18 months.

In addition to this, the Directors continue to have a number of additional strategies available to maintain the Group in a positive cash flow position. These strategies include the availability of loan funding including the potential extension or replacement of the R&D loan, further product licensing or raising additional capital, including issuance of securities or further cost reduction strategies.

Should the above transactions or funding options 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, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

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.

#### **Classification and subsequent measurement of financial assets**

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into

the following categories upon initial recognition:

- amortised cost
- fair value through profit or loss (FVPL)
- equity instruments at fair value through other comprehensive income (FVOCI)
- debt instruments at fair value through other comprehensive income (FVOCI)

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Classifications are determined by both:

- The entities business model for managing the financial asset
- The contractual cash flow characteristics of the financial assets

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables, which is presented within other expenses.

#### Subsequent measurement financial assets

##### Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVPL):

- they are held within a business model whose objective is to hold the

financial assets and collect its contractual cash flows

- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments as well as government bonds that were previously classified as held-to-maturity under AASB 139.

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

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVPL.

All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

##### Equity instruments at fair value through other comprehensive income (Equity FVOCI)

Investments in equity instruments that are not held for trading are eligible for an irrevocable election at inception to be

measured at FVOCI. Under Equity FVOCI, subsequent movements in fair value are recognised in other comprehensive income and are never reclassified to profit or loss. Dividend from these investments continue to be recorded as other income within the profit or loss unless the dividend clearly represents return of capital.

##### Debt instruments at fair value through other comprehensive income (Debt FVOCI)

Financial assets with contractual cash flows representing solely payments of principal and interest and held within a business model of collecting the contractual cash flows and selling the assets are accounted for at debt FVOCI.

Any gains or losses recognised in OCI will be reclassified to profit or loss upon derecognition of the asset.

##### Impairment of Financial assets

AASB 9's impairment requirements use more forward looking information to recognize expected credit losses – the 'expected credit losses (ECL) model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under AASB 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

The Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts

that affect the expected collectability of the future cash flows of the instrument. In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

##### Trade and other receivables and contract assets

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix. The Group assess impairment of trade receivables on a collective basis as they possess

credit risk characteristics based on the days past due. The Group makes no allowance for amounts less than 90 days past due and writes off fully any amounts that are more than 90 days past due.

#### **Classification and measurement of financial liabilities**

As the accounting for financial liabilities remains largely unchanged from AASB 139, the Group's financial liabilities were not impacted by the adoption of AASB 9. However, for completeness, the accounting policy is disclosed below.

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

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

#### **Accounting policies applicable to comparative period (30 June 2018)**

##### **Classification and subsequent measurement of financial assets**

Until 30 June 2018, the Group classified its financial assets in the following categories:

- loans and receivables
- financial assets at fair value through profit or loss (FVPL)
- Held-to-maturity (HTM) investments; or
- Available-for-sale (AFS) financial assets

All financial assets except for those at fair value through profit or loss (FVPL) are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

##### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted

where the effect of discounting is immaterial.

The Group's 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 counterparty 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 counterparty and other shared credit risk characteristics.

The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

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

Financial assets at fair value through profit or loss (FVPL) include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVPL upon initial recognition.

All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active

market transactions or using a valuation technique where no active market exists.

##### **Held-to-maturity (HTM) investments**

Held-to-maturity (HTM) investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Group has the intention and ability to hold them until maturity. The Group currently does not hold items designated into this category.

Held-to-maturity (HTM) investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows.

Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

##### **Available-for-sale (AFS) financial assets**

Available-for-sale (AFS) financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Group's currently has no AFS financial assets.

Equity investments are measured at cost less any impairment charges. Where its fair value cannot be estimated reliably. Impairment charges are recognised in profit or loss. All other Available-for-sale (AFS) financial assets are measured at fair value.

Gains and losses are recognised in other comprehensive income and reported within the AFS reserve within equity, except for impairment losses and foreign exchange differences on monetary assets, which are recognised in profit or loss.

When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income.

Interest calculated using the effective interest method and dividends are recognised in profit or loss within 'finance income'.

Reversals of impairment losses for AFS debt securities are recognised in profit or loss if the reversal can be objectively related to an event occurring after the impairment loss was recognised. For AFS equity investments impairment reversals are not recognised in profit or loss and any subsequent increase in fair value is recognised in other comprehensive income.

#### **Classification and subsequent measurement of financial liabilities**

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVPL, that are carried

subsequently at fair value with gains or losses recognised in profit or loss.

All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVPL.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

#### **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**

For licence revenue, and in order to determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer,
2. Identifying the performance obligations,
3. Determining the transaction price,
4. Allocating the transaction price to the performance obligations,
5. Recognising revenue when/as performance obligation(s) are satisfied.

The Group will enter into licence transactions and receive upfront and milestone payments as part of research and development collaborations or out-licensing agreements.

The total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices using the residual method and cost method.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations or where revenue is constrained and reports these amounts as contract liabilities in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial

position, depending on whether something other than the passage of time is required before the consideration is due.

Licence revenue is determined with reference to performance obligations to provide either patents or IP. Licence revenues are considered a right to use and recognised at a point in time, net of any revenue constraints.

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).

The assessment of the criteria for income recognition and the determination of the appropriate period during which income is recognised are subject to judgement where variable consideration that is constrained and revenue is recognised only when it is highly probable that there will not be a significant reversal of revenue.

#### **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.

#### 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. Where approval is required at the AGM and the service period has commenced the expense is measured from the service period start date and is re-measured at grant date (being AGM). Any true up/adjustment is reflected in future periods.

#### 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 2019 and 2018, the Group has recognised income of \$1.44 million and \$2.16 million respectively. Refer note 6.

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.

#### Licence revenue

In December 2016 the Company entered into a Manufacturing Licence Agreement and Shareholders Agreement with AGC. As part of these arrangements and in

satisfaction of performance obligations the Company received an upfront payment and milestone payments totalling US\$6.5million. The Shareholders Agreement anticipated that AGC and Regeneus would work together to secure a marketing partner for the clinical development and commercialisation of Progenza in Japan. Furthermore, if securing such a partner was not achieved by 31 December 2018 then AGC had the opportunity to use US\$2.5 million, paid as upfront and milestone payments, to subscribe for shares in Regeneus and to also cancel the arrangements. Throughout the intervening period from signing the agreements to 31 December 2018 both parties worked diligently to appoint a marketing partner and expected that it would be finalised within the period.

As set out in the 30 June 2018 annual report, Management determined that the Group had met the revenue criteria outlined 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 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. On adoption of AASB 15 Management determined that an adjustment of \$3,384,150 (representing US\$2.5m translated at the spot rate on the date of transition) was required to the opening balances as a result of AASB 15 having a higher threshold in respect of constrained revenue than AASB 118.

As at 30 June 2019, a marketing partner has not been appointed. AGC has not taken the requisite steps to invoke the necessary termination clauses in the agreements. Should AGC invoke the relevant clauses in the Agreements, the financial liability would be settled in shares. As at 30 June 2019 the potential share issuance was equivalent to 41,932,941 shares at \$0.085 totalling \$3,564,300 (representing US\$2.5m translated at the spot rate at 30 June 2019). These shares remain unissued at the date of this report.

#### Loans to Shareholder

The Group holds full recourse loans to shareholders totalling \$896,157 that were provided at the time of the 2013 IPO. As outlined above, the Group has made an adjustment for expected credit losses. The Group assesses expected credit losses with reference to the history of losses and considering the value of shares held by the shareholders to determine future expected credit losses. The provision for expected credit losses has been raised against the loans to shareholders, reflecting the reduction in the share price to \$0.085 at balance date and the expected credit loss on realising these loans.



## 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 2019	30 June 2018
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 and other income

	2019 \$	2018 \$
<b>Operating activities</b>		
Licence fee income	-	575,406
Grants received	6,000	-
Interest received	19,077	35,105
<b>Total revenue</b>	<b>25,077</b>	<b>610,511</b>
<b>Other income</b>		
R&D incentive	1,441,782	2,164,595
<b>Total other income</b>	<b>1,441,782</b>	<b>2,164,595</b>

## 7. Results for the year

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

	2019 \$	2018 \$
<b>a. Expense</b>		
Rental expense on operating leases minimum lease payment	436,562	382,826
Amortisation of intangible assets	1,644	4,115
Depreciation	269,136	343,845
Loss on disposal of assets	2,284	-
Employment expenses (excludes share-based payment)	2,743,048	2,974,821
Superannuation expense	247,302	253,577
Share-based payments	100,490	6,457
<b>b. Finance costs</b>		
- Interest expense	320,926	2,350
- Bank and finance charges	81,874	23,512
<b>Total finance costs</b>	<b>402,800</b>	<b>25,862</b>

## 8. Cash and cash equivalents

Cash and cash equivalents include the following components:

	2019 \$	2018 \$
Cash on hand	11	11
Cash at bank (AUD account)	255,310	1,011,077
Cash at bank (USD account)	142	80,491
<b>Total cash and cash equivalents</b>	<b>255,463</b>	<b>1,091,579</b>

## 9. Inventories

Inventories consist of the following:

	2019 \$	2018 \$
Raw materials and consumables at cost	13,014	31,733
Less: Provisions	(4,399)	(16,397)
<b>Total inventories</b>	<b>8,615</b>	<b>15,336</b>

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

## 10. R&D incentive receivable

	2019 \$	2018 \$
<b>Current</b>		
R&D incentive receivable	1,249,440	2,164,595
<b>Total R&amp;D incentive receivable</b>	<b>1,249,440</b>	<b>2,164,595</b>

## 11. Other current assets

	2019 \$	2018 \$
Prepayments	14,609	44,044
Security deposits	-	38,743
GST receivable	50,407	62,520
Security deposit on leased premises	210,000	-
<b>Other current assets</b>	<b>275,016</b>	<b>145,307</b>

## 12. Financial assets at amortised cost

	2019 \$	2018 \$
Shareholder loan	896,157	896,157
Expected credit loss allowance	(300,000)	-
Shareholder loan	596,157	896,157

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. These loans are currently repayable.

While the loan is full recourse, in accordance with AASB 9 the ECL (expected credit loss) model credit risk has increased as the amounts are overdue and the share price has reduced. Accordingly, an expected credit loss allowance has been made.

At the date of this report the share price was \$0.07, if this was the share price at reporting date an additional impairment of \$84k would have been recorded in respect of the shareholder loans receivable.

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

	2019 \$	2018 \$
John Martin	-	295,925
Graham Vesey	150,552	150,552

John Martin resigned as a Director 29 March 2019. The loan to John Martin of \$295,925 remains payable at 30 June 2019.

## 13. 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 \$
<b>Gross carrying amount</b>					
<b>Balance 1 July 2018</b>	146,810	611,362	52,116	1,168,665	1,978,953
Additions	5,666	1,954			7,620
Disposals	12,585	-	-	-	12,585
Balance 30 June 2019	139,891	613,316	52,116	1,168,665	1,973,988
<b>Depreciation and impairment</b>					
Balance 1 July 2018	(85,900)	(412,304)	(52,116)	(1,011,385)	(1,561,705)
Disposals	10,301	-	-	-	10,301
Depreciation	(29,632)	(82,224)	-	(157,280)	(269,136)
Balance 30 June 2019	(105,231)	(494,528)	(52,116)	(1,168,665)	(1,820,540)
Carrying amount 30 June 2019	34,660	118,788	-	-	153,448
<b>Gross carrying amount</b>					
<b>Balance 1 July 2017</b>	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
<b>Depreciation and impairment</b>					
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

## 14. Intangible assets

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

	Acquired software licenses \$	Total \$
<b>Gross carrying amount</b>		
Balance at 1 July 2018	82,561	82,561
Balance at 30 June 2019	82,561	82,561
<b>Amortisation and impairment</b>		
Balance at 1 July 2018	(80,917)	(80,917)
Amortisation	(1,644)	(1,644)
Balance at 30 June 2019	(82,564)	(82,561)
Carrying amount 30 June 2019	-	-
<b>Gross carrying amount</b>		
Balance at 1 July 2017	82,561	82,561
Balance at 30 June 2018	82,561	82,561
<b>Amortisation and impairment</b>		
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

## 15. 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 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:

	2019 \$	2018 \$
Total assets (a)	7,350	82,526
Total liabilities	-	-
Net assets	7,350	82,526
(a) Includes cash and cash equivalents	7,350	82,526
<b>Revenue</b>		
Revenue	-	-
<b>Expenses</b>		
Expenses	(81,806)	(79,700)
Total comprehensive loss for the year	(81,806)	(79,700)
Share of comprehensive loss for the year	(40,903)	(39,850)
Exchange gain / (loss) on investment	3,315	3,113
Loss on investment accounted for using equity method	(37,588)	(36,737)

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	7,350	82,526
Proportion of ownership interests held by the Group	50%	50%
Carrying amount of the investment in Regeneus Japan inc.	3,675	41,263

The joint venture has no commitments or contingent liabilities other than those incurred in the normal course of business as at 30 June 2019 (2018:nil)

## 16. Other non-current assets

	2019 \$	2018 \$
<b>Non-current</b>		
Security deposit	-	210,000
<b>Total other non-current assets</b>	<b>-</b>	<b>210,000</b>

## 17. Trade and other payables

Trade and other payables consists of the following:

	2019 \$	2018 \$
<b>Current</b>		
Trade payables	391,306	372,157
Accruals	607,982	266,078
PAYG Payable	56,658	68,974
<b>Total trade and other payables</b>	<b>1,055,946</b>	<b>707,209</b>

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

### 17.1 Foreign currency risk

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

	2019 \$/¥	2018 \$
US dollar	12,078	111,150
Japanese Yen	350,000	-

## 18. Provisions

	2019 \$	2018 \$
<b>Current: Annual leave</b>		
Opening balance 1 July	111,398	115,484
Benefits accrued / (expensed)	(8,917)	(4,086)
<b>Balance as at 30 June</b>	<b>102,481</b>	<b>111,398</b>
<b>Current: Long service leave</b>		
Opening balance 1 July	-	-
Benefits transferred from non-current	40,196	-
<b>Balance as at 30 June</b>	<b>40,196</b>	<b>-</b>
<b>Current: Make good</b>		
Opening balance 1 July	53,700	-
Provision accrued	156,300	-
<b>Balance as at 30 June</b>	<b>210,000</b>	<b>-</b>
<b>Total current provisions</b>	<b>352,677</b>	<b>111,398</b>
<b>Non-current: Long service leave</b>		
Opening balance 1 July	189,057	136,707
Benefits accrued	26,525	52,350
Benefits transferred to current	(40,196)	-
<b>Balance as at 30 June</b>	<b>175,386</b>	<b>189,057</b>
<b>Non-current: Make good</b>		
Opening balance 1 July	-	52,000
Provision accrued	-	1,700
<b>Balance as at 30 June</b>	<b>-</b>	<b>53,700</b>
<b>Total non-current provisions</b>	<b>175,386</b>	<b>242,757</b>

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-fit-out state at the expiration of the lease agreement.

## 19. Other current liabilities

	2019 \$	2018 \$
<b>Current</b>		
Related party loan	1,280,000	1,000,000
Directors loan	2,500,000	-
<b>Total other current liabilities</b>	<b>3,780,000</b>	<b>1,000,000</b>

The Related party loan is the R&D loan facility provided by Paddington St Finance Pty Ltd. The Directors Loan relates to commercial loans provided by a number of Directors in February 2019, refer to note 28 for additional disclosure in relation to these balances.

## 20. Financial liabilities

	2019 \$	2018 \$
<b>Current</b>		
Financial liabilities	3,564,300	-
<b>Total financial liabilities</b>	<b>3,564,300</b>	<b>-</b>

In December 2016 the Company entered into a Manufacturing Licence Agreement and Shareholders Agreement with AGC. As part of these arrangements and in satisfaction of performance obligations the Company received an upfront payment and milestone payments totalling US\$6.5million. The Shareholders Agreement anticipated that AGC and Regeneus would work together to secure a marketing partner for the clinical development and commercialisation of Progenza in Japan. Furthermore, if securing such a partner was not achieved by 31 December 2018 then AGC had the opportunity to use US\$2.5million, paid as upfront and milestone payments, to subscribe for shares in Regeneus and to also terminate the arrangements. Throughout the intervening period from signing the agreements to 31 December 2018 both parties worked diligently to appoint a marketing partner and expected that it would be finalised within the requisite period.

As set out in the 30 June 2018 annual report, Management determined that the Group had met the revenue criteria outlined 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 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. On adoption of AASB 15 Management determined that an adjustment of \$3,384,150 to recognise a contract liability (representing US\$2.5m translated at the spot rate on the date of transition) was required to the opening balances as a result of AASB 15 having a higher threshold in respect of constrained revenue than AASB 118.

At 31 December 2018, the milestone was not met, and management determined that constrained revenue would not be recognised as revenue. Instead it was expected that there would be an obligation to issue a variable number of shares. Accordingly, the contract liability has been transferred to a financial liability on 1 January 2019.

As at 30 June 2019, a marketing partner has not been appointed. AGC has not taken the requisite steps to invoke the necessary clauses in the agreements. Should AGC invoke the relevant clauses in the Agreements, the contract liability would be settled in shares. As at 30 June 2019 the potential share issuance was equivalent to 41,932,941 shares at \$0.085 totalling \$3,564,300. These shares remain unissued at the date of this report.

## 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.

	2019 shares	2018 shares	2019 \$	2018 \$
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 2019, no shares or options were issued. (2019: nil).

### 21.2 Reserves

The details of reserves are as follows:

	Share option reserve \$	Total reserves \$
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
Share options expense	100,490	100,490
Options exercised	-	-
Transfer from reserves to retained earnings for options forfeited	(1,307,875)	(1,307,875)
Balance at 30 June 2019	412,065	412,065

## 22. Employee remuneration

### 22.1 Share-based employee remuneration

As at 30 June 2019 the Group maintained share-based option plans as part of employee remuneration. 5 million options were awarded in January 2019.

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 2017	2,733,834	0.16	6,888,210	0.24	9,622,044	0.22
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
Granted	-	-	5,000,000	0.23	5,000,000	0.23
Forfeited	(500,000)	0.28	(5,988,210)	0.25	(5,988,210)	0.25
Exercised	-	-	-	-	-	-
Outstanding at 30 June 2019	1,771,774	0.14	5,900,000	0.22	7,671,774	0.20
Exercisable at 30 June 2019	1,771,774	0.14	900,000	0.16	2,671,774	0.15
Exercisable at 30 June 2020	1,771,774	0.14	3,400,000	0.19	5,171,774	0.17

Other details of options currently outstanding:

- The range of exercise prices is \$0.136 to \$0.250
- The weighted average remaining contractual life is approximately 3 years
- The 5 million options awarded in January 2019 are subject to approval at the AGM

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	21 Oct 2014
Share price at date of grant	\$0.136	\$0.136	\$0.160
Volatility	45%	45%	244%
Option life	10 years	10 years	5 years
Dividend yield	0%	0%	0%
Risk free investment rate	5.10%	5.60%	2.80%
Fair value at grant date	\$0.085	\$0.085	\$0.179
Exercise price at date of grant	\$0.136	\$0.136	\$0.160

Grant date	31 Jan 2019	31 Jan 2019
Share price at date of grant	\$0.155	\$0.155
Volatility	57%	57%
Option life	5 years	5 years
Dividend yield	0%	0%
Risk free investment rate	1.9%	1.9%
Fair value at grant date	\$0.067	\$0.058
Exercise price at date of grant	\$0.20	\$0.25

In total, \$100,490 (2018: \$6,457), 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 deposit of \$210,000. The future minimum lease payments are as follows:

	Minimum lease payments due			Total \$
	Within 1 year \$	1-5 years \$	After 5 years \$	
30 June 2019	-	-	-	-
30 June 2018	225,165	-	-	225,165

During the current financial year the Group waived its right to exercise a 5 year option on its current premises and the lease expired 31 March 2019. The Group continues to rent the premises on a monthly basis. As part of a strategic review, premises requirements are being determined and will be resolved during FY2020. Further details are highlighted in the Subsequent events disclosure.



## 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% (2018: 27.5%) and the reported tax expense in profit or loss are as follows:

	2019 \$	2018 \$
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%	(1,656,765)	(1,425,765)
Less:		
Tax effect of:		
- Research and development incentive	(396,490)	(595,264)
- Tax losses applied / (not brought to account)	-	-
Add:		
Tax effect of:		
- Non-deductible expenses	1,008,459	1,978,301
- Timing differences	227,328	42,728
- Tax losses not brought to account	817,468	-
Income tax benefit	-	-
The applicable weighted average effective tax rates are as follows:	0%	0%
	2019 \$	2018 \$
Deferred tax losses not recognised		
Tax losses not recognised	8,460,797	2,610,199
Capital losses not recognised	833,534	833,534
Other deferred tax assets not recognised	3,425,339	1,676,068
<b>Total</b>	<b>12,719,670</b>	<b>5,119,801</b>
<b>Potential tax benefit</b>	<b>3,497,909</b>	<b>1,407,945</b>

## 25. Auditor's remuneration

	2019 \$	2018 \$
<b>Audit and review of financial statements</b>		
- Auditors of Regeneus Ltd – Grant Thornton	115,000	95,000
Remuneration for audit and review of financial statements	115,000	95,000
<b>Other services</b>		
Other services	-	-
Total other services remuneration	-	-
Total auditor's remuneration	115,000	90,000

## 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 2019 or 2018).

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:

	2019 \$	2018 \$
<b>Earnings per share</b>		
Basic earnings per share from continuing operations	(0.029)	(0.025)
The weighted average number of ordinary shares used as the denominator on calculating the EPS	208,885,143	208,885,143
<b>Diluted earnings per share</b>		
Diluted earnings per share from continuing operations	(0.029)	(0.025)
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

	2019 \$	2018 \$
<b>Cash flows from operating activities</b>		
(Loss) / Profit for the period	(6,024,600)	(5,184,600)
<b>Non cash adjustments for:</b>		
• Depreciation	269,136	343,845
• Amortisation	1,644	4,115
• Loss on disposal of plant and equipment	2,284	-
• Equity settled share-based transactions	100,490	6,457
• Interest - unwinding of shareholder loan	-	(21,855)
• Provision for shareholder loan	300,000	-
• Unrealised foreign exchange gain / (loss)	176,835	(3,113)
• Share of loss of on investments accounted for using the equity method	40,903	39,850
<b>Net changes in working capital:</b>		
• Change in inventories	6,721	6,612
• Change in trade and other receivables	-	770
• Change in other assets	80,291	120,791
• Change in trade and other payables	361,053	(43,266)
• Change in other employee obligations	(12,316)	7,266
• Change in tax assets	915,155	443,627
• Change in other liabilities	-	(17,502)
• Change in provisions	173,908	49,964
<b>Net cash inflow / (outflow) from operating activities</b>	<b>(3,608,496)</b>	<b>(4,247,040)</b>

## 28. Related party transactions and loans

On 29 June 2018 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 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.

On 27 August 2018, the Board of Directors renegotiated the payment terms of the loan to Paddington St Finance Pty Ltd. Paddington St Finance agreed to defer the repayment of the loan to the earlier of receipt of the next milestone payment under the manufacturing licence with AGC; the receipt of the FY19 R&D Tax Incentive; and 30 September 2019.

In February 2019 the terms were further amended such that all interest from 1 October 2018 is accrued. The accrued interest and principal will be repayable from the Group's R&D tax incentive receipts for 2019 unless the Group has raised more than \$6 million from either a capital raise or the sale, licensing or other disposal of any of the Group's assets. Where \$6 million has not been raised and the R&D tax incentive receipts for 2019 are insufficient to repay the principal and capitalised interest, the Group will enter into a new loan deed, on substantially the same terms, in respect of the balance of principal and accrued interest remaining, which will be repayable from the Group's R&D tax incentive receipts for 2020.

The initial drawdown in FY18 was for \$1.00 million. During the reporting period a number of further drawdowns were undertaken increasing the loan to \$1.88 million. Subsequent repayments and redraws over the year have given rise to a principal loan balance at 30 June 2019 of \$1.28 million.

Full repayment of the loan is anticipated to be completed by the end of September 2019.

On the 28 February 2019, the Company received loans from the Directors totalling \$2,500,000. Regeneus had previously considered funding from other sources and determined these Director loans were the most attractive commercial arrangement and entered into the necessary arrangement on arm's length terms. The loans are unsecured and repayable on the earlier of 2 March 2020 or 10 days after a capital raise sufficient to fund repayment of the loans of the Company and support the working capital requirements of the Company for the following 12 months, as reasonably determined by the Board of Directors.

Related party transactions	2019 \$	2018 \$
<b>Paddington St Finance Pty Ltd</b>		
Balance at beginning of the year	1,000,000	-
Loan received	2,160,000	1,000,000
Loan repaid	(1,880,000)	-
Balance at year end	1,280,000	1,000,000
Interest charged	(194,627)	-
Net received from Paddington St Finance	85,373	1,000,000
<b>Directors Loans Received</b>		
Leo Lee	2,100,000	-
Barry Sechos	250,000	-
Glen Richards	100,000	-
John Martin	50,000	-
Balance at year end	2,500,000	-
Interest charged	(125,000)	-
Total received from Directors	2,375,000	-
Total received from related parties	2,460,373	1,000,000

In addition, a balance of \$152,143 (2018: \$nil) due to Paddington Street Finance and interest accrued of \$125,000 due on the director's loans is included in trade payables.

Loans receivable relate to the shareholder loan, terms of which are disclosed in Note 13

Related party loan receivable	2019 \$	2018 \$
John Martin	-	295,925
Graham Vesey	150,552	150,552
Total related party loans	150,552	446,477

John Martin resigned as a Director 29 April 2019. The loan to John Martin of \$295,925 remains payable at 30 June 2019.

## 29. Transactions with key management personnel

Key management personnel remuneration includes the following expenses:

	2019 \$	2018 \$
Salaries & Fees	886,512	757,000
Short term incentive	-	250,000
Total short-term employee benefits	886,512	1,007,000
Defined contribution pension plans	40,723	51,015
Other long-term benefits	(34,879)	12,674
Share-based payments	100,490	-
Total remuneration	992,846	1,070,689

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 2019 (30 June 2018: \$nil).

## 31. Capital expenditure commitments

There were no capital commitments as at the 30 June 2019 (30 June 2018: \$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 9 as detailed in the accounting policies to these financial statements, are as follows:

Financial assets at amortised cost	2019 \$	2018 \$
Trade and other receivables	-	-
Cash and cash equivalents	255,463	1,091,579
Shareholder loan	596,157	896,157
<b>Total financial assets at amortised cost</b>	<b>851,620</b>	<b>1,987,736</b>

Financial liabilities at amortised cost	2019 \$	2018 \$
Trade and other payables	999,288	638,235
Related party loan	1,280,000	1,000,000
Directors' loans	2,500,000	-
Financial liabilities	3,564,300	-
<b>Total financial liabilities at amortised cost</b>	<b>8,343,588</b>	<b>1,638,235</b>

### 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 2019 US\$100 (30 June 2018: US\$59,462) and US\$2.5m financial liability. 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 & JPY) at 30 June 2019 is \$24,300 (2018: \$111,150), 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 and JPY / AUD exchange rate 'all other things equal'. It assumes a +/- 10% change of the AUD / USD and the AUD / JPY exchange rate for the year ended at 30 June 2019 (2018: 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 and the AUD / JPY would have the following impact:

Profit / (loss) impact of exchange rate sensitivity	2019 \$	2018 \$
If AUD had strengthened against USD & JPY by 10% (2018: 10%)	(177,188)	6,358
If AUD had weakened against USD & JPY by 10% (2018: 10%)	177,694	(7,770)

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 relies on the Groups Capital Management Policies and in conjunction with these 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 2019 the Group's non-derivative financial liabilities have contractual maturities as summarised below:

	2019 Current within 6 months \$	2019 Current within 6 to 12 months \$	2018 Current within 6 months \$	2018 Current within 6 to 12 months \$
Trade and other payables	874,288	-	638,235	-
Related party loan	1,280,000	-	1,000,000	-
Directors' loans	-	2,500,000	1,000,000	-
Financial Liabilities	3,564,300	-	-	-
<b>Total financial liabilities</b>	<b>5,718,588</b>	<b>2,500,000</b>	<b>1,638,235</b>	<b>-</b>

#### 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.

Other financial assets at amortised cost include loans to shareholders.

The Group applies the AASB 9 simplified model of recognising lifetime expected credit losses for loans to shareholders as these items do not have a significant financing component.

In measuring the expected credit losses, loans to shareholders have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due and also according to the geographical location of customers.

The expected loss rates are based on the repayment profile over the past 48 months before 30 June 2019 as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking factors affecting the customer's ability to settle the amount outstanding. The group has identified liquidity in the Company's shares to be the most relevant factor and adjusts loss rates for expected changes in these factors. However given the short period exposed to credit risk, the impact of these factors has not been considered significant within the reporting period.

Loans to shareholders are written off (ie derecognised) when there is significant change in the share price of the Company and a likely change in the expectation of recovery. The reduction in the Company share price at 30 June 2019 and the failure to make payments at the loan due date and to engage with the Group on alternative payment arrangement amongst other is considered indicative of a reduced expectation of recovery.

On the above basis the expected credit loss for the shareholder loan as at 30 June 2019 was determined as follows:

	Stage 1 \$	Stage 2 \$	Stage 3 \$	Total \$
Expected credit loss rate	0%	33%	100%	-
Gross carrying amount	-	896,157	-	896,157
Lifetime expected credit loss	-	(300,000)	-	(300,000)

#### 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 assets or liabilities held at fair value and 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.

	2019 \$	2018 \$
Statement of financial position		
Current assets	2,384,591	4,312,874
Total assets	2,541,714	4,983,029
Current liabilities	8,752,923	1,818,607
Total liabilities	8,928,309	2,061,364
Net assets	(6,386,595)	2,921,665
Issued capital	31,076,819	31,076,819
Retained earnings	(37,766,736)	(29,774,604)
Option reserve	412,065	1,619,450
Total equity	(6,386,595)	2,921,665
Statement of profit or loss and other comprehensive income		
Profit / (Loss) for the year	(6,024,600)	(5,184,600)
Other comprehensive income	-	-
Total comprehensive profit or (loss)	(6,024,600)	(5,184,600)

### 35. Subsequent events

In the period from 30 June 2019 through to the signing of the financial report a number of important events have occurred:

On 31 July 2019, AGC and Regeneus signed a variation to the joint venture agreements previously entered into, under which the parties acknowledge AGC has the right to terminate the joint venture arrangements and related agreements on the earlier of 31 December 2019 or such other date as may be agreed between the parties. Further, within 120 days of such termination AGC may elect to use US\$2,500,000 of upfront and milestone payments previously paid to Regeneus to subscribe for shares in Regeneus at a fixed subscription price of AUD\$0.16 per share. Upon such termination, RGS will acquire all of AGC's shares in the joint venture at a price equal to 50% of the Company's value as at 31 December 2018.

On August 1 the Company made a private placement of 29,250,000 shares at 8 cents per share, which raised new capital of \$2.34 million. The Company also announced a 1 for 6 rights issue which was partly underwritten by the conversion of \$1.4 million of the Directors' loans and Directors' subscribing for a further \$0.4 million of shares.

On August 30 the Company announced the results of the non renounceable rights issue. 7,751,973 new shares were issued at 8 cents per share raising a further \$620k. Additionally, as part of the underwriting arrangements entered into between the Company and some of its Directors in respect of this rights issue:

- \$1.4 million, previously loaned to the Company by these Directors in February 2019 (and which was repayable in March 2020), has been converted to 17.5 million ordinary shares, to be issued to these participating Directors (or related parties) at 8 cents per share; and
- an additional \$400k has been contributed by some Directors in cash, with 5 million ordinary shares to be issued to these Directors (or related parties) under the rights issue at 8 cents per share.

The shortfall following the underwriting is 9,437,872 New Shares (Shortfall Shares). The directors of Regeneus reserve the right, subject to the requirements of the Corporations Act and the ASX Listing Rules, to place any Shortfall Shares within 3 months of the closing date at the Directors' discretion and at a price not less than the Offer Price.

Costs associated with these capital raising are not expected to exceed \$300k.

On August 13 the Company announced the implementation of strategic focus and cost containment activities. The outcome of these activities is the reduction in recurring operating costs to \$250k per month. Further one off cash costs of implementation are expected to be less than \$800k.

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 2019 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 2019.
3. Note 2 confirms that the consolidated financial statements also comply with International Financial Reporting Standards.

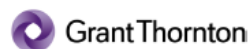
Signed in accordance with a resolution of the Board of Directors:

A handwritten signature in black ink, appearing to be 'Leo Lee', with a long horizontal stroke extending to the right.

CEO and Executive Director  
Leo Lee

Dated the 25<sup>th</sup> day of September 2019.

# Auditor's Report



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## Independent Auditor's Report

To the Members of Regeneus Ltd

Report on the audit of the financial report

### Opinion

We have audited the financial report of Regeneus Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, 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 2019 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.

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#### 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 \$6,024,600 and had net cash outflows from operating activities of \$3,808,496 during the year ended 30 June 2019, and as of that date had a cash balance of \$255,483. 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
<p><b>Carrying value of financial assets held at amortised cost - Notes 3w and 12</b></p> <p>The recoverability of the shareholder loan was significant to our audit due to the value of the financial assets that were past due as at year end.</p> <p>From 1 July 2018 the group was required to adopt AASB 9 Financial Instruments ("AASB 9"). The standard requires the adoption of an expected credit loss model, which involves judgement as expected credit losses must reflect information about past events, current conditions and forecasts of future conditions as well as the time value of money. The group determines the expected credit losses with reference to the history of losses and considering the value of shares held by shareholders to determine future expected credit losses. Changes in the Group's share price therefore may affect the recoverability of the loan.</p> <p>This area is a key audit matter because there is judgement required to assess the expected credit loss. The expected credit loss is reliant on the share price of the Group which has been subject to volatility during the period.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• reviewing the provision for shareholder loans receivable for compliance with the requirements of AASB 9;</li> <li>• reviewing share price movements subsequent to period end; and</li> <li>• reviewing the appropriateness of the related disclosures within the financial statements, in particular those related to the first time application of AASB 9.</li> </ul>
<p><b>Revenue – Notes 3w, 6 and 20</b></p> <p>In December 2018 the Company entered into a Manufacturing Licence Agreement and Shareholders Agreement with AGC. As part of these arrangements and in satisfaction of performance obligations the Company received an upfront payment and milestone payments totalling US\$8.5million. The Shareholders Agreement anticipated that AGC and Regeneus would work together to secure a marketing partner for the clinical development and commercialisation of Progenza in Japan. Furthermore, if securing such a partner was not achieved by 31 December 2018 then AGC had the opportunity to use US\$2.5 million, paid as upfront and milestone payments, to subscribe for shares in Regeneus and to also cancel the arrangements.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• reviewing the Group's revenue recognition policies and evaluating compliance with AASB 15;</li> <li>• assessing the transition to AASB 15, including reviewing the calculation of the contract liability as at 1 July 2018;</li> <li>• assessing the classification and calculation of the contract liability as at 30 June 2018 and the financial liability at 30 June 2019; and</li> <li>• evaluating compliance of the related disclosures in the financial statements.</li> </ul>

#### Key audit matter

#### How our audit addressed the key audit matter

##### Revenue – Notes 3w, 6 and 20 (cont'd)

AASB 15: Revenue from Contracts with Customers has been adopted by the Group from 1 July 2018 and there is a risk that revenue recognition would change on the adoption of the new standard.

This area is a key audit matter due to the management judgement involved in determining performance obligations and the points in time at which revenue should be recognised under AASB 15.

##### Recognition of the R&D tax incentive – Notes 3w and 6

The Group receives a 43.5% refundable tax offset (2018: 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 2018 to 30 June 2019.

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.

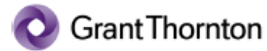
#### Information other than the financial report and auditor's report thereon

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 2019, 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.



#### 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](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 8 to 12 of the Directors' report for the year ended 30 June 2019.

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

#### Responsibilities

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

Grant Thornton Audit Pty Ltd  
Chartered Accountants

L M Worsley  
Partner – Audit & Assurance

Sydney, 25 September 2019

# 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 25 October 2019.

## 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](http://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
Mr Yao Lee	13,511,000

## 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	235,803,410	2,671,774
10,001 to 100,000	29,744,702	-
5,001 to 10,000	2,040,221	-
1,001 to 5,000	788,461	-
1 to 1,000	10,322	-
	268,387,116	2,671,774
Unmarketable parcels	1,134,913	

## Buy back of shares

There is no buy back of shares on offer

## Unissued equity securities

Options issued under the options plans total 2,671,774

## Ordinary shares

Twenty largest shareholders	Number held	% of issued shares
HSBC Custody Nominees	18,346,500	6.84
Vesey Investments Pty Ltd	14,399,642	5.37
Mr Yao Lee	13,511,000	5.03
J P Morgan Nominees Australia Limited	11,226,673	4.18
Mr Thomas Mechtersheimer	6,133,433	2.29
SMC Capital Pty Ltd	5,216,726	1.94
John Martin	4,384,682	1.63
Mrs Julia Caroline Hughes	3,748,942	1.40
MLB Holdings Pty Ltd	3,500,000	1.30
Kensington Trust Singapore Ltd	3,125,000	1.16
Shaun Sundberg	3,125,000	1.16
Maximum (NQ) Pty Ltd	3,041,666	1.13
Dr Marc Ronald Wilkins	2,985,161	1.11
Citicorp Nominees Pty Limited	2,513,456	0.94
Bubbling Wells Pty Ltd	2,500,000	0.93
Mr Pierre Frederic Malou	2,376,538	0.89
McGuire Family Holdings Pty Ltd	2,050,000	0.76
Dr Benjamin Ross Herbert	2,013,973	0.75
KBRoss Pty Ltd	2,000,000	0.75
Bacau Pty Ltd	1,940,732	0.72
Rose Martin	1,863,642	0.69
<b>Total</b>	<b>110,002,766</b>	<b>40.99</b>
Balance of register	158,384,350	59.01
<b>Grand total</b>	<b>268,387,116</b>	<b>100.00</b>

## 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](http://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

## Registered Office and Principal Place of Business

2 Paddington St  
Paddington, NSW 2021

## Board of Directors

Barry Sechos (Non-executive Chairman)  
Leo Lee (Executive Director)  
Professor Graham Vesey (Executive Director)  
Dr. Glen Richards (Non-executive Director)  
Dr John Chiplin (Non-executive Director)  
Dr Alan Dunton (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

