



**paradigm**  
BIOPHARMA

## **Paradigm Biopharmaceuticals Limited**

ABN 94 169 346 963

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## **2019 ANNUAL REPORT**

PARADIGM BIOPHARMACEUTICALS LIMITED  
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**General Information**

The Financial Statements cover Paradigm Biopharmaceuticals Limited as a Consolidated Entity consisting of Paradigm Biopharmaceuticals Limited and the entities it controlled at the end of, or during the year. The Financial Statements are presented in Australian dollars, which is Paradigm Biopharmaceuticals Limited's functional and presentation currency.

Paradigm Biopharmaceuticals Limited is a listed public company limited by shares, incorporated and domiciled in Australia. A description of the nature of the Consolidated Entity's operations and its principal activities are included as part of the Financial Statements.

The Financial Statements were authorised for issue, in accordance with a resolution of Directors, on 30 August 2019. The Directors have the power to amend and reissue the Financial Statements.

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PARADIGM BIOPHARMACEUTICALS LIMITED  
CORPORATE DIRECTORY

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**Directors**

Mr Graeme Kaufman	–	Chairman & Non-Executive Director
Mr Paul Rennie	–	Managing & Executive Director
Mr Christopher Fullerton	–	Non-Executive Director
Mr John Gaffney	–	Non-Executive Director

**Company Secretary**

Mr Kevin Hollingsworth

**Principal Place of Business**

Level 15, 500 Collins Street  
Melbourne, VIC 3000

**Registered Office**

C/-Hollingsworth & Co Pty Ltd  
Level 2, 517 Flinders Lane  
Melbourne, VIC 3000

**Auditor**

RSM Australia Partners  
Level 21  
55 Collins Street  
Melbourne, VIC 3000

**Solicitors**

K&L Gates  
Level 25, South Tower, 525 Collins Street  
Melbourne, VIC 3000

**Share Registry**

Computershare Limited  
Yarra Falls, 452 Johnston Street  
Abbotsford, VIC 3067

Telephone: (61-3) 1300 137 328

**Bankers**

Commonwealth Bank  
Level 20, Tower One, Collins Square  
727 Collins Street  
Melbourne, VIC 3008

**Stock Exchange**

ASX Limited  
Level 4, North Tower, 525 Collins Street  
Melbourne, VIC 3000

**ASX Code: PAR**

**Website**

[www.paradigmbiopharma.com](http://www.paradigmbiopharma.com)

PARADIGM BIOPHARMACEUTICALS LIMITED  
CHAIRMAN'S REPORT

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Dear Shareholders,

I am pleased to present the 2019 Annual Report for Paradigm Biopharmaceuticals Limited.

The Company listed on the Australian Securities Exchange (ASX: PAR) on 19 August 2015. Our business model is to repurpose the historic drug injectable pentosan polysulfate sodium (iPPS) for new clinical indications.

During the last financial year, the Company has conducted two Phase 2 clinical trials.

The first is a Phase 2b randomised, double-blind, placebo-controlled multicentre clinical trial investigating iPPS in subjects with osteoarthritis and concurrent bone marrow edema lesions. The recruitment of the 124 subjects (total population) into the clinical trial commenced in November 2017 and concluded August 2018. The primary endpoint was reduction in pain from baseline and it was successfully met ( $P < 0.0001$ ). Paradigm is now preparing for a pivotal Phase 3 clinical trial to be conducted in the USA, EU and Australia. There is a global trend for safe and effective non-opioid and non-steroid pain relief for chronic disease such as osteoarthritis which presents a huge market opportunity for Paradigm's iPPS.

The Company also commenced, July 2017, a Phase 2a randomised, double-blind, placebo controlled clinical study investigating iPPS to treat people recently infected with the alpha virus - Ross River virus. The alpha virus is transmitted to humans via infected mosquitos. The clinical trial successfully concluded February 2019. Like our OA program this program is also a very exciting commercial opportunity as there are currently no registered vaccines or therapeutics to treat the ten thousand cases of Ross River infections in Australia each year nor the closely related alpha virus Chikungunya virus. Chikungunya virus is endemic in many countries and there are millions of cases diagnosed each year again with no registered vaccines or therapeutics to treat this debilitating disease.

In addition to the two lead clinical indications, the Company has generated innovative PPS proof-of-concept, nonclinical and clinical data for a new indication for MPS which further expands our pipeline.

The Company continues to execute on its drug repurposing business strategy. Last financial year the Company continued the prudent use of shareholder funds spending directly 70% of expenditure on the clinical trial programs.

Given the success in the two Phase 2 clinical trials, the Paradigm Board has made the decision to focus our resources on the lead clinical programs of osteoarthritis, alpha virus infection and the rare disease mucopolysaccharidosis (MPS).

With two Phase 2 clinical trials reading out this year it is an exciting time for the Company, and I acknowledge the terrific support of our shareholders which is so important to the Company. I also thank our CEO, Paul Rennie, and his management team for the very significant outcomes they have achieved in the past 12 months since my last report.

On behalf of the Directors,



Graeme Kaufman  
Chairman  
Melbourne, Victoria  
30 August 2019

Dear Shareholders,

I am pleased to report on the progress made by the executive management team of Paradigm Biopharmaceuticals Limited and its controlled entities ("Paradigm") during the past 12 months.

Paradigm's business plan is to repurpose the historic drug injectable Pentosan Polysulfate Sodium (iPPS) for new indications with unmet medical needs. We maintain a high focus on prudently managing shareholders funds while at the same time rapidly and efficiently executing on our clinical development plans. Over the past 12 months Paradigm has completed two Phase 2 clinical trials and in-licensed new intellectual property from the Icahn School of Medicine, Mt Sinai New York.

## Clinical Development

### 1. Bone Marrow Edema Lesions – Osteoarthritis

Osteoarthritis (OA) is the most prevalent form of joint disease, affecting as much as 13% of the world's population. An estimated 33 million people in the USA and over 3 million people in Australia suffer from degenerative osteoarthritis.

"The presence of bone marrow edema lesions (BMELs) has been linked to chronic pain and progression of OA. The prevalence and severity of BMELs are associated with less cartilage loss over 2 years. Moreover, severity of BMLs was positively associated with risk of knee joint replacement. This provides further support for the importance of BMELs in identifying those with OA most likely to progress. Identifying factors that prevent or reduce the severity of BMELs may provide an important target in the prevention of disease progression and treatment of OA, and the subsequent need for total knee replacement surgery"<sup>2</sup>.

In the US alone, the financial burden of OA has been estimated to be \$81 billion in medical costs and \$128 billion in total cost, given approximately 21 million people with OA associated limitations, 36 million outpatient visits and 750,000 hospitalizations per year<sup>3</sup>.

Opioid medicines are used by a large percentage of patients who have advanced knee, hip, or spine osteoarthritis to manage their chronic pain. Dr Scott Gottlieb, M.D., ex-Commissioner of the U.S. Food and Drug Administration said on 14 May 2018, "The biggest public health crisis facing FDA is opioid addiction. Not a day goes by in my role at FDA without hearing stories of the emotional, physical, and financial toll this epidemic is taking on Americans"<sup>4</sup>.

iPPS is a non-opioid drug which is safe and has potential to disrupt the pharmaceutical market for the treatment for chronic pain arising from osteoarthritis.

The Phase 2b results were a resounding success. They demonstrated that iPPS achieved clinically meaningful and statistically significant results in the primary symptoms of osteoarthritis (pain and joint function) and also showed improvements in the structural changes of the joint. Paradigm is pleased to report the Phase 2b clinical trial achieved both symptomatic and radiographic (MRI) improvement.

Given the success of the Phase 2b clinical trial, Paradigm will apply to the US FDA for a pivotal Phase 3 clinical trial with a Pre-IND meeting with the US FDA targeted for Q3 CY 2019.

### 2. Alphavirus – Ross River virus (RRV) and Chikungunya virus (CHIKV)

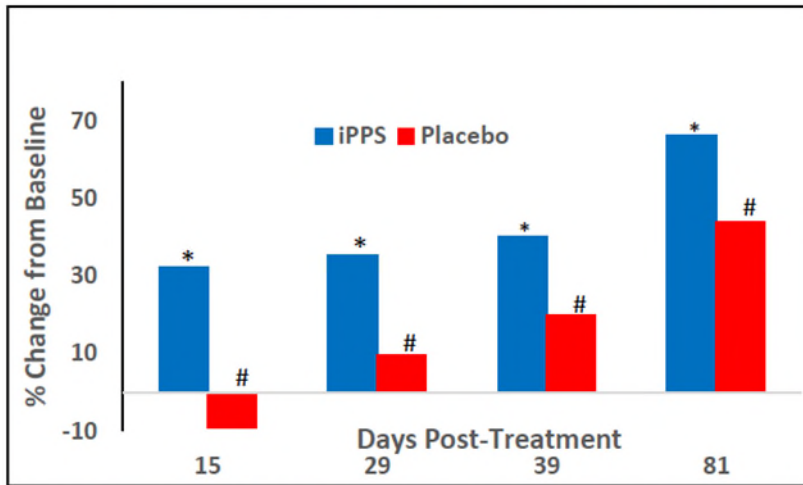
Alphavirus disease causes crippling pain and joint arthritis, which often has an extended duration of months or years. In 2016 Chikungunya virus (CHIKV) expanded in the Americas, with approximately 1 million cases reported there and again another 1 million new cases in the first half of 2017. Ross River Virus (RRV) continues to circulate in the South Pacific. Currently, there are no registered specific treatments for Alphavirus disease, and the increasing spread of the viral infection highlights an urgent need for novel therapeutic interventional strategies. In the preclinical research RRV infection was demonstrated to damage the articular cartilage, including a loss of proteoglycans within the joint. PPS reduced the severity of both RRV- and CHIKV-induced muscle and joint pain, including a reduction in inflammation and joint swelling. The preclinical data along with 20 people with RRV treated with PPS in a pilot study suggested PPS was safe, well tolerated and had effect on the pain and viral arthritis associated with an alphavirus infection.

The encouraging results from the preclinical and pilot human study provided the rationale for the Phase 2a randomised, double-blind, placebo controlled clinical study which commenced treating study participants in August 2017.

- Primary end point met.
- The secondary end points demonstrated injectable pentosan polysulfate sodium (iPPS) reduced RRV disease symptoms compared to placebo.
- At 3 months follow-up 72.7% (8/11) of subjects in the iPPS group showed near remission of symptoms based on Rapid-3 disease assessment in contrast to 14.3% (1/7) in the placebo group.
- Current treatments for RRV are pain relief (paracetamol) and anti-inflammatories (NSAID's). No current treatment has been shown to shorten the duration or alter the course of RRV.
- The RRV clinical data will support discussions with US Department of Defense and pharmaceutical companies with tropical disease programs.

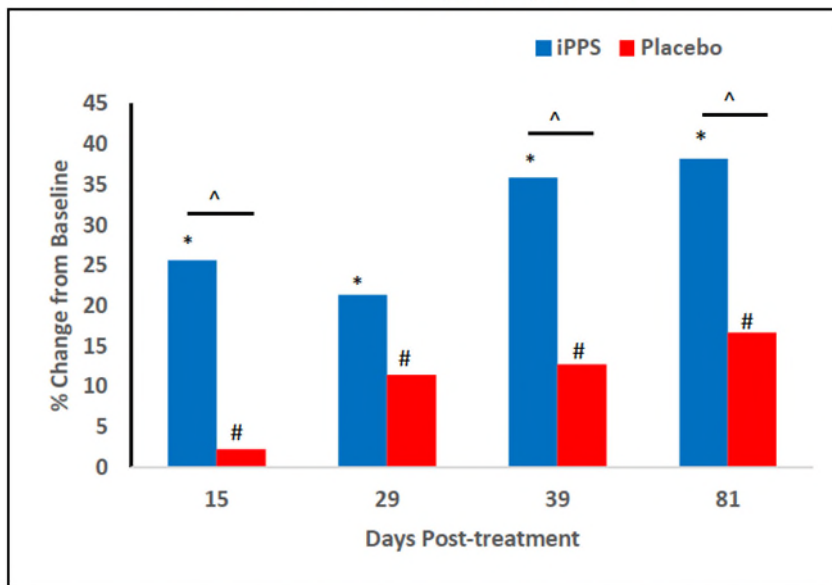
2. Alphavirus – Ross River virus (RRV) and Chikungunya virus (CHIKV) (cont'd)

Chart 1: Hand Grip Strength (Joint Function)



\* Statistically significant at  $p < 0.05$  from baseline; # Not significant from baseline

Chart 2: SF-36 Total (Quality of Life)

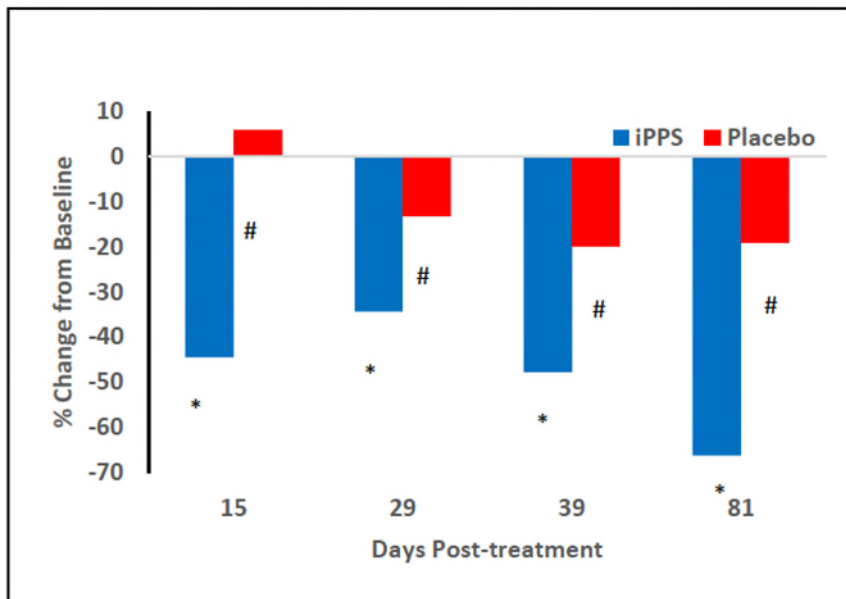


\* Statistically significant at  $p < 0.05$  from baseline ; # Not significant from baseline;

^ Statistically significant between iPPS and Placebo at  $p < 0.05$

2. Alphavirus – Ross River virus (RRV) and Chikungunya virus (CHIKV) (cont'd)

Chart 3: RAPID-3 Total (Joint Symptoms)



\* Statistically significant at  $p < 0.05$  from baseline; # Not significant from baseline

- We are very pleased to report this pilot RRV study yielded very promising safety data and key efficacy outcomes especially the outcome of the reduction of disease symptoms in this debilitating chronic phase of the disease. At 3 months follow-up 72.7% (8/11) of subjects in the iPPS group showed near remission of symptoms based on Rapid-3 disease assessment in contrast to 14.3% (1/7) in the placebo group.

The human data on the effects of iPPS in RRV induced arthralgia together with our preclinical work on CHIKV will progress our commercial discussions with US Department of Defense.

3. Allergic Rhinitis / hay fever

Intranasal corticosteroids and anti-histamines are the current first line therapies used to treat the symptoms of allergic rhinitis. Paradigm developed a non-steroid-based intranasal PPS spray and conducted a Phase 1 safety study and a Phase 2a randomised double-blind placebo cross over clinical study. In May 2017, Paradigm reported the Phase 2 study failed to meet its primary clinical endpoints. This was an unexpected outcome, and the clinical data is being reviewed by industry experts to determine our next steps with the Allergic Rhinitis program.

Paradigm remains committed to its respiratory asset. Further R&D will be undertaken to identify the reasons for the lack of translation from the preclinical Allergic Rhinitis results into the Phase 2 human clinical trial. Depending on Paradigm's findings the Allergic Rhinitis Phase 2 study could be repeated, or the Allergic Rhinitis program may be terminated in preference to its Asthma or Chronic Obstructive Pulmonary Disease (COPD) programs.

4. Mucopolysaccharidosis (MPS)

During the past 12 months, Paradigm in-licensed patents claiming the use of iPPS to treat the rare disease of mucopolysaccharidosis (MPS). MPS is a rare genetic disease which is currently treated with enzyme replacement therapy (ERT). ERT is known to have limited effects on some organs, especially the skeletal system. In MPS animal models PPS reduces the concentrations of glycosaminoglycans (GAGs) in tissues and body fluids and improves cartilage and bone pathologies. A Phase 2a clinical trial (Hennermann J et al 2016)<sup>1</sup> conducted in Germany demonstrated that MPS patients had reduced urinary GAG levels, reduced pain and improved joint mobility. In the Phase 2a clinical trial all subjects received ERT and iPPS. iPPS has the potential to be adjunctive therapy with ERT for MPS sufferers.

Research & Development

A focused Research & Development (R&D) program will be undertaken to identify and develop second generation products and the pain reducing mechanism of action of iPPS with osteoarthritis. This R&D program will be managed by Paradigm's Chief Scientific Officer. Paradigm will continue to outsource its R&D to world-class research laboratories and CRO's. In line with Paradigm's publication policy it will publish the pre-clinical studies in peer-reviewed scientific journals.

### Intellectual Property

**BME Patent:** Paradigm's Bone Marrow Edema Lesion (BMEL) patent family has expanded with three new patents filed during the past 12 months. The new patents include new indications within the BMEL patent family.

**Respiratory Patent:** Paradigm's respiratory patent covers the use of PPS for treating Allergic Rhinitis, Allergic Asthma and COPD. The Respiratory patent is now granted in Australia, New Zealand, China, Canada and Europe.

Managing shareholder funds and delivering on our clinical milestones continue to be our top corporate priorities. The significant achievements in the past 12 months have been made possible by our highly talented and productive employees and consultants. I would also like to acknowledge the outstanding support of Paradigm's clinical & regulatory staff, scientific & medical professionals and our manufacturing partners.



Paul Rennie  
Chief Executive Officer

### References:

<sup>1</sup>Treatment with pentosan polysulphate in patients with MPS I: results from an open label, randomized, monocentric phase II study. Hennermann J et al.

<sup>2</sup> Rheumatology; Bone marrow lesions in people with knee osteoarthritis predict progression of disease and joint replacement: a longitudinal study; Tanamas S K et al 2010.

<sup>3</sup> National Institute of Health; Emerging drugs for osteoarthritis; Hunter DJ and Matthews G 16(3): 479–491; 2011 September.

<sup>4</sup> <https://blogs.fda.gov/fdavoices/index.php/2018/05/addressing-needs-of-patients-while-stemming-the-tide-of-the-opioid-crisis/>



PARADIGM BIOPHARMACEUTICALS LIMITED  
DIRECTORS' REPORT

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Directors present their report together with the financial report of Paradigm Biopharmaceuticals Limited and its controlled entities ("Paradigm"), for the financial year ended 30 June 2019, and the Auditor's Report thereon.

## DIRECTORS

### Information on Directors

The Directors of Paradigm at any time during or since the end of the financial year are:

#### **Graeme Kaufman, Chairman and Non-Executive Director (Appointed on 02 May 2014)**

Graeme Kaufman BSc, MBA, has wide ranging experience across the biotechnology sector, spanning scientific, commercial and financial areas. His experience with CSL Limited, Australia's largest biopharmaceutical company included responsibility for all of their manufacturing facilities, and the operation of an independent business division operating in the high technology medical device market. As CSL's General Manager Finance, Mr Kaufman had global responsibility for finance, strategy development, human resources and information technology. Mr Kaufman has also served as an Executive Director of ASX-listed Circadian Technologies and a Non-Executive Director of Amrad Corporation and held the role of Executive Vice President Corporate Finance with Mesoblast Limited until 2013. He is currently a Non-Executive Director of IDT Australia Limited.

#### **Paul Rennie, Managing and Executive Director (Appointed on 02 May 2014)**

Paul Rennie BSc, MBM, Grad Dip Commercial Law, MSTC, has sales, marketing, business development, operational and IP commercialisation experience in the biopharmaceutical sector. Paul's experience includes working for Boehringer Mannheim (now Roche Diagnostics), Merck KGGA as national sales and marketing manager and Soltec (FH Faulding Ltd) as their Director of business development. Paul also led the commercialisation of Recaldent® a novel biopharmaceutical arising from research at the dental school, University of Melbourne. Paul took an R&D project from the laboratory bench to a commercial product now marketed globally as an additive to oral care products. More recently Paul worked in a number of positions with Mesoblast Ltd. Paul was the inaugural COO and moved into Executive Vice President New Product Development for the adult stem cell company. For the past 4 years, Paul has worked full time at Paradigm Biopharmaceuticals Limited.

#### **Christopher Fullerton, Non-Executive Director (Appointed on 30 September 2014)**

Christopher Fullerton, BEc, has extensive experience in investment, management and investment banking and is a qualified chartered accountant. He is an investor in listed equities and private equity and his current unlisted company directorships cover companies in the property investment and agriculture sectors. Mr Fullerton's exposure to and experience in the fields of biotechnology and health care technology was gained through his Non-Executive chairmanships of Biomomics Limited, Cordlife Limited and Health Communication Network Limited. He is currently a Non-Executive Director of XTEK Ltd.

#### **John Gaffney, Non-Executive Director (Appointed on 30 September 2014)**

John Gaffney LL.M is a lawyer with over 30 years' experience and has undertaken the AICD Company Directors qualification. He brings to the board a compliance and corporate governance background and is experienced in financial services compliance. John also has corporate and commercial experience having worked with a major national law firm as a senior lawyer and also practised as a Barrister at the Victorian Bar. Previously John has been a Non-Executive Director of a US based biotechnology company. He is currently a Non-Executive Director of SelfWealth Ltd.

## COMPANY SECRETARY

#### **Kevin Hollingsworth, Company Secretary (Appointed on 02 May 2014)**

Kevin Hollingsworth, FCPA, FCMA, CGMA, in addition to his duties at Paradigm, serves as Principal of Hollingsworth Financial Services. Prior to that he served as Chief Financial Officer and Company Secretary of Mesoblast Limited (ASX: MSB). At Alpha Technologies Corporation Limited (ASX: ASU), Kevin Hollingsworth served as a Non-Executive Director. He has served as National President of CIMA Australia, State Councillor for CPA Australia and Chairman of the National and Victorian Industry and Commerce Accountants Committees. He is a Chartered Global Management Accountant and Fellow of CPA Australia and Chartered Management Accountants.

PARADIGM BIOPHARMACEUTICALS LIMITED  
DIRECTORS' REPORT (CONT'D)

### DIRECTORSHIPS IN OTHER LISTED ENTITIES

Directorships of other listed entities held by Directors of Paradigm during the last 3 years immediately before the end of the financial year are as follows:

Director	Company	Period of directorship	
		From	To
Graeme Kaufman	IDT Australia Limited	01-Jun-13	Current
	Bionomics Ltd	18-Sep-12	01-Sep-16
Christopher Fullerton	XTEK Ltd	24-Apr-18	Current
John Gaffney	SelfWealth Ltd	23-Nov-17	Current

### DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) and the number of meetings attended by each of the Directors of Paradigm during the financial year are:

Director	Board		Nomination & Remuneration Committee		Audit & Risk Committee	
	Held	Attended	Held	Attended	Held	Attended
Graeme Kaufman	9	9	1	1	2	2
Paul Rennie	9	9	1	1	2	2
Christopher Fullerton	9	9	1	1	2	2
John Gaffney	9	9	1	1	2	2

### Committee membership

As at the date of the report, Paradigm had a Nomination and Remuneration Committee and an Audit and Risk Committee of the Board of Directors. Members acting on the committees of the Board during the financial year were:

Nomination & Remuneration Committee	Audit & Risk Committee
Graeme Kaufman (Chairman)	Christopher Fullerton (Chairman)
Paul Rennie	Graeme Kaufman
Christopher Fullerton	John Gaffney
John Gaffney	

### PRINCIPAL ACTIVITIES

The principal activities of Paradigm are researching and developing therapeutic products for human use. It is a drug repurposing company which seeks to find new uses for old drugs, thereby reducing the cost and time to bring therapeutics to market.

## OPERATING REVIEW

Paradigm made a loss for the financial year ended 30 June 2019 of \$15,627,544 (2018: Loss of \$6,190,232).

Consolidated revenue including other income during the period was \$3,245,628 (2018: \$2,736,400). This revenue included interest of \$261,710 (2018: \$53,899), and an R&D tax incentive of \$2,983,918 (2018: \$2,682,501).

The consolidated total expenses for the period were \$18,873,172 (2018: \$8,926,632).

The research and development expenses for the period were \$7,896,708 (2018: \$6,594,575).

The other operating expenses during the period were \$4,047,480 (2018: \$2,332,057).

The impairment loss during the period was \$6,928,984 (2018: Nil).

Basic and diluted net loss per share increased to 10.93 cents (2018: 5.46 cents) due to the increased loss and increased number of shares.

## ENVIRONMENTAL REGULATION

Paradigm's operations are not regulated by any significant environmental law of the Commonwealth or of a state or territory of Australia.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the entities in Paradigm during the year.

## DIVIDENDS

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

## EVENTS SUBSEQUENT TO BALANCE DATE

No other matters or circumstances have arisen since balance date which have impacted or are likely to impact Paradigm's operations, results and state of affairs in future financial years.

## LIKELY DEVELOPMENTS

There are no likely developments.

## CORPORATE GOVERNANCE

The Corporate Governance Statement appears on Paradigm's website at:

<http://www.paradigmbiopharma.com/investors/corporate-governance>

## DIRECTORS' INTERESTS

The relevant interest of each Director in the shares and options issued by Paradigm at the date of this report is as follows:

Director	Ordinary shares
Graeme Kaufman	2,074,250
Paul Rennie	23,379,935
Christopher Fullerton	960,000
John Gaffney	703,250

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## INDEMNIFICATION AND INSURANCE OF OFFICERS

### Indemnification

Paradigm has agreed to indemnify the current Directors of Paradigm against all liabilities to another person (other than Paradigm or a related body corporate) that may arise from their position as Directors of Paradigm, except where the liability arises out of conduct involving a lack of good faith.

The agreement stipulates that Paradigm will meet to the maximum extent permitted by law, the full amount of any such liabilities, including costs and expenses.

### Insurance premiums

Paradigm paid a premium during the year in respect of a Director and officer liability insurance policy, insuring the Directors of Paradigm, the Company Secretary, and all Executive Officers of Paradigm against a liability incurred as such a Director, Secretary or Executive Officer to the extent permitted by the *Corporations Act 2001*. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

### Shares under option

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

Grant date	Expiry date	Exercise price	Number under option
18/05/2018	18/05/2021	\$0.65	1,000,000
07/05/2018	07/05/2021	\$0.45	1,000,000
16/11/2017	15/11/2020	\$0.31	192,500
27/09/2017	27/09/2020	\$0.45	2,000,000
19/01/2017	19/01/2020	\$0.40	2,000,000

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

### Shares issued on the exercise of options

The following ordinary shares of Paradigm were issued during the year ended 30 June 2019 and up to the date of this report on the exercise of options granted:

Grant date	Exercise price	Number of shares issued
07/08/2015	\$0.375	952,382
07/08/2015	\$0.50	1,357,142
16/11/2017	\$0.31	157,500

### Proceedings on behalf of Paradigm

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

### Non-audit services

Paradigm's auditor, RSM Australia, was appointed in July 2014 for audit services and also provided taxation services during the year.

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 24 to the financial statements.

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

### **Non-audit services (cont'd)**

The Directors are of the opinion that the services as disclosed in note 24 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

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

### **Officers of Paradigm who are former partners of RSM Australia**

There are no Officers of Paradigm who are former partners of RSM Australia.

### **Auditor's independence declaration**

The Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 20 of the financial report.

RSM Australia Partners will continue in office in accordance with section 327 of the *Corporations Act 2001*. Pursuant to section 324 DAB of the *Corporations Act 2001*, the Board on 11 April 2019, following a recommendation from Audit and Risk Committee, approved that Jason Croall, a partner of RSM Australia Partners may continue to play a significant role in the audit of the Consolidated Entity for a further 2 years until the financial year ended 30 June 2021.

Reasons for the extension include continuity of knowledge and experience that Jason has accumulated over the years, as well as, key relationships formed during this period, is considered a material benefit to maintaining the quality of audit work for a further period covering the two financial years ending 30 June 2020 and 2021.

The Board is satisfied that the extension of the auditor rotation period is consistent with maintaining the quality of the audit and would not give rise to conflict of interest situation. RSM Australia Partners has agreed to extend the above extension.

PARADIGM BIOPHARMACEUTICALS LIMITED  
REMUNERATION REPORT

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## AUDITED REMUNERATION REPORT

This Remuneration Report outlines the Director and Executive Remuneration arrangements of Paradigm in accordance with the requirements of the *Corporations Act 2001* and the *Corporations Regulations 2001*.

For the purposes of this report, Key Management Personnel of Paradigm are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of Paradigm, directly or indirectly, including any Director (whether executive or otherwise) of Paradigm. Paradigm does not presently employ any Executives, other than the Executive Director.

## KEY MANAGEMENT PERSONNEL

The following were Key Management Personnel of Paradigm at any time during the year and unless otherwise indicated were Key Management Personnel for the entire year:

Name	Position held	Date Appointed
Graeme Kaufman	Chairman & Non-Executive Director	2 May 2014
Paul Rennie	Managing & Executive Director	2 May 2014
Christopher Fullerton	Non-Executive Director	30 September 2014
John Gaffney	Non-Executive Director	30 September 2014

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## REMUNERATION COMMITTEE

The Nomination and Remuneration Committee proposes candidates for Director appointment for the Board's consideration, reviews the fees payable to both Executive and Non-Executive Directors and reviews and advises the Board in relation to Chief Executive Officer succession planning. The Nomination and Remuneration Committee has the authority to consult any independent professional adviser it considers appropriate to assist it in meeting its responsibilities.

The Nomination and Remuneration Committee is a committee of the Board and is established in accordance with the authority provided in Paradigm's constitution.

The Board is responsible to shareholders for ensuring that Paradigm:

- has coherent remuneration policies and practices which are observed, and which enable it to attract and retain Executives and Directors who will create value for shareholders;
- fairly and responsibly rewards executives having regard to the performance of Paradigm, the performance of the Executive and the general pay environment;
- provides disclosure in relation to Paradigm's remuneration policies to enable investors to understand the costs and benefits of those policies and the link between remuneration paid to Directors and key Executives and corporate performance; and
- complies with the provisions of the ASX Listing Rules and the *Corporations Act 2001*.

## PRINCIPLES OF REMUNERATION

The primary purpose of the Nomination and Remuneration Committee is to support and advise the Board in fulfilling its responsibilities to shareholders in ensuring that the Board is appropriately remunerated, structured and comprised of individuals who are best able to discharge the responsibilities of Directors by:

- assessing the size, composition, diversity and skills required by the Board to enable it to fulfil its responsibilities to shareholders, having regard to Paradigm's current and proposed scope of activities;
- assessing the extent to which the required knowledge, experience and skills are represented on the Board;
- establishing processes for the identification of suitable candidates for appointment to the Board;
- overseeing succession planning for the Board and CEO;
- establishing processes for the review of the performance of individual Directors and the Board as a whole;
- assessing the terms of appointment and remuneration arrangements for Non-Executive Directors; and
- assessment and reporting to the Board

## Remuneration structure

In accordance with best practice Corporate Governance, the structure of Non-Executive Directors' Remuneration is clearly distinguished from that of Executives.

### Non-Executive Director Remuneration

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. Remuneration of Non-Executive Directors is determined in maximum aggregate by the shareholders and is allocated by the Board on the recommendation of the Remuneration Committee. The Remuneration Committee will take independent advice in respect to Directors' fees on an as needed basis.

There is no separate payment made for attendance at Board committee meetings or for other attendances to Consolidated Entity or Board activities.

Directors are not required to hold shares in Paradigm as part of their appointment.

There is to be no plan to provide remuneration, reward or other benefits to Non-Executive Directors upon the cessation of them holding office as a Director.

### Executive remuneration

Executive Directors receive no extra remuneration for their service on the Board beyond their executive salary package.

### Fixed compensation

Fixed compensation consists of base compensation, as well as employer contributions to superannuation funds. Compensation levels are reviewed annually by the remuneration committee through a process that considers individual, segment and overall performance of Paradigm.

### Short-term incentives

Executive Key Management Personnel may receive short-term incentives.

### Long-term incentives

#### *Share-based compensation - Options granted to Directors and key management personnel*

Paradigm has a long-term incentive plan being the Employee Share Plan (ESP). Refer to Note 12 for further information on the Plan. The shares issued under the ESP are considered to be options under the Australian Accounting standards.

#### *Issue of shares*

Details of shares issued to Directors and other Key Management Personnel as part of the ESP compensation:

Name	Date	Shares	Issue price	Fair value of options	\$
Graeme Kaufman	29 May 2015	1,200,000	\$0.35	\$0.208	249,600
Paul Rennie	29 May 2015	600,000	\$0.35	\$0.208	124,800
	30 November 2016	140,000	\$0.33	\$0.268	37,553
	13 November 2017	210,000	\$0.63	\$0.198	41,496
Christopher Fullerton	26 November 2018	300,000	\$1.15	\$0.623	186,963
	29 May 2015	600,000	\$0.35	\$0.208	124,800
John Gaffney	29 May 2015	600,000	\$0.35	\$0.208	124,800

PARADIGM BIOPHARMACEUTICALS LIMITED  
REMUNERATION REPORT (CONT'D)

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**Movement in shares**

The movement during the reporting period in the number of ordinary shares in Paradigm Biopharmaceuticals Limited held directly, indirectly or beneficially by each Director and Key Management Personnel, including their related entities is as follows:

	Held at year opening	Purchases	Disposals	Issued via ESP	Held at year end
<b>Directors &amp; Key Management Persons</b>					
Graeme Kaufman	2,074,250	-	-	-	2,074,250
Paul Rennie	22,599,543	480,392	-	300,000	23,379,935
Christopher Fullerton	736,000	224,000	-	-	960,000
John Gaffney	703,250	-	-	-	703,250

**EMPLOYMENT AGREEMENTS**

The Board has reviewed the remuneration package for the Chief Executive Officer on 26 June 2019. The Remuneration and other terms of employment for the Chief Executive Officer is formalised in a service agreement. Details of this agreement are as follows: -

Name:	Paul Rennie
Title:	Managing Director and Chief Executive Officer
Agreement commenced:	7 November 2017
Term of agreement:	3 years
Details:	Base annual package *, Short-term incentives ** and discretionary share based Long-term incentives ***, subject to annual performance review, 6-month termination notice by either party, 3-12-month non-solicitation clause after termination depending on the area. Paradigm may terminate the agreement with cause in certain circumstances such as gross misconduct.

\* Base annual package for financial year 2019/20 - \$462,000 per annum plus statutory Superannuation, to be reviewed annually by the Nomination and Remuneration Committee

\*\* Short-term incentives paid as a cash bonus to award for financial year 2018/19 – 25% of base (\$105,000)

\*\*\* Long-term incentives via invitation to participate in Paradigm's Employee Share Plan. 300,000 Ordinary Shares was granted as at 26 November 2018 at an exercise price of \$1.15 for the performance for the 2018 financial year. This issue was funded by a limited recourse loan from Paradigm.



PARADIGM BIOPHARMACEUTICALS LIMITED  
REMUNERATION REPORT (CONT'D)

**REMUNERATION OF KEY MANAGEMENT PERSONNEL**

Details of the nature and amount of each major element of the remuneration of each Key Management Personnel of Paradigm for the year ended 30 June 2019 are:

	Short-term		Post-employment	Long-term	Share-based payments	Total	Proportion of remuneration performance related	Value of options as proportion of remuneration	
	Salary & fees	Cash Bonus	Superannuation benefits	Long service leave	Options				
	\$	\$	\$	\$	\$				%
<b>Directors &amp; Key Management Personnel</b>									
<i>Non-Executive</i>									
Graeme Kaufman	110,000	-	10,450	-	-	120,450	0.0%	0.00%	
Christopher Fullerton	55,000	-	5,225	-	-	60,225	0.0%	0.00%	
John Gaffney	55,000	-	5,225	-	-	60,225	0.0%	0.00%	
<i>Executive</i>									
Paul Rennie	420,000	105,000	49,875	-	492,513	1,067,388	9.84%	46.14%	
<b>Total</b>	<b>2019</b>	<b>640,000</b>	<b>105,000</b>	<b>70,775</b>	<b>-</b>	<b>492,513</b>	<b>1,308,288</b>	<b>8.03%</b>	<b>37.65%</b>

\* This figure includes accruals for year ended 30 June 2019 to be ratified at AGM in November 2019.

PARADIGM BIOPHARMACEUTICALS LIMITED  
REMUNERATION REPORT (CONT'D)

**REMUNERATION OF KEY MANAGEMENT PERSONNEL** (cont'd)

Details of the nature and amount of each major element of the remuneration of each Key Management Personnel of Paradigm for the year ended 30 June 2018 are:

	Short-term		Post-employment	Long-term	Share-based payments	Total	Proportion of remuneration performance related	Value of options as proportion of remuneration	
	Salary & fees	Cash Bonus	Superannuation benefits	Long service leave	Options				
	\$	\$	\$	\$	\$				%
<b>Directors &amp; Key Management Personnel</b>									
<i>Non-Executive</i>									
Graeme Kaufman	110,000	-	10,450	-	-	120,450	0.0%	0.00%	
Christopher Fullerton	55,000	-	5,225	-	-	60,225	0.0%	0.00%	
John Gaffney	55,000	-	5,225	-	-	60,225	0.0%	0.00%	
<i>Executive</i>									
Paul Rennie	380,000	105,000	46,075	-	41,496	572,571	18.34%	7.25%	
<b>Total</b>	<b>2018</b>	<b>600,000</b>	<b>105,000</b>	<b>66,975</b>	<b>-</b>	<b>41,496</b>	<b>813,471</b>	<b>12.91%</b>	<b>5.10%</b>

PARADIGM BIOPHARMACEUTICALS LIMITED  
REMUNERATION REPORT (CONT'D)

**REMUNERATION OF KEY MANAGEMENT PERSONNEL** (cont'd)

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2019	2018	2019	2018	2019	2018
<i>Non-Executive</i>						
Graeme Kaufman	100.00%	100.00%	-	-	-	-
Christopher Fullerton	100.00%	100.00%	-	-	-	-
John Gaffney	100.00%	100.00%	-	-	-	-
<i>Executive:</i>						
Paul Rennie	44.02%	74.71%	9.84%	18.34%	46.14%	7.25%

Cash bonuses are dependent on meeting defined performance measures. The amount of the bonus is determined having regard to the satisfaction of performance measures. The maximum bonus values are established at the start of each financial year and amounts payable are determined in the final month of the financial year by the Nomination and Remuneration Committee.

The proportion of the cash bonus paid/payable or forfeited is as follows:

Name	Cash bonus paid/payable		Cash bonus forfeited	
	2019	2018	2019	2018
<i>Non-Executive</i>				
Graeme Kaufman	-	-	-	-
Christopher Fullerton	-	-	-	-
John Gaffney	-	-	-	-
<i>Executive:</i>				
Paul Rennie	100%	100%	-	-

PARADIGM BIOPHARMACEUTICALS LIMITED  
REMUNERATION REPORT (CONT'D)

REMUNERATION OF KEY MANAGEMENT PERSONNEL (cont'd)

Additional information

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

	2019	2018	2017	2016	2015
	\$	\$	\$	\$	\$
Income	3,245,628	2,736,400	1,848,924	1,394,161	7,331
Profit after income tax	(15,627,544)	(6,190,232)	(4,275,446)	(2,924,425)	(1,565,305)

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

	2019	2018	2017	2016	2015
Share price at financial year end (\$)	1.40	0.65	0.29	0.35	-
Total dividends declared (cents per share)	-	-	-	-	-
Basic earnings per share (cents per share)	(10.93)	(5.46)	(4.42)	(3.60)	(4.68)

***This is the end of the audited Remuneration Report.***

Dated at Melbourne, Victoria this 30th day of August 2019.

Signed in accordance with a resolution of the Directors:



Graeme Kaufman  
Chairman

**RSM Australia Partners**

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**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of the financial report of Paradigm Biopharmaceuticals Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

A stylized, handwritten signature of "RSM" in blue ink.

**RSM AUSTRALIA PARTNERS**

A handwritten signature in blue ink that appears to read "JS Croall".

**J S CROALL**  
Partner

Dated: 30 August 2019  
Melbourne, Victoria

PARADIGM BIOPHARMACEUTICALS LIMITED  
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME  
for the year ended 30 June 2019

	Notes	Period from 1-Jul-18 to 30-Jun-19 \$	Period from 1-Jul-17 to 30-Jun-18 \$
Other income	2	3,245,628	2,736,400
Research and development expenses		(7,896,708)	(6,594,575)
Employee expenses	3	(2,575,983)	(1,048,197)
General and administration expenses		(1,471,497)	(1,283,860)
Impairment loss		(6,928,984)	-
<b>Loss before income tax</b>		<b>(15,627,544)</b>	<b>(6,190,232)</b>
Income tax expense / (benefit)		-	-
<b>Loss for the year</b>		<b>(15,627,544)</b>	<b>(6,190,232)</b>
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income attributable to members of the consolidated entity</b>		<b>(15,627,544)</b>	<b>(6,190,232)</b>
<b>Earnings per share (cents)</b>			
<i>Basic and diluted earnings per share</i>	16	(10.93) cents	(5.46) cents

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes.

PARADIGM BIOPHARMACEUTICALS LIMITED  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
as at 30 June 2019

	Notes	2019 \$	2018 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	72,336,173	2,445,630
Trade and other receivables	5	3,532,227	2,734,779
Prepaid expenses	6	137,113	91,973
Financial assets held at amortised cost	17	6,500,000	-
<b>Total current assets</b>		<b>82,505,513</b>	<b>5,272,382</b>
<b>Non-current assets</b>			
Intangible assets	7	2,981,359	9,910,242
Plant and equipment	8	24,029	8,542
<b>Total non-current assets</b>		<b>3,005,388</b>	<b>9,918,784</b>
<b>Total assets</b>		<b>85,510,901</b>	<b>15,191,166</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	9	2,315,992	1,066,726
Employee benefits	10	388,591	260,371
<b>Total current liabilities</b>		<b>2,704,583</b>	<b>1,327,097</b>
<b>Net assets</b>		<b>82,806,318</b>	<b>13,864,069</b>
<b>EQUITY</b>			
Issued capital	11	109,468,292	26,940,674
Share based payments reserve	12	4,072,844	2,030,669
Accumulated losses	13	(30,734,818)	(15,107,274)
<b>Total equity</b>		<b>82,806,318</b>	<b>13,864,069</b>

The consolidated statement of financial position is to be read in conjunction with the accompanying notes.

PARADIGM BIOPHARMACEUTICALS LIMITED  
CONSOLIDATED STATEMENT OF CASH FLOWS  
for the year ended 30 June 2019

	Period from 1-Jul-18 to 30-Jun-19 \$	Period from 1-Jul-17 to 30-Jun-18 \$
<b>Cash flows from operating activities</b>		
Research and development tax incentive received	2,318,718	1,773,582
Payments to suppliers and employees (Inclusive of GST)	(8,773,072)	(7,839,364)
Interest received	89,259	52,321
<b>Net cash outflow from operating activities</b>	<b>(6,365,095)</b>	<b>(6,013,461)</b>
<b>Cash flows from investing activities</b>		
Payments for intangible assets	(4,198)	(12,291)
Payments for plant and equipment	(17,781)	(3,053)
Payments for financial assets held at amortised cost	(6,500,000)	-
<b>Net cash outflow from investing activities</b>	<b>(6,521,979)</b>	<b>(15,344)</b>
<b>Cash flows from financing activities</b>		
Proceeds from the issue of share capital	86,962,482	5,550,000
Proceeds from exercise of share options	1,084,854	955,358
Payments of share issue costs	(5,269,719)	(621,735)
<b>Net cash inflow from financing activities</b>	<b>82,777,617</b>	<b>5,883,623</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>69,890,543</b>	<b>(145,182)</b>
<b>Cash at the beginning of the financial period</b>	<b>2,445,630</b>	<b>2,590,812</b>
<b>Cash at the end of the financial period</b>	<b>72,336,173</b>	<b>2,445,630</b>

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes.



PARADIGM BIOPHARMACEUTICALS LIMITED  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
for the year ended 30 June 2019

	Issued Capital \$	Share Option Reserve \$	Accumulated Losses \$	Total \$
<b>Balance at 30 June 2017</b>	<b>21,057,052</b>	<b>1,249,910</b>	<b>(8,917,042)</b>	<b>13,389,920</b>
Loss for the period	-	-	(6,190,232)	(6,190,232)
Shares issued (Note 11)	6,505,357	-	-	6,505,357
Costs in relation to shares issued	(621,735)	-	-	(621,735)
Fair value of shares issued to eligible employees under the plan	-	362,955	-	362,955
Fair values of options issued to third party under the share-based payment arrangement	-	417,804	-	417,804
<b>Balance at 30 June 2018</b>	<b>26,940,674</b>	<b>2,030,669</b>	<b>(15,107,274)</b>	<b>13,864,069</b>
Loss for the period	-	-	(15,627,544)	(15,627,544)
Shares issued (Note 11)	86,962,483	-	-	86,962,483
Costs in relation to shares issued	(5,519,719)	-	-	(5,519,719)
Fair value of shares issued to eligible employees under the plan	-	1,728,963	-	1,728,963
Fair values of options issued to third party under the share-based payment arrangement	-	313,212	-	313,212
Exercise of unlisted options	1,084,854	-	-	1,084,854
<b>Balance at 30 June 2019</b>	<b>109,468,292</b>	<b>4,072,844</b>	<b>(30,734,818)</b>	<b>82,806,318</b>

The consolidated statement of changes in equity is to be read in conjunction with the accompanying note

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **New, revised or amending Accounting Standards and Interpretations adopted**

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

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

The following Accounting Standards and Interpretations are most relevant to the Consolidated Entity:

#### *AASB 9 Financial Instruments*

The Consolidated Entity has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

The impact is immaterial as per Note 17 there are minimal financial instruments in the accounts.

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

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

The impact of its adoption is minimal as the Consolidated Entity is still in the research phase and is yet to generate revenue. Currently revenue is minimal and relates to mainly interest and R&D rebates.

### **(a) Reporting entity**

Paradigm Biopharmaceuticals Limited (the "Consolidated Entity") is a company incorporated and domiciled in Australia. Paradigm Biopharmaceuticals Limited is a company limited by shares which are publicly traded on the Australian Securities Exchange from 19 August 2015. The consolidated financial report of the Consolidated Entity for the year ended 30 June 2019 comprises the company and controlled entities (together referred to as the "Consolidated Entity").

The nature of the operations and principal activities of the Consolidated Entity are described in the Directors' Report.

For the purposes of preparing the Financial Statements the Consolidated Entity is a for-profit entity.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (b) Basis of preparation

#### **Statement of Compliance**

This financial report is a general purpose financial report prepared in accordance with the Australian Accounting Standards ("AASs") (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board and the *Corporations Act 2001*. This Consolidated Financial Report complies with the International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board (IASB).

#### **Basis of measurement**

##### *Historical cost convention*

The Financial Statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of plant and equipment and derivative financial instruments.

##### *Critical accounting estimates*

The preparation of the Financial Statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Consolidated Entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are disclosed in note 1 (c).

#### **Significant accounting policies**

The accounting policies set out below have been applied consistently by the Consolidated Entity to all periods presented in these Financial Statements.

##### *New and amended standards adopted by the entity.*

The Consolidated Entity has reviewed and applied all new accounting standards and amendments applicable for the first time in their annual reporting period commencing 1 July 2018 and determined that there was no material impact on the Consolidated Entity's Financial Statements in the current reporting year.

### (c) Significant accounting estimates, assumptions and judgements

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

##### *Share-based payment transactions*

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

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

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (c) Significant accounting estimates, assumptions and judgements (cont'd)

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

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

#### *Employee benefits provision*

As discussed in note 1, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been considered.

### (d) Summary of Significant Accounting Policies

#### (i) **Basis of consolidation**

##### *Parent entity*

In accordance with the *Corporations Act 2001*, these Financial Statements present the results of the Consolidated Entity only. Supplementary information about the parent entity is disclosed in note 19.

##### *Subsidiaries*

The consolidated Financial Statements comprise those of the Consolidated Entity, and the entities it controlled at the end of, or during, the financial year. The balances and effects of transactions between entities in the Consolidated Entity included in the Financial Statements have been eliminated. Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased.

Subsidiaries are entities controlled by the Consolidated Entity. Control exists when the Consolidated Entity is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The Financial Statements of subsidiaries are included in the consolidated Financial Statements from the date control is transferred to the Consolidated Entity until the date that control ceases.

##### *Transactions eliminated on consolidation*

Intra-company balances and all gains and losses or income and expenses arising from intra-company transactions are eliminated in preparing the consolidated Financial Statements.

#### (ii) **Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above but also include as a component of cash and cash equivalents bank overdrafts (if any), which are included as borrowings on the statement of financial position.

#### (iii) **Trade and other receivables**

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

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

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### **(iv) Investments**

Investments are initially measured at cost. Transaction costs are included as part of the initial measurement. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

### **(v) Intangible assets**

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

#### **(a) Patents and trademarks**

Patents have a finite useful life and are carried at cost less accumulated amortisation and impairment losses once the patents are considered held ready for use. Intellectual property and licences are amortised on a systematic basis matched to the future economic benefits over the useful life of the project once the patents are considered held ready for use.

Significant costs associated with trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

#### **(b) Research and development**

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

### **(vi) Impairment**

At the end of each reporting period, the Consolidated Entity assesses whether there is any indication that an asset may be impaired. The assessment will include considering external sources of information and internal sources of information. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value-in-use, to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

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

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

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of the money and risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Consolidated Entity bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Consolidated Entity's projects to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

### **(vii) Plant and equipment**

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of plant and equipment over their expected useful lives of 2-15 years.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### **(vii) Plant and equipment (cont'd)**

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

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

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

### **(viii) Trade and other payables**

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the entity during the reporting period which remain unpaid. The balance is recognised as a current liability with the amounts normally paid within the requisite terms specified by the supplier.

### **(ix) Share capital**

Ordinary and preference shares are classified as equity.

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

### **(x) Provisions**

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

### **(xi) Revenue**

#### *Interest income*

Interest income is recognised on a time proportion basis using the effective interest rate method.

#### *Other revenue*

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

#### *Government grants*

Grants that compensate the Consolidated Entity for expenditures incurred are recognised in profit or loss on a systematic basis in the periods in which the expenditures are recognised. R&D tax offset receivables will be recognised in profit before tax (in EBIT) over the periods necessary to match the benefit of the credit with the costs for which it is intended to compensate. Such periods will depend on whether the R&D costs are capitalised or expensed as incurred.

### **(xii) Employee benefits**

#### *Wages and salaries, cash bonus, annual leave and long service leave*

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required, and they are capable of being measured reliably. Provisions made in respect of employee benefits are measured based on an assessment of the existing benefits to determine the appropriate classification under the definition of short-term and long-term benefits, placing emphasis on when the benefit is expected to be settled.

Short-term benefits provisions that are expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.



## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (xii) *Employee benefits (cont'd)*

Long term benefits provisions that are not expected to be settled within 12 months and are measured as the present value of the estimated future cash outflows to be made by the Consolidated Entity in respect of services provided by employees up to reporting date. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date to estimate the future cash flows at a pre-tax rate that reflects current market assessments of the time value of money.

Regardless of the expected timing of settlement, provisions made in respect of employee benefits are classified as a current liability unless there is an unconditional right to defer the settlement of the liability for at least 12 months after the reporting date, in which case it would be classified as a non-current liability. Provisions made for annual leave and unconditional long service leave are classified as a current liability where the employee has a present entitlement to the benefit. Provisions for conditional long service are classified as non-current liability.

#### *Share-based payments*

The Consolidated Entity operates an incentive scheme to provide these benefits, known as the Paradigm Biopharmaceuticals Limited Employee Share Plan ("ESP") approved on 22 October 2014. Issues of shares to employees with limited recourse loans under the ESP are share based payments in the form of options.

The fair value of options granted under the ESP is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options. The fair value at grant date is determined using a binomial pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the limited recourse loan. In valuing share-based payment transactions, no account is taken of any non-market performance conditions.

The Consolidated Entity provides benefits to employees (including Directors) of the Consolidated Entity in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares.

The cost of share-based payment transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Consolidated Entity, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

### (xiii) *Income tax*

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

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

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### *(xiii) Income tax (cont'd)*

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

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

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

The Consolidated Entity and its wholly-owned Australian resident entities are part of a tax-consolidated entity. As a consequence, all members of the tax-consolidated entity are taxed as a single entity. The head entity within the tax-consolidated entity is Paradigm Biopharmaceuticals Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated entity are recognised in the separate Financial Statements of the members of the tax-consolidated entity using the 'separate taxpayer within Consolidated Entity' approach by reference to the carrying amount of assets and liabilities in the separate Financial Statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated entity. Any difference between these amounts is recognised by the Consolidated Entity as an equity contribution or distribution.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

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

### *(xiv) Current and non-current classification*

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

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

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

### *(xv) Goods and Services Tax*

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). 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 are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows at their nominal value inclusive of GST.



## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### *(xvi) Earnings per share*

The Consolidated Entity presents basic and, when applicable, diluted earnings per share ("EPS") data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholders of the Consolidated Entity by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is calculated by adjusting basic earnings for the impact of the after-tax effect of costs associated with dilutive ordinary shares and the weighted average number of additional ordinary shares that would be outstanding assuming the conversion of all dilutive potential ordinary shares. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

### *(xvii) Fair value measurement*

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

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

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

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

### **New standards and interpretations not yet effective or early adopted**

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

#### *AASB 16 Leases*

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). The Consolidated Entity adopts this standard from 1 July 2019 but there is no impact as there are no operating leases in place as at 30 June 2019.

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	2019 \$	2018 \$
<b>2. OTHER INCOME</b>		
R&D tax incentive	2,983,918	2,682,501
Interest received	261,710	53,899
	<b>3,245,628</b>	<b>2,736,400</b>
<b>3. EMPLOYEE EXPENSES</b>		
Wages, salaries and self-employed contractors expenses	254,000	230,000
Performance bonus	18,900	17,500
Defined contribution superannuation expenses	46,826	44,412
Increase in liability for employee benefits expenses	91,228	111,346
Non-executive directors fees	220,000	220,000
Fair values of shares issued/to be issued to eligible employees under the ESP	1,728,963	362,955
Workcover	2,894	3,612
Payroll tax	213,172	58,372
	<b>2,575,983</b>	<b>1,048,197</b>
<b>4. CASH AND CASH EQUIVALENTS</b>		
Cash at bank and in hand	72,336,173	2,445,630
	<b>72,336,173</b>	<b>2,445,630</b>
<b>5. TRADE AND OTHER RECEIVABLES</b>		
GST receivable	10,497	50,700
Interest receivable	174,029	1,578
R&D tax incentive receivable	3,347,701	2,682,501
	<b>3,532,227</b>	<b>2,734,779</b>
<b>6. PREPAID EXPENSES</b>		
Prepaid insurance	16,247	11,111
Other prepaid expenses	120,866	80,862
	<b>137,113</b>	<b>91,973</b>
<b>7. INTANGIBLE ASSETS</b>		
Patents	9,922,163	9,917,122
Less: Accumulated amortisation and impairment losses	(6,940,804)	(6,880)
	<b>2,981,359</b>	<b>9,910,242</b>

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	2019	2018
	\$	\$
<b>7. INTANGIBLE ASSETS (cont'd)</b>		
<b>Reconciliation</b>		
Carrying amount at the beginning of the period	9,910,242	9,904,830
Additions during the period	4,198	12,292
Disposals	-	-
Amortisation expense	(4,097)	(6,880)
Impairment loss	(6,928,984)	-
<b>Balance at the end of the financial year</b>	<b><u>2,981,359</u></b>	<b><u>9,910,242</u></b>

The Consolidated Entity performed its annual impairment test in June 2019. There was a particular focus on the respiratory asset due to the unexpected outcome of Phase 2a Allergic Rhinitis clinical trial which failed to meet its primary clinical endpoints in June 2017. The Consolidated Entity remains committed to its respiratory asset. The Allergic Rhinitis Phase 2 study could be repeated or the Allergic Rhinitis program may be terminated in preference to its Asthma or Chronic Obstructive Pulmonary Disease (COPD) programs depending on the findings of the potential reasons for the lack of translation of the preclinical Allergic Rhinitis results into the Phase 2 human clinical trial.

#### Respiratory patent

The respiratory patent covers the use of PPS for treating Allergic Rhinitis, Allergic Asthma and COPD. The Respiratory patent is now granted in Australia, New Zealand, China, Canada and Europe.

The recoverable amount of the respiratory patent as at 30 June 2019, has been determined based on a value-in-use calculation using a 1-year cash flow projection from financial budgets approved by senior management and extrapolated for a further 4 years using a 10% growth rate. The after-tax discount rate applied to cash flow projections is 11.25%. It was concluded that the fair value less costs of disposal exceed the value-in-use. As a result of this analysis, management has recognized an impairment charge.

#### IL-1RA Peptide (anti-inflammatory/autoimmune patent) and Xosoma

The Board has taken the strategic decision to focus all of the Consolidated Entity's resources on accelerating the development of iPPS in the key indications of osteoarthritis, viral arthritis and mucopolysaccharidosis. Building on strong results in the respective clinical programs, these indications provide the most compelling opportunity for early revenue generation and significant commercial partnerships. The focus on creating shareholder value through concentrating on fast progression of these core iPPS clinical assets has led to formally discontinue clinical development of the non-core, non-iPPS product candidates (IL-1RA Peptide and Xosoma), at least for the time being. As a result, while the Consolidated Entity continues to retain the rights to the program, management has taken the prudent decision to write off the value.

#### Key assumptions used in value-in-use calculations and sensitivity to changes in assumptions

The calculation of value-in-use for both respiratory and anti-inflammatory/autoimmune patents is most sensitive to the following assumptions:

- Discount rate
- Growth rate
- Comparable deals for drug treatments

The discount rate of 11.25% after-tax reflects the Consolidated Entity's estimated cost of capital based on the risk-free rate, market risk premium and the volatility of the share price relative to market movements. If the discount rate is increased to 20%, the recoverable amount of the respiratory patents are decreased by 28.65%. These recoverable amounts comfortably remain above their carrying values.

Management believes the estimated 10% growth rate for expenses is prudent.

The comparable deals used in the value-in-use calculation are conservative based on the current market space. If the comparable deals are increased by 10%, the recoverable amount of the respiratory patents are increased by 16.24%

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	2019 \$	2018 \$
<b>8. PLANT AND EQUIPMENT</b>		
Computer equipment	40,282	20,544
Less: Accumulated depreciation	(22,618)	(20,159)
	<u>17,663</u>	<u>385</u>
<b>Reconciliation</b>		
Carrying amount at the beginning of the period	385	4,753
Additions during the period	19,737	1,786
Disposals	-	-
Depreciation expense	(2,459)	(6,154)
<b>Balance at the end of the financial year</b>	<u>17,663</u>	<u>385</u>
Clinical trial equipment	9,419	9,419
Less: Accumulated depreciation	(6,807)	(5,283)
	<u>2,613</u>	<u>4,136</u>
<b>Reconciliation</b>		
Carrying amount at the beginning of the period	4,136	4,901
Additions during the period	-	1,266
Disposals	-	-
Depreciation expense	(1,523)	(2,031)
<b>Balance at the end of the financial year</b>	<u>2,613</u>	<u>4,136</u>
Office equipment	4,390	4,390
Less: Accumulated depreciation	(637)	(369)
	<u>3,753</u>	<u>4,021</u>
<b>Reconciliation</b>		
Carrying amount at the beginning of the period	4,021	4,308
Additions during the period	-	-
Disposals	-	-
Depreciation expense	(268)	(287)
<b>Balance at the end of the financial year</b>	<u>3,753</u>	<u>4,021</u>
	<u>24,029</u>	<u>8,542</u>

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	2019 \$	2018 \$
<b>9. TRADE AND OTHER PAYABLES</b>		
Trade and other creditors	2,279,403	1,030,137
Shareholder loans	36,589	36,589
	<u>2,315,992</u>	<u>1,066,726</u>

**10. EMPLOYEE BENEFITS**

Annual leave and on-costs	388,591	260,371
	<u>388,591</u>	<u>260,371</u>

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rate payments in certain circumstances. The entire amount is presented as current since the Consolidated Entity does not have an unconditional right to defer settlement.

**11. ISSUED CAPITAL**

	2019 Number of Shares	2018 Number of Shares	2019 \$	2018 \$
<b>Ordinary shares Fully paid</b>	<u>192,207,761</u>	<u>123,963,792</u>	<u>109,468,292</u>	<u>26,940,674</u>

The following movements in issued capital occurred during the year:

	2019		2018	
	Number of Shares	\$	Number of Shares	\$
<b>Ordinary Shares</b>				
Balance as at the beginning of the period	123,963,792	26,940,674	101,925,220	21,057,052
Ordinary shares issued	65,476,945	86,962,483	18,499,999	5,550,000
Ordinary shares issue costs	-	(5,519,719)	-	(621,735)
Shares issued under ESP	300,000	-	1,110,000	-
Exercise of unlisted options	2,467,024	1,084,854	2,428,573	955,357
<b>Balance as at the end of the period</b>	<u>192,207,761</u>	<u>109,468,292</u>	<u>123,963,792</u>	<u>26,940,674</u>

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**11. ISSUED CAPITAL (cont'd)**

*Ordinary shares*

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

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

*Capital risk management*

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

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

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

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

The Consolidated Entity is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

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

	2019	2018
	\$	\$

**12. SHARE BASED PAYMENT RESERVE**

Balance as at the beginning of the period	2,030,669	1,249,910
Fair values of shares issued to eligible employees under the ESP	1,728,963	362,955
Fair values of options issued to third party under the share-based payment arrangement	313,212	417,804
	<b>4,072,844</b>	<b>2,030,669</b>

Once approved by the Board, monies are loaned by the Consolidated Entity interest free and on a non-recourse basis to participants to finance the purchase of shares in the company. The ESP shares are registered in the name of participants but are subject to a restriction on disposal for a period of five years (from date of issue) and for further periods whilst they remain financed. On cessation of employment, the entitlement to any shares held for less than three years is pro-rated.

On 26 November 2018, 300,000 shares were issued at a price of \$1.15 per share.

On 26 June 2019, a further invitation of ESP shares valued at \$1,542,000 based on 2019 performance were approved to be issued upon the shareholders' approval at the AGM. The total number of shares to be issued is fixed with reference to the share price at the time of the AGM. These shares were valued using the Binomial Hoadley model with an exercise price and share price of \$1.285, volatility of 82% and risk-free rate of 1.07%.

The shares issued under the ESP are treated as options for accounting purposes. They do not expire, and vest immediately on grant date. Fair values at loan date are determined using a Binomial Hoadley pricing model that takes into account the issue price, the term of the loan, the share price at loan date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the loan.

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**12. SHARE OPTIONS RESERVE (cont'd)**

The weighted average share price during the financial year was \$1.14. Throughout the period a number of share options were issued in the period in relation to services rendered by third parties. These predominantly relate to services provided around capital raising.

Set out below are summaries of options granted under the Employee Share plan:

**2019**

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Balance at the end of the year
26/11/2018	26/11/2023	\$1.15	5,505,000	300,000	-	5,805,000
			<b>5,505,000</b>	<b>300,000</b>	<b>-</b>	<b>5,805,000</b>

**2018**

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Balance at the end of the year
30/06/2018	30/06/2023	\$0.57	-	900,000	-	900,000
13/11/2017	13/11/2022	\$0.63	4,395,000	210,000	-	4,605,000
			<b>4,395,000</b>	<b>1,110,000</b>	<b>-</b>	<b>5,505,000</b>

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

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Fair value at grant date
26/11/2018	26/11/2023	\$1.15	\$1.15	85.00%	0.00%	\$0.62

In addition, the Consolidated Entity has the following unlisted options as at 30 June 2019: -

- (i) 2,000,000 unlisted options exercisable at \$0.40 each on or before 19 January 2020 in accordance with existing corporate services mandate; the weighted average remaining contractual life of options outstanding at the end of the financial year was 0.56 year;
- (ii) 2,000,000 unlisted options exercisable at \$0.45 each on or before 27 September 2020 in accordance with existing corporate services mandate; the weighted average remaining contractual life of options outstanding at the end of the financial year was 1.25 years;
- (iii) 192,500 unlisted options exercisable at \$0.312 each on or before 15 November 2020 in accordance with existing corporate services mandate; the weighted average remaining contractual life of options outstanding at the end of the financial year was 1.38 years;
- (iv) 1,000,000 unlisted options exercisable at \$0.45 each on or before 07 May 2021 in accordance with existing corporate services mandate the weighted average remaining contractual life of options outstanding at the end of the financial year was 1.85 years; and
- (v) 1,000,000 unlisted options exercisable at \$0.65 each on or before 18 May 2021 in accordance with existing corporate services mandate; the weighted average remaining contractual life of options outstanding at the end of the financial year was 1.88 years.

PARADIGM BIOPHARMACEUTICALS LIMITED  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 for the year ended 30 June 2019

**12. SHARE OPTIONS RESERVE (cont'd)**

Set out below are summaries of options granted to external companies for services rendered in the period:

**2019**

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Balance at the end of the year
18/05/2018	18/05/2021	\$0.65	1,000,000	-	-	1,000,000
07/05/2018	07/05/2021	\$0.45	1,000,000	-	-	1,000,000
16/11/2017	15/11/2020	\$0.31	350,000	-	(157,500)	192,500
27/09/2017	27/09/2020	\$0.45	2,000,000	-	-	2,000,000
19/01/2017	19/01/2020	\$0.40	2,000,000	-	-	2,000,000
07/08/2015	07/08/2018	\$0.375	952,382	-	(952,382)	-
07/08/2015	07/08/2018	\$0.50	1,357,142	-	(1,357,142)	-
			<b>8,659,524</b>	-	<b>(2,467,024)</b>	<b>6,192,500</b>

**2018**

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Balance at the end of the year
18/05/2018	18/05/2021	\$0.65	-	1,000,000	-	1,000,000
07/05/2018	07/05/2021	\$0.45	-	1,000,000	-	1,000,000
16/11/2017	15/11/2020	\$0.31	-	350,000	-	350,000
27/09/2017	27/09/2020	\$0.45	-	2,000,000	-	2,000,000
19/01/2017	19/01/2020	\$0.40	2,000,000	-	-	2,000,000
07/08/2015	07/08/2018	\$0.375	3,023,812	-	(2,071,430)	952,382
07/08/2015	07/08/2018	\$0.50	1,714,285	-	(357,143)	1,357,142
			<b>6,738,097</b>	<b>4,350,000</b>	<b>(2,428,573)</b>	<b>8,659,524</b>



PARADIGM BIOPHARMACEUTICALS LIMITED  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 30 June 2019

	2019 \$	2018 \$
<b>13. ACCUMULATED LOSSES</b>		
Balance as at the beginning of the period	(15,107,274)	(8,917,042)
Loss for the accounting period	(15,627,544)	(6,190,232)
	<b>(30,734,818)</b>	<b>(15,107,274)</b>

**14. COMMITMENTS**

The Consolidated Entity had no capital commitments as at 30 June 2019 and 30 June 2018.

**15. CONTINGENCIES**

During the financial year, the Consolidated Entity has received a claim for professional fees from its latest capital raise. The Consolidated Entity strongly disputes that the fees are owing and will vigorously defend its position.

The Consolidated Entity had no contingent liabilities as at 30 June 2018.

	2019 \$	2018 \$
<b>16. EARNINGS PER SHARE</b>		
<b>Net loss for the year attributable to ordinary shareholders</b>	<b>(15,627,544)</b>	<b>(6,190,232)</b>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	143,042,225	113,453,460
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	6,192,500	8,659,524
Weighted average number of ordinary shares used in calculating diluted earnings per share	149,234,725	122,112,984
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(10.93)	(5.46)
Diluted earnings per share	(10.93)	(5.46)

PARADIGM BIOPHARMACEUTICALS LIMITED  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 30 June 2019

**17. FINANCIAL INSTRUMENTS DISCLOSURE**

The Consolidated Entity's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and accounts payable.

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

	2019 \$	2018 \$
<b>Financial assets</b>		
<b>Current</b>		
Cash and cash equivalents	72,336,173	2,445,630
Trade and other receivables	3,532,227	2,734,779
Term deposits	<u>6,500,000</u>	<u>-</u>
	<b><u>82,368,400</u></b>	<b><u>5,180,409</u></b>
<b>Financial liabilities</b>		
<b>Current</b>		
Trade and other payables at amortised cost	<u><b>2,315,992</b></u>	<u><b>1,066,726</b></u>

***Financial risk management objectives***

The Consolidated Entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk), credit risk and liquidity risk. The Consolidated Entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Consolidated Entity. The Consolidated Entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Consolidated Entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Consolidated Entity's operating units. Finance reports to the Board on a monthly basis.

***Market risk***

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Consolidated Entity's income and expenses or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

*Equity price risk*

The Consolidated Entity is currently not subject to equity price risk movement.

*Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from fluctuations in interest bearing financial assets and liabilities that the Consolidated Entity uses. Interest bearing assets comprise cash and cash equivalents which are considered to be short-term liquid assets and investment decisions are governed by the monetary policy.

During the year, the Consolidated Entity had no variable rate interest bearing liability.

It is the Consolidated Entity's policy to settle trade payables within the credit terms allowed and therefore not incur interest on overdue balances

PARADIGM BIOPHARMACEUTICALS LIMITED  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 for the year ended 30 June 2019

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**17. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)**

***Credit risk***

Credit risk is the risk of financial loss to the Consolidated Entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Consolidated Entity's receivables from customers and investment securities.

The Consolidated Entity does not presently have customers and consequently does not have credit exposure to outstanding receivables. Trade and other receivables represent GST refundable from the Australian Taxation Office and R&D Tax incentive claims. Trade and other receivables are neither past due nor impaired.

***Liquidity risk***

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated Entity's reputation.

The Consolidated Entity's objective is to maintain a balance between continuity of funding and flexibility. The Consolidated Entity's exposure to financial obligations relating to corporate administration and projects expenditure, are subject to budgeting and reporting controls, to ensure that such obligations do not exceed cash held and known cash inflows for a period of at least 1 year.

***Fair value of financial assets and liabilities***

The fair value of cash and cash equivalents and non-interest bearing financial assets and financial liabilities of the Consolidated Entity is equal to their carrying value.

***Foreign currency risk***

The Consolidated Entity's exposure to currency risk is minimal at this stage of the operations.

***Commodity price risk***

The Consolidated Entity's exposure to price risk is minimal at this stage of the operations.

**18. RELATED PARTIES**

**Parent entity**

The Parent Entity is Paradigm Biopharmaceuticals Limited.

**Controlled entities**

The controlled entities are Paradigm Health Sciences Pty Ltd, Xosoma Pty Ltd and C4M Pharmaceuticals Pty Ltd.

In the Financial Statements of the Consolidated Entity investments in subsidiaries are measured at cost. All entity interests held are fully paid ordinary shares or units.

The consolidated Financial Statements incorporate the assets, liabilities and results of the following wholly-owned subsidiaries in accordance with the accounting policy described in note 1:

Name	Ownership interest		
	Principal place of business	2019	2018
		%	%
Paradigm Health Sciences Pty Ltd	Australia	100.00%	100.00%
Xosoma Pty Ltd	Australia	100.00%	100.00%
C4M Pharmaceuticals Pty Ltd	Australia	100.00%	100.00%

***Subsidiaries***

An inter-company loan exists between Paradigm Biopharmaceuticals Limited (parent) and Paradigm Health Sciences (subsidiary) of amounts owing to Paradigm Biopharmaceuticals Limited (parent) \$334,061 (2018: \$334,061).

PARADIGM BIOPHARMACEUTICALS LIMITED  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 for the year ended 30 June 2019

**18. RELATED PARTIES (cont'd)**

*Receivable from and payable to related parties*

There were no transactions that took place to or from related parties at the current and previous reporting date.

**19. PARENT ENTITY DISCLOSURES**

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

	2019 \$	2018 \$
<i>Statement of profit or loss and other comprehensive income</i>		
Loss after income tax	<u>(15,627,544)</u>	<u>(6,190,232)</u>
<i>Statement of financial position</i>		
Total current assets	82,839,565	5,606,434
<b>Total Assets</b>	<u><b>85,720,805</b></u>	<u><b>15,401,070</b></u>
Total current liabilities	2,667,994	1,290,508
<b>Total Liabilities</b>	<u><b>2,667,994</b></u>	<u><b>1,290,508</b></u>
<b>Total Equity</b>	<u><b>81,692,995</b></u>	<u><b>14,110,561</b></u>

There are no guarantees entered into by the parent entity in relation to the debts of its subsidiaries.

***Contingent liabilities***

During the financial year, the parent entity has received a claim for professional fees from its latest capital raise. The parent entity strongly disputes that the fees are owing and will vigorously defend its position.

The parent entity had no contingent liabilities as at 30 June 2018.

***Capital commitments***

The parent entity had no capital commitments as at 30 June 2019 and 30 June 2018.

***Significant accounting policies***

The accounting policies of the parent entity are consistent with those of the Consolidated Entity.

**20. RECONCILIATION OF CASH FLOWS PROVIDED BY OPERATING ACTIVITIES**

<b>Loss for the year</b>	<u><b>(15,627,544)</b></u>	<u><b>(6,190,232)</b></u>
Depreciation and amortisation	8,348	15,352
Impairment loss	6,928,984	-
Share-based payment	2,042,175	780,759
Change in operating assets and liabilities		
(Increase)/ decrease in receivables	(797,448)	(920,167)
(Increase)/ decrease in prepayments	(45,140)	(70,980)
Increase /(decrease) in trade creditors and accruals	1,125,530	371,807
<b>Net cash used in operating activities</b>	<u><b>(6,365,095)</b></u>	<u><b>(6,013,461)</b></u>

PARADIGM BIOPHARMACEUTICALS LIMITED  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 30 June 2019

	2019 \$	2018 \$
<b>21. NON CASH INVESTING AND FINANCING ACTIVITIES</b>		
Shares issued/to be issued under employee share plan	1,728,963	321,459
options issued to third party under the share-based payment arrangement	313,212	109,515
	<b>2,042,175</b>	<b>430,974</b>

**22. EVENTS SUBSEQUENT TO REPORTING DATE**

No other matters or circumstances have arisen since balance date which have impacted or are likely to impact the Consolidated Entity's operations, results and state of affairs in future financial years.

**23. KEY MANAGEMENT PERSONNEL REMUNERATION DISCLOSURES**

The aggregate remuneration made to directors and other members of key management personnel of the Consolidated Entity is set out below:

Short-term employee benefits	745,000	705,000
Post-employment benefits	70,775	66,975
Share-based payments	492,513	41,496
	<b>1,308,288</b>	<b>813,471</b>

**24. AUDITOR REMUNERATION NOTE**

During the financial year the following fees were paid or payable for services provided by RSM Australia Partners, the auditor of the company

*Audit services - RSM Australia Partners*

Audit or review of the financial statements	62,672	56,000
	<b>62,672</b>	<b>50,500</b>

*Other services - RSM Australia Partners*

Preparation of the tax return and other tax matters	10,000	3,700
R&D Tax incentive claim	59,212	75,000
	<b>69,212</b>	<b>78,700</b>
	<b>131,884</b>	<b>134,700</b>

PARADIGM BIOPHARMACEUTICALS LIMITED  
DIRECTORS' DECLARATION

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In the opinion of the Directors of Paradigm Biopharmaceuticals Limited and Controlled Entities:

- (a) the Financial Statements and notes thereto and the Remuneration Report contained in the Directors' Report are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2019 and their performance for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards;
- (c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by Section 295A of the Corporations Act for the financial year ending 30 June 2019.

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

On behalf of the Directors



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Graeme Kaufman  
*Chairman*

Dated at Melbourne, Victoria this 30th day of August 2019.

## INDEPENDENT AUDITOR'S REPORT

### To the Members of Paradigm Biopharmaceuticals Ltd

#### Opinion

We have audited the financial report of Paradigm Biopharmaceuticals Ltd (the Company), and its subsidiaries (the Consolidated Entity), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Consolidated Entity 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 confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

#### Key Audit Matters

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

Key Audit Matter	How our audit addressed this matter
<b>Impairment of Intangible Assets</b> Refer to Note 7 in the financial statements	
<p>The Consolidated Entity has identifiable intangible assets totalling \$2.9m relating to Development costs for various ongoing projects in the development of numerous biopharmaceutical drugs acquired as part of various business acquisitions. These are subject to an annual impairment test, as they are not yet available for use.</p> <p>We identified this area as a Key Audit Matter due to the size of the intangible assets balance and the complexity in building a financial model to assess whether there exists any possible impairment.</p> <p>For the year ended 30 June 2019 management have performed an impairment assessment over the intangibles balance by:</p> <ul style="list-style-type: none"> <li>• Assessing for each project the success to date in line with agreed milestones including any clinical trial data; and other statistical test results;</li> <li>• Assessing additional funding to be spent on the project and the plan going forward including the use of the patent for other uses; and</li> <li>• Calculating the value in use for the Respiratory project using a discounted cash flow model. The model used cash flows (revenues and expenses) for each project for 5 years, with a terminal growth rate applied to the 5th year. These cash flows were then discounted to net present value using the Group's weighted average cost of capital (WACC).</li> </ul>	<p>Our audit procedures in relation to management's impairment assessment included:</p> <ul style="list-style-type: none"> <li>• Reviewing announcements to date in relation to the details of current developments and results of testing for each project;</li> <li>• Consideration of the market capitalisation of the company compared to the total net assets;</li> <li>• Reviewing historical milestones in line with current progress including future projected spending on each project to assess the viability and continuity of each of these.</li> <li>• Reviewing the value in use calculation, including challenging the reasonableness of key assumptions, including the cash flow projections, exchange rates, discount rates, and sensitivities used; and</li> <li>• Checking the mathematical accuracy of the cash flow model, and reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets.</li> </ul>

### **Other Information**

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

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

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

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



***Responsibilities of the Directors for the Financial Report***

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

In preparing the financial report, the directors are responsible for assessing the ability of the Consolidated Entity's 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 Consolidated Entity's 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: [www.auasb.gov.au/auditors\\_responsibilities/ar2.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf). This description forms part of our auditor's report.

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

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Paradigm Biopharmaceuticals 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.

**RSM AUSTRALIA PARTNERS****J S CROALL**

Partner

Dated: 30 August 2019  
Melbourne, Victoria

PARADIGM BIOPHARMACEUTICALS LIMITED  
SHAREHOLDER INFORMATION

**Details of shares and options as at 21 August 2019:**

**Top holders**

The 20 largest holders of each class of equity security as at 21 August 2019 were:

***Fully paid ordinary shares***

Name	No. of Shares	%
PAUL JOHN RENNIE	11,733,468	6.10%
KZEE PTY LTD <KZEE SUPERANNUATION FUND A/C>	10,781,467	5.61%
CITICORP NOMINEES PTY LIMITED	7,933,844	4.13%
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	6,910,375	3.60%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,412,284	3.34%
CS FOURTH NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 11 A/C>	6,096,639	3.17%
MJGD NOMINEES PTY LTD <BSMI A/C>	5,400,216	2.81%
IRWIN BIOTECH NOMINEES PTY LTD <BIOA A/C>	4,406,113	2.29%
NANCY EDITH WILSON-GHOSH <GHOSH FAMILY A/C>	3,910,935	2.03%
MR BRETT LANGAN	3,130,672	1.63%
V REDFORD PTY LTD <REDFORD SUPER FUND A/C>	2,505,419	1.30%
MR EVAN PHILIP CLUCAS + MS LEANNE JANE WESTON <KURANGA NURSERY SUPER A/C>	2,427,913	1.26%
JGM INVESTMENT GROUP PTY LTD <MUCHNICKI FAMILY A/C>	2,185,715	1.14%
MR GRAEME ROY KAUFMAN	2,074,250	1.08%
BRISPTOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	1,982,059	1.03%
HIMSTEDT & CO PTY LTD <THE HIMSTEDT FAMILY A/C>	1,921,871	1.00%
VIEW 26 PTY LTD <VIEW 26 A/C>	1,728,671	0.90%
CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	1,599,156	0.83%
MS LENNA YU LING TYE	1,510,540	0.79%
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	1,437,500	0.75%
<b>Totals: Top 20 holders of ORDINARY FULLY PAID SHARES</b>	<b>86,089,107</b>	<b>44.79%</b>
<b>Total Remaining Holders Balance</b>	<b>106,118,654</b>	<b>55.21%</b>

**Distribution schedules**

A distribution of each class of equity security as at 21 August 2019:

***Fully paid ordinary shares***

Range	Total holders	Units	% of Issued Capital
1 - 1,000	976	610,175	0.32
1,001 - 10,000	2,476	10,839,804	5.64
10,001 - 100,000	1,244	37,121,202	19.31
100,001 - 500,000	156	32,757,620	17.04
500,001 - 1,000,000	20	13,087,235	6.81
1,000,001 - 20,000,000	30	97,791,725	50.88
<b>Total</b>	<b>4902</b>	<b>192,207,761</b>	<b>100.00</b>

PARADIGM BIOPHARMACEUTICALS LIMITED  
SHAREHOLDER INFORMATION (CONT'D)

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**Substantial shareholders**

The names of substantial shareholders and the number of shares to which each substantial shareholder and their associates have a relevant interest, as disclosed in substantial shareholding notices given to the Consolidated Entity, are set out below:

Substantial shareholder	Number of Shares
Paul Rennie and related companies	23,414,935
Citicorp Nominees Pty Ltd	7,933,844
J P Morgan Nominees Australia Pty Limited	6,910,375
HSBC Custody Nominees (Australia) Limited	6,412,284
CS Fourth Nominees Pty Limited <HSBC Cust Nom AU Ltd 11 A/C>	6,096,639
MJGD Nominees Pty Ltd <BSMI A/C>	5,400,216

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**Unmarketable parcels**

Holdings less than a marketable parcel of ordinary shares (being 360 shares at 21 August 2019):

Holders	Units
210	51,270

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**Voting Rights**

The voting rights attaching to ordinary shares are:

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

Options do not carry any voting rights.

**On-Market Buy Back**

There is no current on-market buy-back.

PARADIGM BIOPHARMACEUTICALS LIMITED  
CORPORATE GOVERNANCE STATEMENT

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The Board and management of Paradigm Biopharmaceuticals Limited (Consolidated Entity) are committed to conducting the business of the Consolidated Entity in an ethical manner and in accordance with the highest standards of corporate governance. The Consolidated Entity has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Third Edition) to the extent appropriate to the size and nature of the Consolidated Entity's operations.

This Corporate Governance Statement is accurate and up to date as at 30 June 2019 and has been approved by the Board on 30 August 2019.

The Corporate Governance Statement is available on the Consolidated Entity's website at:

<http://www.paradigmbiopharma.com/investors/corporate-governance>

**END OF REPORT**