FOR THE YEAR ENDED
30 JUNE 2018

VECTUS BIOSYSTEMS

# 2018 ANNUAL REPORT

VECTUS BIOSYSTEMS LIMITED

*AND CONTROLLED ENTITIES*

*ACN 117 526 137*

## GENERAL INFORMATION

The financial report covers Vectus Biosystems Limited as a consolidated entity consisting of Vectus Biosystems Limited and the entity it controls. The financial report is presented in Australian dollars, which is Vectus Biosystems Limited's functional and presentation currency.

The financial report consists of financial statements, notes to the financial statements and the Directors' declaration.

Vectus Biosystems Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and research facility are:

**REGISTERED OFFICE**

3-11 Primrose Avenue
Rosebery
NSW 2018

**RESEARCH FACILITY**

Riverside Corporate Park
Level 3, 11 Julius Avenue
North Ryde, NSW 2113

The financial report was authorised for issue, in accordance with a resolution of Directors on 27 September 2018.

# CONTENTS

# CHAIRMAN'S REPORT

FOR THE YEAR ENDED
30 JUNE 2018

Vectus Biosystems has achieved a series of milestones on both its path to the clinic, and the growing recognition of its library of highly innovative small molecules targeting some of the most prevalent and important disease states, and unmet needs. There is a rapidly growing demand for drugs that inhibit the process of fibrosis in organs damaged by disease. Fibrosis, a process whereby healthy tissues are replaced by non-functioning collagen fibres, is the main cause of organ failure in the hearts and kidneys of people with high blood pressure or diabetes, in the livers of people with cirrhosis and in a wide range of lung diseases.

The benefits of our drugs in development are not only improvements in wellbeing for patients, but are also economic gains for governments and reimbursers globally. Heart and kidney failure represent costs to economies around the world of many billions of dollars annually. The Company's achievements during the year include:

- Vectus continues to make progress with its discussions with a range of pharmaceutical companies located in different geographic regions.
- Toxicology reports from high doses of VB0004 have confirmed the absence of adverse events.
- Phase I human clinical trials for VB0004 are targeted to commence subject to appropriate funding.
- The Company recognises that additional funding is required to pursue its clinical and commercial programmes and remains in discussion with a number of parties.
- There is ongoing interest in the full spectrum of Vectus' key areas of work being cardiovascular disease, renal, pulmonary (lung) fibrosis, and NASH and ASH (liver disease) as evidenced in the interest generated at conferences attended by Vectus in the USA, Australia and New Zealand.

## VECTUS RESEARCH AND DEVELOPMENT

From Dr Karen Duggan's original research into vasoactive intestinal peptide (VIP), Vectus has progressed to the development of small molecule compounds that retain VIP's therapeutic benefits of reversing fibrosis and are ideally placed for investment by pharmaceutical companies. Since the Company's last Annual Report, Vectus has focussed on:

- developing comprehensive data packages on mechanisms of action and efficacy to support therapeutic and patent claims, and to enable an increasing number of emerging candidates from our compound library addressing both high profile and orphan disease states;
- actively expanding into the fibrosis franchises of the liver and lungs; and
- continuing to explore, with animal health companies, the potential for the veterinary uses of Vectus' products.

Vectus remains at the forefront of the development of drugs that reverse fibrosis, rather than merely slowing its progress. The Company has been the beneficiary of the Federal Government's Research and Development (R&D) Tax Incentive cash-back programme, and is expecting a tax refund in excess of $1 million prior to 31 December 2018, for the financial year ended 30 June 2018. The Company is in receipt of a ruling covering eligible R&D expenditure in the current financial year.

I take this opportunity to recognise the highly-proactive Board, which has a range of skills, including drug development, clinical and diagnostic practice, finance, strategy, commercialisation and deep pharmaceutical industry experience. I would like to thank Dr Karen Duggan who, as both Chief Executive Officer, and Medical and Scientific Director, is successfully driving the Company's innovation and relationships with an increasing number of prospective pharmaceutical partners. I also acknowledge our outstandingly-competent and dedicated laboratory staff, whose commitment and hard work underpin the Company's success.

Prof Graham Macdonald retired as Chairman of the Board of the Company effective on 31 August 2018. His retirement was foreshadowed to shareholders at the 2017 Annual General Meeting. The Board gives its sincere thanks to Graham for his mentorship from the very early stages of the Company, through to its initial public offering and listing on ASX, and for his subsequent work applying his technical and other skills during his period on the Board. Prof Macdonald's contribution and service to Vectus since his appointment as a Director on 7 July 2009 have been highly valued. The Company is pleased to advise that Graham has accepted an offer to provide consulting services on an as-agreed basis.

Vectus' technology and IP portfolio place us at the forefront of anti-fibrotic drug development. My sincere thanks go to our shareholders for their support and commitment, underpinning the Company's increasing recognition as the emerging leader in its field.

**MAURIE STANG**
Deputy Chairman

# REVIEW OF OPERATIONS

FOR THE YEAR ENDED
30 JUNE 2018

## OVERVIEW

Vectus is developing a treatment for fibrosis and high blood pressure, which includes the treatment for three of the largest diseases in the fibrotic market, namely heart, kidney and liver disease. Vectus raised A$5.1 million in its Initial Public Offering (IPO) and commenced trading on the Australian Securities Exchange (ASX:VBS) on 23 February 2016. Funds from the IPO and from the Federal Government's Research and Development (R&D) Tax Incentive cash-back programme are being used to develop the Company's lead compound VB0004, which aims to treat the hardening of functional tissue and high blood pressure. Vectus has conducted a range of successful pre-clinical trials, which have shown that VB0004 slows down the advances of fibrosis, potentially repairs damaged cell tissue and reduces high blood pressure. VB0004 is now progressing through a number of important milestones, including pharmaceutical scale-up and additional toxicity studies. Successful results are providing the Company with a clear path to Human Phase I and IIa Clinical Trials. Vectus' strategy is to develop and perform early validation of its drug candidates to the point where they may become commercially attractive to potential pharmaceutical partners.

The Company has also developed technology aimed at improving the speed and accuracy of measuring the amount of DNA and RNA in samples tested in laboratories. The technology, called Accugen, is owned by Vectus' wholly-owned subsidiary Accugen Pty Limited. The technology offers a time, cost and accuracy benefit compared to currently-available systems.

## HIGHLIGHTS

Vectus continues to progress the development of its lead compound VB0004, a completely new chemical class of drug that prevents and, unlike any known competitor in its field, is focussed on reversing fibrosis, the scarring process causing organ failure in damaged and diseased hearts and kidneys. The value proposition of not only slowing disease progression, but in fact restoring normal tissue architecture, with the potential economic and health benefits of avoiding very costly treatments (for instance, dialysis for kidney failure or heart transplants), and dramatically increasing survival rates, underlie the 'first-in-class' potential of VB0004, which may place it in a very favourable position when it comes to reimbursement.

## MILESTONES TOWARDS HUMAN TRIALS

- Audited Investigational New Drug (IND) toxicology reports have been received, confirming the absence of adverse events despite treatment with exceptionally-high doses of VB0004.
- Positive outlook for a successful Phase I study for VB0004.
- IND application enabling toxicology and pharmacokinetic studies for VB0004 are continuing to meet all milestones. Phase I human clinical trials are targeted to commence upon appropriate funding.
- Studies in two species have now been completed for the IND toxicology, being the immediate precursor for the Phase I clinical trial for VB0004.
- Discussions continue with a significant cross-section of global and regional pharmaceutical companies.
- Dialogue is taking place with regional biotech companies and potential strategic investors.
- Presentations made by the Company at conferences attended by industry leaders in the USA, Australia and New Zealand were very well received, and highlighted broad and expanding levels of engagement in Vectus' key areas of interest, being cardiovascular disease, pulmonary (lung) fibrosis, and NASH and ASH (liver disease).
- New enquiries have been received in respect of a potential licence of VB0004 from two pharmaceutical / biotech companies.

## COMMENTARY

Vectus continues to progress its parallel goals of early human trials, pharmaceutical industry engagement and the expansion of its IP portfolio targeting high-value unmet needs across multiple disease states.

In early June 2018 Dr Karen Duggan attended the BIO International Convention in Boston, USA on behalf of Vectus. The Company met with a number of major pharmaceutical companies, established new engagement with a number of regional players and held ongoing discussions with several multinational pharmaceutical companies. Arising out of these meetings, there was real interest in all of Vectus' lead, and emerging lead, anti-fibrotic compounds.

The Company has accelerated the rate of its engagement with potential trade partners, with several groups having indicated that their mandate is to engage once Phase I data is available.

The audited reports on the various components of the IND toxicology studies have now been received, confirming the absence of adverse events despite treatment with exceptionally-high doses of VB0004.

During the year, Vectus continued with a range of activities targeting the potential Phase I clinical trial for VB0004.

The Company has been assessing various opportunities in China based on a significant unmet need for new therapeutic agents targeting both Idiopathic Pulmonary Fibrosis (lung) and Hepatic Fibrosis of the liver. China presents a large patient population for latter stage clinical trials, and both of Vectus' emerging leads, A79 and A32, present compelling medical and social targets for the Chinese authorities.

### IND Toxicology

Studies in two species have now been completed for the IND toxicology work, the immediate precursor for the Phase I clinical trial for VB0004, the Company's lead cardiovascular and renal compound.

### Lead Candidate VB0004

This potentially 'first-in-class' anti-fibrotic has pre-clinically shown to not only slow down damage, but has demonstrated a singular capability to return normal tissue architecture to diseased organs. Reversing such damage is the ultimate aim of clinicians worldwide.

The patent covering VB0004 has now been granted by Canada and Hong Kong, as well as the African Regional Intellectual Property Organisation, which covers 19 states. Furthermore, the patent that encompasses the VB0004 library has been granted in Singapore and South Korea, while a notice of allowance has been received from the USA patent office for the patent covering VB4-A32 (liver) and related compounds.

### Drug Library and Commercial Activity

Vectus has a library of over 1,000 compounds, derived from the platform underpinning VB0004, and the various stages of testing are progressing well. These emerging lead compounds address some of the most significant unmet needs in medicine today, and include:

- VB4-A32 (liver fibrosis, including NASH and ASH);
- VB4-A79 (pulmonary fibrosis, including idiopathic fibrosis, asbestosis and coal dust pneumoconiosis (Black Lung Disease)); and
- VB4-P5 (renal fibrosis).

### Accugen

Accugen was developed internally by the Company to address a well-known inadequacy in quantifying changes in DNA across a broad range of applications. Accucal, the core product, is unique in that it is targeted to eliminate variability and inaccuracy in the current methodology of using housekeeping genes. These housekeeper genes are currently widely used, yet are time consuming and costly, and are a potentially inaccurate method of calibrating the results from quantitative polymerase chain reaction (qPCR) analysis.

The patent covering Accugen's reagent has been granted in both Europe and China, in addition to the other major jurisdictions of Japan and the USA, as well as Australia, New Zealand, Chile, Israel, Malaysia, the Philippines, Singapore and South Africa.

Vectus is undertaking Key Opinion Leader identification and outreach for the Accugen consumable.

### Finance

The Vectus Group incurred an operating loss after income tax of $2,587,000 in the year ended 30 June 2018 (2017: $3,794,000). Operating expenses were down from $4,868,000 in 2017 to $4,018,000 in the 2017-18 year. The Company has commenced work on its claim for an ATO research and development (R&D) cash-back for the financial year ended 30 June 2018. Initial analysis of expenditure for the June 2018 year indicates that there is a pre-approved R&D expenditure of $2,179,000 and this results in a projected refund for the year of $946,000, which is earmarked to repay the interim Director loan. It is important to note that, subject to adhering to the requisite conditions, the R&D cash-back for the 2017-18 financial year is now an entitlement of Vectus and is expected to be received in the December 2018 quarter. Additional R & D refund entitlements are being generated in the current year.

The Company continues to take steps to support the funding of its future R&D and product commercialisation programme. Vectus is in active dialogue with several brokers, potential investors and other sources of funding. As an interim measure the Company is utilising a Director loan of $912,000. Vectus has the ability to reduce its operating expenses to quite modest levels if required.

## SUMMARY

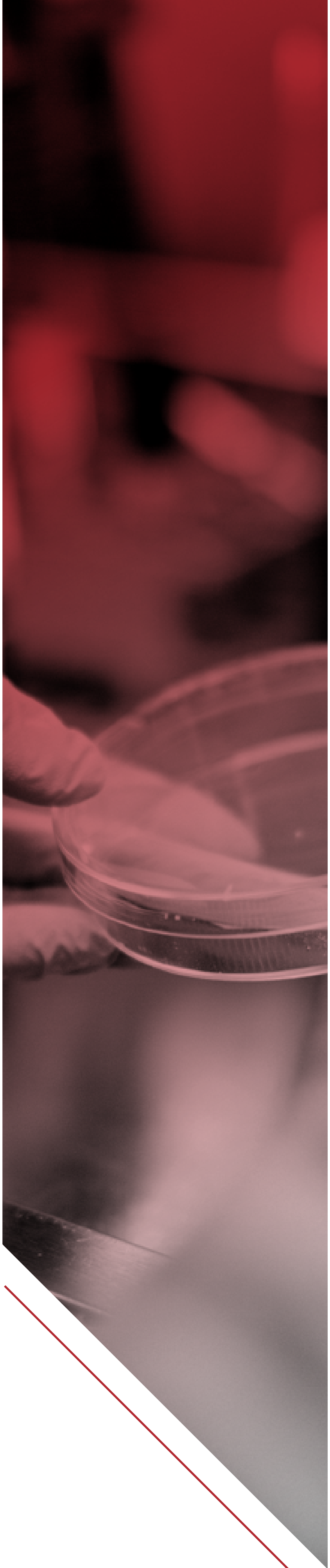
Vectus has secured an outstanding IP position, strong pre-clinical validation, and a number of emerging drug candidates in addition to its lead compound VB0004, which have the potential to stop disease progression, and reverse existing damage with an opportunity for first-in-class reimbursement with a low cost of manufacture and which are, pre-clinically, extremely well tolerated when dosed orally.

**KAREN DUGGAN**
Chief Executive Officer
and Executive Director

## ABOUT VECTUS BIOSYSTEMS LIMITED

Vectus Biosystems Limited (ASX:VBS) (Vectus or the Company) is developing a treatment for fibrosis and high blood pressure, which includes the treatment for three of the largest diseases in the fibrotic market, namely heart, kidney and liver disease. Vectus successfully completed its Initial Public Offering on the Australian Securities Exchange (ASX) and commenced trading on ASX on 23 February 2016, after raising $5.1 million. Funds raised are being used to develop the Company's lead compound, VB0004, which aims to treat the hardening of functional tissue and high blood pressure. Vectus has conducted a range of successful pre-clinical trials, which have shown that VB0004 slows down the advances of fibrosis, potentially repairs damaged cell tissue and reduces high blood pressure. VB0004 is now progressing through several important milestones, including pharmaceutical scale-up and additional toxicity studies. Successful results are providing the Company with a clear path to Human Phase I and IIa Clinical Trials. Vectus' strategy is to develop and perform early validation of its drug candidates to the point where they may become commercially attractive to potential pharmaceutical partners.

The Company has also developed technology aimed at improving the speed and accuracy of measuring the amount of DNA and RNA in samples tested in laboratories. The technology, called Accugen, is owned by Vectus' wholly-owned subsidiary Accugen Pty Limited. The technology offers a time, cost and accuracy benefit compared to currently-available systems. The Company's current stage of investment in Accugen is a commercialisation programme that may include direct sales, distribution partnerships and licencing opportunities.



# DIRECTORS' REPORT

FOR THE YEAR ENDED
30 JUNE 2018

The Directors of Vectus Biosystems Limited present their Report together with the financial statements of the consolidated entity, being Vectus Biosystems Limited (the Company) and its controlled entity (the Group) for the year ended 30 June 2018.

## DIRECTORS' DETAILS

The names of the Directors in office during, or since the end of, the 2017-18 financial year are:

Maurie Stang
Karen Duggan
Peter Bush
Ronald Shnier
Susan Pond
Graham Macdonald (Retired 31 August 2018)

## REVIEW OF OPERATIONS AND FINANCIAL RESULTS

The consolidated loss of the Group for the financial year amounted to $2,587,296 (2017: Loss $3,794,254).

For a comprehensive review of the Group's operational performance, refer to the attached Review of Operations.

A review of the Group's operations during the financial year and the results of those operations are as follows:

- the Group's operations during the financial year performed as expected in the opinion of the Directors;
- no significant changes in the Group's state of affairs occurred during the financial year; and
- no significant change in the nature of these activities occurred during the financial year.

## PRINCIPAL ACTIVITIES

During the financial year the principal continuing activities of the Group consisted of:

- Medical Research and Development

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

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

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the consolidated entity during the 2018 and 2017 financial years.

## DIVIDENDS

There were no dividends paid during the year, and there were no dividends or distributions recommended or declared for payment to members during the year that have not been paid or credited to the member throughout the year.

## ENVIRONMENTAL REGULATION

The Group is not subject to any significant environmental regulation under Australian Commonwealth or state law.

## INDEMNITY AND INSURANCE OF OFFICERS AND AUDITORS

The Company has indemnified the directors and executives of the Group for the costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the Directors and executives of the Group against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

## INDEMNITY AND INSURANCE OF AUDITOR

The Company has not, during or since the financial year, indemnified or agreed to indemnify the auditor of the Group or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Group or any related entity.

No indemnities have been given or insurance premiums paid during or since the end of the financial year for any person who is or has been an officer or auditor of the Group.

## PROCEEDINGS ON BEHALF OF THE COMPANY

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

The Company was not a party to any such proceedings during the year.

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2018

### BOARD OF DIRECTORS AND COMPANY SECRETARY

The Vectus Biosystems Limited (Vectus or the Company) Board has a broad range of experience in drug research and development, and early stage biotech companies, capital markets, financial and scientific expertise.

#### EMERITUS PROFESSOR **GRAHAM MACDONALD**

Non-Executive Chairman

Prof Graham Macdonald (AM, MD, BS, BSc (Med), FRACP, FRCP, FANZCC) received, in June 2012, an Australian Queen's Birthday Honour in the General Division of the Order of Australia for 'service to biomedical research in the areas of hypertension and renal disease, to medical education, to the promotion and awareness raising of organ donation, and as a mentor'. He brings to the Company a wealth of experience in clinical medicine, basic biomedical science, and in the field of pharmaceutical licensing and commercialisation. Prof Macdonald has had an outstanding career first as an academic nephrologist, and then moving into the pharmaceutical industry with Merck Sharp and Dohme (Australia). During this time he successfully brokered a number of high-profile agreements, including a US$100 million-plus deal with AMRAD (now Zenyth Therapeutics) to develop a new asthma treatment. Prof Macdonald retired in 2007 from his former position as External Licensing Coordinator Merck Sharp & Dohme (Australia). Between 1974 and 1998, he was an academic nephrologist at the Prince Henry and Prince of Wales Hospitals Clinical School of the University of New South Wales.

Prof Macdonald's research interests centred on the role of the uridine nucleotides in vascular modulation and sodium metabolism. Other significant projects he has worked on include non-pharmacological control of high blood pressure and interaction of cardiovascular risk factors, psycho-social disorders in patients on dialysis with emphasis on thirst mechanisms, high blood pressure in pregnancy, the role of gut peptides in regulating renal sodium excretion, and normal and disordered regulation of angiotensin II receptors in various disease states. Prof Macdonald is currently a Director and Chairman of Stem Cells Limited.

**Directorships held in other listed entities in the past three years:** None

**Appointed to the Board:** 22 February 2008; **retired on**: 31 August 2018

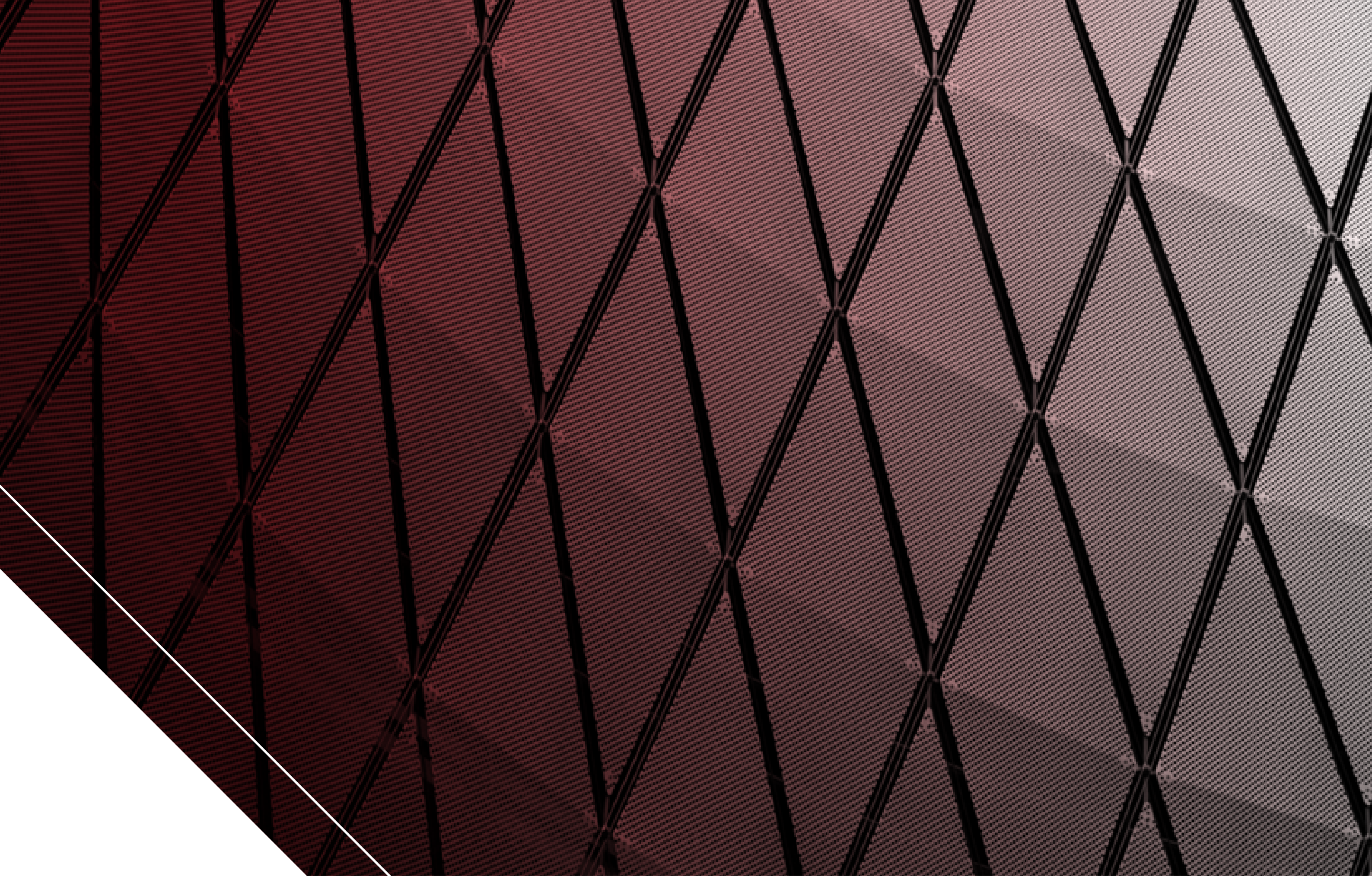
#### DR **KAREN DUGGAN**

Executive Director and Chief Executive Officer

Dr Karen Duggan is a founder of the Company. She was formally director of the Hypertension Service – South Western Sydney Area Health Service (SWSAHS), and is the immediate past chair of the National Blood Pressure and Vascular Disease Advisory Committee. Dr Duggan was also a member of the Cardiovascular Health Advisory Committee of the National Heart Foundation of Australia and the Post-Acute Stroke Guidelines Advisory Committee of the Australian Government Department of Health and Aging. She remains a member of the Cardiovascular Clinical Expert Reference Group of the NSW Department of Health. In Dr Duggan's role as Director of the Hypertension Service SWSAHS she was responsible for managing a multidisciplinary team (medical, nursing, laboratory and administrative staff), as well as developing and implementing new and innovative strategies in patient care within SWSAHS. The Hypertension Service participated in a number of clinical trials of both new therapeutics as well as evaluation of new diagnostic devices.

**Directorships held in other listed entities in the past three years:** None

**Appointed to the Board:** 4 September 2006



## MAURIE STANG

Non-Executive Deputy Chairman

Mr Maurie Stang has a 30-year track record of building successful companies in the Australasian healthcare market and is recognised as one of its most respected business executives. He has significant experience and an extensive network within the life-sciences, pharmaceutical and finance sectors, both in Australia and internationally. Mr M Stang is a Principal of GryphonCapital, an independent investment house that facilitates the financing and development of emerging health-care related entities. He is also a Founder and Director of Henry Schein Halas, a joint venture with the NASDAQ listed Henry Schein, Inc., the leading wholesale supplier of dental products in Australasia. Mr M Stang is a Director of Novapharm Research (Australia) Pty Ltd and of Regional Health Care Group (a diversified healthcare product supplier, with successful businesses across a range of medical, pharmaceutical, consumer healthcare, and research and development sectors).

**Directorships held in other listed entities in the past three years:**
Non-Executive Chairman of Nanosonics Limited (ASX:NAN) since it listed on 15 May 2007 (and a member of its Board since 14 November 2000) and Non-Executive Chairman of Aeris Environmental Ltd (ASX:AEI) since 24 July 2002

**Appointed to the Board:** 12 December 2005

## PETER BUSH

Non-Executive Director

Mr Peter Bush (BCom, CA) previously acted as the Chief Financial Officer and Company Secretary of Vectus and of Accugen Pty Limited. He is the Chief Executive Officer of Aeris Environmental Ltd, and an Executive Director and the Chief Financial Officer of The Regional Health Care Group and GryphonCapital. Mr Bush began his career working for five years at BDO, a global accounting and consulting firm, and has since spent several years working in industry.

**Directorships held in other listed entities in the past three years:**
Alternate Director of Aeris Environmental Ltd (ASX:AEI) since 9 May 2011

**Appointed to the Board:** 9 July 2015

## DR RONALD SHNIER
Non-Executive Director

Dr Ronald Shnier completed a radiology fellowship at Royal Prince Alfred Hospital (RPAH) before undertaking his neuroradiology fellowship at RPAH in 1989 and musculoskeletal fellowship at the University of California Los Angeles (UCLA) in 1991. He was a consultant specialist at RPAH between 1990 and 1993. Dr Shnier started one of Australia's first Private MRI practices in 1991 before becoming General Manager of Mayne's Diagnostic Imaging in 2007 and was its National Director for many years. He has served on several international MRI advisory boards. Dr Shnier has a strong involvement in clinical research, and has lectured both in Australia and overseas.

**Directorships held in other listed entities in the past three years:** None

**Appointed to the Board:** 2 September 2015

## DR SUSAN POND
Non-Executive Director

Dr Susan Pond AM (MD, DSc, FRACP) has a strong scientific and commercial background, having held executive positions in the biotechnology and pharmaceutical industry for 12 years, including as Chairman and Managing Director of Johnson & Johnson Research Pty Limited (2003 to 2009). In February 2017 she was appointed by The University of Sydney as Director of its Australian Institute for Nanoscale Science & Technology. Previously, Dr Pond has held many Board positions such as: Non-Executive Director and Chairman of AusBiotech Limited (2006 to 2008); Director of the Australian Nuclear Science and Technology Organisation (ANSTO) (2010 to 2014); Board member of Innovation Australia (2012 to 2015); and Vice President of the Academy of Technological Sciences and Engineering (ATSE) (2010 to 2015). She is a Fellow of ATSE, the Australian Institute of Company Directors, and the Academy of Health and Medical Sciences. Dr Pond obtained specialist clinical credentials in internal medicine, clinical pharmacology and clinical toxicology, and has held academic appointments at the University of California in San Francisco and the University of Queensland.

**Directorships held in other listed entities in the past three years:** Non-Executive Director of Biotron Limited (ASX:BIT) since 7 March 2012.

**Appointed to the Board:** 4 May 2016

CONTINUED >

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2018

### Company Secretary

Mr Robert Waring (BEc, CA, FCIS, FFin, FAICD) has over 40 years' worth of experience in financial and corporate roles, including over 25 years in Company Secretarial roles for ASX-listed companies, and over 20 years as a Director of ASX-listed companies. Mr Waring has significant company secretarial experience for both listed and unlisted companies, and is currently serving as Company Secretary for ASX-listed companies Aeris Environmental Ltd, Xref Limited and Cobalt Blue Holdings Limited. He is a Director of Oakhill Hamilton Pty Ltd, which provides secretarial and corporate advisory services to a range of listed and unlisted companies. Appointed as Company Secretary on 9 July 2015.

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2018

## MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors (the Board) and of each Board committee held during the year ended 30 June 2018, and the number of meetings attended by each Director / Committee member were:

| | Board of Directors Meetings | Audit and Risk Management Committee Meetings | Remuneration and Nomination Committee Meetings | Corporate Governance Committee Meetings | R&D and Innovation Committee Meetings |
|---|---|---|---|---|---|
| Number of meetings held | 15 | 4 | 2 | 1 | 1 |
| Number of meetings attended | | | | | |
| Graham Macdonald | 14 | 4 | 2 | N/A | 1 |
| Karen Duggan | 15 | N/A | N/A | 1 | 1 |
| Maurie Stang | 15 | 4 | 2 | N/A | N/A |
| Peter Bush | 13 | 3 | N/A | 1 | N/A |
| Ronald Shnier | 13 | N/A | 1 | N/A | N/A |
| Susan Pond | 14 | N/A | N/A | 1 | 1 |

In addition to the above meetings, the Board and senior executives conduct formal management meetings.

## COMMITTEE MEMBERSHIP

As at the date of this report, the Company had an Audit and Risk Management Committee, a Corporate Governance Committee, a Remuneration and Nomination Committee, and an R&D and Innovation Committee of the Board of Directors. Members acting on the Committees of the Board during the year were:

### Audit and Risk Management Committee

Peter Bush (Chairman)
Graham Macdonald
Maurie Stang

### Corporate Governance Committee

Susan Pond (Chairman)
Karen Duggan
Peter Bush

### Remuneration and Nomination Committee

Graham Macdonald (Chairman)
Maurie Stang
Ronald Shnier

### R&D and Innovation Committee

Graham Macdonald (Chairman)
Karen Duggan
Susan Pond

## SHARE REGISTRY

Boardroom Pty Limited
GPO Box 3993
Sydney, NSW 2000
Tel: +61 2 9290 9600
Fax: +61 2 9279 0664
Email: enquiries@boardroomlimited.com.au

## AUDITOR'S INDEPENDENCE DECLARATION

UHY Haines Norton continues in office in accordance with section 327 of the *Corporations Act 2001*.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 20.

## OFFICERS OF THE COMPANY WHO ARE FORMER AUDIT PARTNERS OF UHY HAINES NORTON

There are no officers of the Company who are former audit partners of UHY Haines Norton

## CORPORATE GOVERNANCE

Vectus Biosystems Limited's Corporate Governance Statement and ASX Appendix 4G are released to ASX on the same day the Annual Report is released.

The Company's Corporate Governance Statement, and Corporate Governance Compliance Manual, can both be found on the Company's website at: http://www.vectusbiosystems.com.au/investor-centre/corporate-governance/.

## DIRECTORS' INTERESTS

| | Ordinary shares | Options or rights over ordinary shares |
|---|---|---|
| Maurie Stang | 2,575,064 | 100,000 |
| Karen Duggan | 3,203,500 | 175,000 |
| Graham Macdonald (Retired 31 August 2018) | 46,667 | - |
| Peter Bush | 3,900 | 200,000 |
| Ronald Shnier | 100,000 | - |
| Susan Pond | 21,500 | - |

# REMUNERATION REPORT (AUDITED)

### *KEY MANAGEMENT PERSONNEL*

The key management personnel of the Company comprises the Directors only as follows:

Maurie Stang
Karen Duggan
Graham Macdonald (Retired 31 August 2018)
Peter Bush
Ronald Shnier
Susan Pond

### *REMUNERATION POLICIES*

Details of Vectus' remuneration policies and practices, together with details of Directors' and Executives' Remuneration, are as follows:

a. Overview of remuneration structure

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. Processes have been established to ensure that the levels of compensation and remuneration are sufficient and reasonable, and explicitly linked to the achievement of personal and corporate objectives. The short and long-term incentive plans are specifically aligned to shareholder interests.

Vectus' Remuneration and Nomination Committee advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for staff, including Directors and Senior Managers of the Company.

The Committee has access to the advice of independent remuneration consultants to ensure the remuneration and incentive schemes are consistent with its philosophy as well as current market practices.

b. Non-Executive Directors:

Payments were made during the year to Non-Executive Directors for their services. This is reviewed annually.

c. Executives

The objective of Vectus' executive reward system is to ensure that remuneration for performance is competitive and appropriate for the results delivered.

Executive pay structures include a base salary and superannuation. In addition, executives and senior managers can participate in the Employee Incentives Plan.

# REMUNERATION REPORT (AUDITED)

### *EQUITY HOLDING TRANSACTIONS*

The movement during the reporting period in the number of ordinary shares in Vectus Biosystems Limited held directly, indirectly, or beneficially by each specified Director and specified executive including their personally-related entities, are as follows:

**2018**

| | Number held 30 June 2017 | Acquired during year | Sold during year | Number held 30 June 2018 |
|---|---|---|---|---|
| Maurie Stang | 2,556,000 | 19,064 | - | 2,575,064 |
| Karen Duggan | 3,203,500 | - | - | 3,203,500 |
| Graham Macdonald | 46,667 | - | - | 46,667 |
| Peter Bush | 3,900 | - | - | 3,900 |
| Ronald Shnier | 100,000 | - | - | 100,000 |
| Susan Pond | 21,500 | - | - | 21,500 |
| | **5,931,567** | **19,064** | **-** | **5,950,631** |

**2017**

| | Number held 30 June 2016 | Acquired during year | Sold during year | Number held 30 June 2017 |
|---|---|---|---|---|
| Maurie Stang | 2,556,000 | - | - | 2,556,000 |
| Bernard Stang | 2,556,000 | - | - | 2,556,000 |
| Karen Duggan | 3,201,500 | 2,000 | - | 3,203,500 |
| Graham Macdonald | 46,667 | - | - | 46,667 |
| Peter Bush | 3,900 | - | - | 3,900 |
| Ronald Shnier | 100,000 | - | - | 100,000 |
| Susan Pond | 21,500 | - | - | 21,500 |
| | **8,485,567** | **2,000** | **-** | **8,487,567** |

### *TRANSACTIONS WITH DIRECTORS AND DIRECTOR RELATED ENTITIES*

A number of specified directors, or their personally-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company in the reporting period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arms length basis.

Details of these transactions are shown below:

| | 2018 | 2017 |
|---|---|---|
| *Regional Health Care Group Pty Ltd* | $ | $ |
| Corporate and administration services | 218,005 | 212,592 |
| Current payables | 169,398 | 1,903 |

*Mr M Stang and Mr B Stang are Directors and shareholders of Regional Healthcare Group Pty Ltd.*

| | | |
|---|---|---|
| *Aeris Environmental Ltd* | | |
| Accounting services | 25,328 | 24,883 |
| Current payables | 23,550 | - |

*Mr M Stang and Mr B Stang are Directors and shareholders of Aeris Environmental Ltd.*

*Mr P Bush is Alternate Director and shareholder of Aeris Environmental Ltd.*

| | | |
|---|---|---|
| *Loan from M Stang, Non-Executive Deputy Chairman* | | |
| Loan borrowing | 1,632,000 | - |
| Loan repaid | (720,000) | - |
| Interest on loan | 18,270 | - |
| Interest on loan | 912,000 | - |

CONTINUED >

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2018

### *DETAILS OF DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION FOR THE YEAR ENDED 30 JUNE 2018*

| | Short-term benefits | | Equity based benefits | | | |
|---|---|---|---|---|---|---|
| | Salary and Directors' fees | Post employment benefits | Shares | Options or Rights | Total | Performance related |
| | $ | $ | $ | $ | $ | % |
| *Non-Executive Directors* | | | | | | |
| Maurie Stang | 50,228 | 4,772 | - | 39,250 | 94,250 | 0.0% |
| Graham Macdonald | 59,361 | 5,639 | - | - | 65,000 | 0.0% |
| Peter Bush | 41,096 | 3,904 | - | 90,917 | 135,917 | 0.0% |
| Ronald Shnier | 41,096 | 3,904 | - | - | 45,000 | 0.0% |
| Susan Pond | 41,096 | 3,904 | - | - | 45,000 | 0.0% |
| *Total Non-Executive* | | | | | | |
| Directors | 232,877 | 22,123 | - | 130,167 | 385,167 | |
| *Executive Directors* | | | | | | |
| Karen Duggan | 190,766 | 18,123 | | 74,575 | 283,464 | 0.0% |
| *Total Executive Directors* | 190,766 | 18,123 | - | 74,575 | 283,464 | |
| **TOTAL** | **423,643** | **40,246** | **-** | **204,742** | **668,631** | |

*There were no long term benefits paid to directors and executive officers during 2018 financial year*

### *DETAILS OF DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION FOR THE YEAR ENDED 30 JUNE 2017*

| | Short-term benefits | | Equity based benefits | | | |
|---|---|---|---|---|---|---|
| | Salary and Directors' fees | Post employment benefits | Shares | Options or Rights | Total | Performance related |
| | $ | $ | $ | $ | $ | % |
| *Non-Executive Directors* | | | | | | |
| Maurie Stang | 50,228 | 4,772 | - | 22,896 | 77,896 | 0.0% |
| Bernard Stang | 13,699 | 1,301 | - | - | 15,000 | 0.0% |
| Graham Macdonald | 59,361 | 5,639 | - | - | 65,000 | 0.0% |
| Peter Bush | 41,096 | 3,904 | - | 74,563 | 119,563 | 0.0% |
| Ronald Shnier | 41,096 | 3,904 | - | - | 45,000 | 0.0% |
| Susan Pond | 41,096 | 3,904 | - | - | 45,000 | 0.0% |
| *Total Non-Executive* | | | | | | |
| Directors | 246,575 | 23,425 | - | 97,459 | 367,459 | |
| *Executive Directors* | | | | | | |
| Karen Duggan | 189,754 | 18,027 | 4,000 | 43,502 | 255,283 | 0.0% |
| *Total Executive Directors* | 189,754 | 18,027 | 4,000 | 43,502 | 255,283 | |
| **TOTAL** | **436,329** | **41,452** | **4,000** | **140,961** | **622,742** | |

*There were no long term benefits paid to directors and executive officers during 2017 financial year*

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2018

### EMPLOYMENT CONTRACTS

Executive Director and Chief Executive Officer (CEO):

The following sets out the key terms of the employment agreement for the Executive Director and CEO, Dr Karen Duggan.

| | |
|---|---|
| Contract term | Continuous employment until notice is given by either party |
| Fixed remuneration | $208,889 per year<br>This is reviewed annually. |
| Notice period | To terminate the employment, Dr Duggan is required to provide Vectus with 3 months written notice. Vectus must provide 3 months written notice. |
| Resignation or termination | On resignation, unless the Board determines otherwise:<br>All unvested short term or long term benefits are forfeited.<br>All vested but unexercised benefits are forfeited after 90 days following cessation of employment. |
| Statutory entitlements | Annual leave applies in all cases of separation.<br>Long Service applies unless service is under 10 years and she is dismissed for misconduct. |
| Termination for serious misconduct | Vectus may immediately terminate employment at any time in case of serious misconduct, and Dr Duggan will only be entitled to payment of fixed remuneration until termination date. Such termination will result in all unvested benefits being forfeited. Treatment of any vested but unexercised benefits will be at the discretion of the Board. |
| Restraint of Trade | For a period of 6 months or, if that period is unenforceable, 3 months after termination of employment, Dr Duggan must not in the area of Australia or, if that area is unenforceable, New South Wales:<br>i. solicit, canvass, approach or accept any approach from any person who was at any time during her last 12 months with the Company a client of the Company in that part or parts of the business carried on by the Company in which she was employed with a view to obtaining the custom of that person in a business that is the same or similar to the business conducted by the Company; or<br>ii. interfere with the relationship between the Company and its customers, employees or suppliers; or<br>iii. induce or assist in the inducement of any employee of the Company to leave their employment. |

There are no other contracts to which a Director is a party or under which a Director is entitled to a benefit other than as disclosed above and in the financial statements.

### LINK BETWEEN REMUNERATION AND PERFORMANCE AND STATUTORY PERFORMANCE INDICATORS

The table to the right shows measures of the group's financial performance over the last two years as required by the *Corporations Act 2001*. However, these are not necessarily consistent with the measures used in determining the variable amounts of remuneration to be awarded to KMPs. As a consequence, there may not always be a direct correlation between the statutory key performance measures and the variable remuneration awarded.

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Loss for the year | (2,587,296) | (3,794,254) | (3,211,324) |
| Basic loss per share (cents per share) | (11.07) | (16.24) | (16.13) |
| Dividend payments | - | - | - |
| (Decrease)/increase in share price (%) | -39.3% | 2.9% | N/A* |
| Total KMP remuneration as percentage of loss for the year (%) | -26% | -16% | -17% |

**The Company was listed during the 2016 financial year*

The Company is also in discussions with management and remuneration consultants to structure and align KMP remuneration to strategic business objectives with an aim of creation of shareholder wealth.

CONTINUED >

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2018

### *PERFORMANCE RIGHTS OR OPTIONS*

The following rights or options issued to key management personnel were not vested as at the end of financial year:

| | Numer of options/rights | |
|---|---|---|
| | 2018 | 2017 |
| Performance rights to Peter Bush, Non-Executive Director | 200,000 | 200,000 |
| Performance rights to Maurie Stang, Non-Executive Deputy Chairman | 100,000 | 100,000 |
| Performance rights to Karen Duggan, Chief Executive Officer | 100,000 | 100,000 |
| Deferred Share Awards to Karen Duggan, Chief Executive Officer | 75,000 | 75,000 |

Signed in accordance with a resolution of the directors; pursuant to section 298(2)(a) of *Corporations Act 2001* on behalf of the directors.

**MAURIE STANG**
Deputy Chairman

Date: 28 September 2018

# AUDITOR'S INDEPENDENCE DECLARATION

UHY Haines Norton
Chartered Accountants

Level 11 | 1 York Street | Sydney | NSW | 2000
GPO Box 4137 | Sydney | NSW | 2001
t: +61 2 9256 6600 | f: +61 2 9256 6611
sydney@uhyhn.com.au
www.uhyhnsydney.com.au

**Auditor's Independence Declaration under section 307C of the *Corporations Act 2001***

**To the Directors of Vectus Biosystems Limited**

As auditor for the audit of Vectus Biosystems Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Vectus Biosystems Limited and the entity it controlled during the year.

M Nicholaeff

UHY Haines Norton

**Mark Nicholaeff**
Partner
Sydney
28 September 2018

**UHY Haines Norton**
Chartered Accountants

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED
30 JUNE 2018

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | $ | $ |
| Revenue and other income | 3 | 1,827 | 49,337 |
| Administration and corporate expenses | | (663,347) | (690,850) |
| Finance costs | 4 | (23,457) | (2,439) |
| Depreciation and amortisation expense | 4 | (20,100) | (28,205) |
| Employee benefits expense and directors remuneration | 4 | (1,367,552) | (1,557,539) |
| Occupancy expenses | | (298,703) | (310,142) |
| Research & development | 4 | (1,602,609) | (2,256,503) |
| Travel expenses | | (42,480) | (22,284) |
| ***Loss before income tax benefit from continuing operations*** | | (4,016,421) | (4,818,625) |
| Income tax benefit | 5 | 1,429,125 | 1,024,371 |
| ***NET LOSS FOR THE YEAR*** | | **(2,587,296)** | **(3,794,254)** |
| ***TOTAL COMPREHENSIVE LOSS FOR YEAR, NET OF TAX*** | | ***(2,587,296)*** | ***(3,794,254)*** |
| ***Loss for the year attributable to:*** | | | |
| Owners of Vectus Biosystems Limited | | (2,587,296) | (3,794,254) |
| ***Total comprehensive loss for the year attributable to:*** | | | |
| Owners of Vectus Biosystems Limited | | (2,587,296) | (3,794,254) |
| ***Loss per share*** | 25 | | |
| Basic loss per share (cents per share) from continuing operations | | (11.07) | (16.24) |
| Diluted loss per share (cents per share) from continuing operations | | (11.07) | (16.24) |

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | $ | $ |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 6 | 41,811 | 516,913 |
| Other current assets | 7 | 108,295 | 137,360 |
| **Total current assets** | | **150,106** | **654,273** |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 8 | 46,177 | 66,277 |
| **Total non-current assets** | | **46,177** | **66,277** |
| **TOTAL ASSETS** | | **196,283** | **720,550** |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 9 | 997,814 | 94,865 |
| Other current liabilities | 10 | 281,153 | 254,385 |
| Provisions | 11 | 248,706 | 243,391 |
| Borrowings | 12 | 912,000 | - |
| **Total current liabilities** | | **2,439,673** | **592,641** |
| **NON-CURRENT LIABILITIES** | | | |
| Provisions | 11 | 13,009 | 11,346 |
| **Total non-current liabilities** | | **13,009** | **11,346** |
| **TOTAL LIABILITIES** | | **2,452,682** | **603,987** |
| **NET (LIABILITIES) / ASSETS** | | **(2,256,399)** | **116,563** |
| **EQUITY** | | | |
| Issued Capital | 13 | 17,600,420 | 17,591,420 |
| Reserves | 24 | 393,752 | 188,418 |
| Retained Earnings/Accumulated Losses | 14 | (20,250,571) | (17,663,275) |
| **TOTAL (DEFICIT) / EQUITY** | | **(2,256,399)** | **116,563** |

*The above consolidated statement of financial position should be read in conjunction with the accompanying notes.*

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED
30 JUNE 2018

## CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | $ | $ |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| R&D tax offset rebate received | | 1,429,125 | 1,024,371 |
| Receipt from customers | | - | 5,885 |
| Payments to suppliers and employees | | (2,799,050) | (5,013,037) |
| Interest received | | 1,093 | 89,791 |
| Interest paid | | (18,270) | (69) |
| **Net cash used in operating activities** | **22 (b)** | **(1,387,102)** | **(3,893,059)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Investments in term deposits | | - | 4,033,992 |
| Investment in property, plant and equipment | | - | (39,280) |
| **Net cash provided by investing activities** | | **-** | **3,994,712** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Loan borrowings | | 1,632,000 | - |
| Repayment of loans | | (720,000) | (5,379) |
| **Net cash provided by / (used in) financing activities** | | **912,000** | **(5,379)** |
| Net (decrease) / increase in cash and cash equivalents | | (475,102) | 96,274 |
| Cash and cash equivalents at the beginning of the financial year | | 516,913 | 420,639 |
| **Cash and cash equivalents at the end of the financial year** | **22 (a)** | **41,811** | **516,913** |

*The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.*

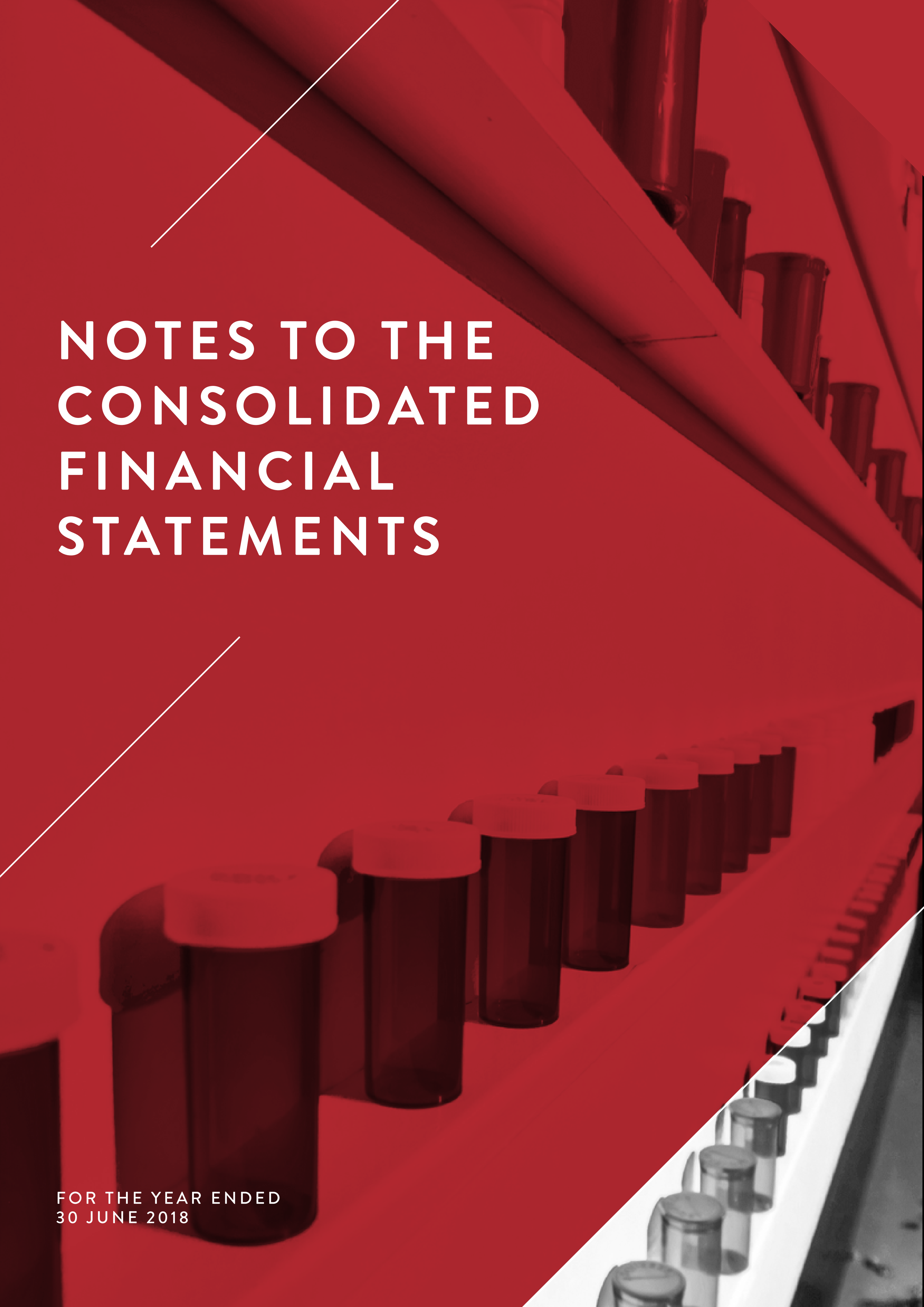
# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED
30 JUNE 2018

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Note | Equity | Retained Earnings | Reserves | Total attributable to equity holders of the entity |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| **Balance at 1 July 2016** | | **17,581,368** | **(13,869,021)** | **36,437** | **3,748,784** |
| Comprehensive Income | | | | | |
| Loss for the year | | - | (3,794,254) | - | (3,794,254) |
| Total comprehensive loss for the year | | - | (3,794,254) | - | (3,794,254) |
| Transactions with owners | | | | | |
| Shares issued during the year | 13 | 10,052 | - | - | 10,052 |
| Share issue costs | | - | - | - | - |
| Share-based payment reserve | | - | - | 151,981 | 151,981 |
| **Balance at 30 June 2017** | | **17,591,420** | **(17,663,275)** | **188,418** | **116,563** |
| **Balance at 1 July 2017** | | **17,591,420** | **(17,663,275)** | **188,418** | **116,563** |
| Comprehensive Income | | | | | |
| Loss for the year | | - | (2,587,296) | - | (2,587,296) |
| Total comprehensive loss for the year | | - | (2,587,296) | - | (2,587,296) |
| Transactions with owners | | | | | |
| Shares issued during the year on exercise of options | 13 | 9,000 | - | (9,000) | - |
| Share-based payment reserve | | - | - | 214,334 | 214,334 |
| **Balance at 30 June 2018** | | **17,600,420** | **(20,250,571)** | **393,752** | **(2,256,399)** |

*The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.*



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
30 JUNE 2018

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Corporate information

The financial report of Vectus Biosystems Limited (the Company) for the year ended 30 June 2018 was authorised for issue in accordance with a resolution of the Directors on 27 September 2018.

Vectus Biosystems Limited (the parent) is a company limited by shares incorporated in Australia whose shares are publicly listed on the Australian Stock Exchange (ASX code: VBS).

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

### Basis of Preparation

These general purpose financial statements have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations of the Australian Account Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

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

### Going Concern

The Group has incurred an operating loss of $2,587,296 for the year ended 30 June 2018 (2017: $3,794,254) and net assets position has gone down from $116,563 as at 30 June 2017 to a deficit of ($2,256,399) as at 30 June 2018. The operating cash burn rate for the year ended 30 June 2018 was $1,387,102 (2017: $3,893,059). The cash balance as at 30 June 2018 was $41,811. If the 2018 cash burn rate continues during the year ended 30 June 2019, which it is not budgeted to do, there may be an uncertainty in relation to the Group's ability to continue as a going concern.

The Group has been able to bring down the operating expenses considerably in 2018 and also expects to receive R&D cash back of about $950,000 in the second quarter of 2019 financial year. Additionally, Vectus is in active dialog with a number of brokers, potential investors and other sources of funding and capital raising. The Group also has the ability to reduce its operating expenses further to quite modest levels if required.

As a consequence of the above, the Directors are of the opinion that the Group will have adequate resources to continue to be able to meet its obligations as and when they fall due. For this reason they continue to adopt the going concern basis in preparing the Financial Report. Notwithstanding this belief, there is a risk that the Group may not be successful in implementing these initiatives or the implementation of alternative options which may be available to the Group. As a result of these matters, there is a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

### 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 2.

### Statement of compliance

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

### 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.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

*AASB 9 Financial Instruments*

Simplifies the model for classifying and recognising financial instruments and aligns hedge accounting more closely with common risk management practises. Changes in own credit risk in respect of liabilities designated at fair value through profit or loss shall now be presented within OCI; this change can be adopted early without adopting AASB 9.

AASB 9's new impairment model is a move away from AASB 139's incurred credit loss approach to an expected credit loss model. Earlier recognition of impairment is likely to result and for entities with significant lending activities, an overhaul of related systems and processes will be needed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED 30 JUNE 2018**

*AASB 15 Revenue from contracts with customers*

The AASB has issued a new standard for revenue recognition. This will replace AASB 118, which covers contracts for goods and services, and AASB 111, which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risk and rewards.

*AASB 16 Leases*

AASB 16 will primarily affect the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and the financial liability to pay rentals for almost all lease contracts. The accounting by lessors, however, will not significantly change.

*AASB 2016-5 Classification and measurement of share-based payment transactions*

Amendments were made to AASB 2 Share-based payment, which clarify how to account for cash-settled share-based payments with performance conditions, modifications that change a cash-settled arrangement to an equity-settled arrangement, and equity-settled awards that include a 'net settlement' feature which requires employers to withhold amounts to settle the employee's tax obligations.

The adoption of the above standards did not have any material impact on the Group.

## Accounting Policies

### a. Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (Vectus Biosystems Limited) and the subsidiary (including any structured entities). Subsidiary is the entity the parent controls. The parent controls an entity when it 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 over the entity. A list of the subsidiaries is provided in Note 18.

The assets, liabilities and results of the subsidiary are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiary has been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as "non-controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidations at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

### b. Property, Plant and Equipment

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

*Depreciation*

The depreciable amount of all fixed assets is depreciated on a prime cost method over the assets useful life to the company commencing from the time the asset is held ready for use. Depreciation is recognised in the profit and loss.

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

| Class of Fixed Asset | Depreciation Rate |
|---|---|
| Plant & Equipment | 20% - 40% |
| Fixtures & Fittings | 10% - 20% |
| Office Equipment | 20% - 50% |

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

**c. Cash and Cash Equivalents**

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

**d. Revenue and Other Income**

Revenue is measured at the value of the consideration received or receivable.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

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

**e. Trade Receivables and Other Receivables**

Trade receivables and other receivables, are recognised at the nominal transaction value without taking into account the time value of money.

If required, a provision for doubtful debts has been created.

**f. Trade Creditors and Other Payables**

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

**g. Goods and Services Tax (GST)**

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

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from the ATO is included with other receivables in the statement of financial position.

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

**h. Employee Benefits**

*Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

*Other long-term employee benefits*

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

*Defined contribution superannuation expense*

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

*Share-based payment*

The fair value of options or share-based payments granted under the Employee Option Plan is recognised as an employee benefit expenses 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 or shares.

At each balance sheet date, the entity revises its estimate of the number of options or shares that are expected to vest or become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2018

**i. Leases**

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

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

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

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

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

**j. Financial Instruments**

*Initial recognition and measurement*

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either purchase or sell the asset.

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

*Classification and subsequent measurement*

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

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

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

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

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

*(ii) Loans and receivables*

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

*(iii) Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the companies intention to hold these investments to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

*(iv) Available-for-sale investments*

Available-for-sale investments are non-deriviative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by

management. They comprise of investments in equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Available-for-sale financial assets are classified as non-current assets when they are not expected to be sold within 12 months after the end of the reporting period. All other available-for-sale assets are classified as current assets.

*(v) Financial assets and liabilities*

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

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

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

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

**Preferred shares**

Preferred share capital is classified as equity if it is non-redeemable or redeemable only at the discretion of the parent company, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon declaration by the directors.

Preferred share capital is classified as a liability if it is redeemable on a set date or at the option of the shareholders, or where the dividends are mandatory. Dividends thereon are recognised as interest expense in profit or loss.

**Impairment**

A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or move events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also,



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30TH JUNE 2018

any cumulative decline in fair value previously recognised in other comprehensive income is reclassified into profit or loss at this point.

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

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if not impairment amount was previously recognised in the allowance account.

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

### Financial guarantees

Where material, financial guarantees issued that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due are recognised as a financial liability at fair value on initial recognition.

The fair value of financial guarantee contracts has been assessed using a probability-weighted discounted cash flow approach. The probability has been based on:

- The likelihood of the guaranteed party defaulting during the next reporting period;
- The proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- The maximum loss exposure if the guaranteed party were to default.

Financial guarantees are subsequently measured at the higher of the best estimate of the obligation in accordance with AASB 137: Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity give guarantees in exchange for a fee, revenue is recognised in accordance with AASB 118.

### Derecognition

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

**k. Issued Capital**

Ordinary shares are classified as equity.

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

**l. 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 current when it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within twelve months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability at least twelve months after the reporting period. All other assets are classified as non-current. A liability is current when; it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within twelve months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. All other liabilities are classified as non-current.

**m. 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

*Research and development*

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit.

*Patents and trademarks*

Patents are in relation to research and are not capitalised, the costs associated with patents have been included as an expense.

**n. Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

**o. Government Grants**

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs it is compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

**p. Comparative Figures**

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

Where the Group retrospectively applies an accounting policy, makes a retrospective restatement or reclassifies items in its financial statements, an additional (third) statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED 30 JUNE 2018**

## 2. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

*Employee benefits provision*

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

## 3. OTHER INCOME

| | 2018 | 2017 |
|---|---|---|
| Other Income | $ | $ |
| Sales revenue | - | 5,900 |
| Sundry income | - | 496 |
| Finance revenue | 1,827 | 42,941 |
| | **1,827** | **49,337** |

## 4. LOSS FROM ORDINARY ACTIVITIES

Loss from ordinary activities before income tax includes the following items of expense:

| | 2018 | 2017 |
|---|---|---|
| Expenses | $ | $ |
| *Depreciation and amortisation expense* | | |
| Depreciation of Property, plant and equipment | 20,100 | 28,205 |
| | 20,100 | 28,205 |
| *Employment expenses and directors remuneration* | | |
| Base salary and fees | 1,042,305 | 1,221,643 |
| Superannuation and statutory on costs | 96,037 | 120,020 |
| Share based payment expense | 214,334 | 162,033 |
| Other employee expenses | 7,898 | 10,157 |
| Transfers from employee entitlements provisions | 6,978 | 43,686 |
| Total employment expense | 1,367,552 | 1,557,539 |
| | | |
| *Finance Costs* | | |
| Interest and bank fees | 23,457 | 2,439 |
| | 23,457 | 2,439 |
| *Research & Development expense* | | |
| Research and Development expense | 930,925 | 1,785,242 |
| Patent costs | 671,684 | 471,261 |
| Total Research & Development expense | 1,602,609 | 2,256,503 |

## 5. INCOME TAX

### a. Income tax expense

| The prima facie income tax benefit on pre-tax accounting loss reconciles to the income tax benefit in the financial statements as follows: | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Loss for year before income tax benefit | (4,016,421) | (4,818,625) |
| Income tax benefit calculated at 30% | (1,204,926) | (1,445,588) |
| Temporary differences and tax losses not recognised | 1,204,926 | 1,445,588 |
| *Other permanent differences* | | |
| R&D tax offset rebate received | 1,429,125 | 1,024,371 |
| Income tax benefit | 1,429,125 | 1,024,371 |

### b. Deferred tax balances not recognised

| Calculated at 30% not brought to account as assets: | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| *Deferred tax assets relating to tax losses* | | |
| Revenue tax losses available for offset against future tax income | 2,690,193 | 2,334,952 |
| **Net deferred tax asset not recognised in respect of tax losses** | 2,690,193 | 2,334,952 |
| *Deferred tax assets relating to temporary differences* | | |
| Provision for employee entitlements | 78,515 | 76,421 |
| Accruals | 9,000 | 9,000 |
| Share Issue Costs | 105,404 | 274,675 |
| | 192,919 | 360,096 |
| *Deferred tax liabilities relating to temporary differences* | | |
| Accrued Income | - | - |
| | - | - |
| **Net deferred tax asset not recognised in respect of temporary differences** | **192,919** | **360,096** |

**Relevance of tax consolidation to the consolidated entity**

Legislation to allow groups comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes ('the tax consolidation system') was substantively enacted on 21 October 2002. The company and its wholly-owned Australian resident entity have been consolidated for tax purposes under this legislation.

## 6. CASH AND CASH EQUIVALENTS

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Cash on Hand | 860 | 660 |
| Cash at Bank | 40,951 | 516,253 |
| | **41,811** | **516,913** |

## 7. OTHER CURRENT ASSETS

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Prepayments | 82,815 | 59,025 |
| Goods and Services Tax | 25,480 | 78,335 |
| | **108,295** | **137,360** |

The carrying amounts of the group's other current assets are a reasonable approximation of their fair values.

CONTINUED >

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED 30 JUNE 2018**

## 8. PROPERTY, PLANT AND EQUIPMENT

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Plant and Equipment | 585,202 | 585,202 |
| Less: Accumulated depreciation | (549,533) | (530,033) |
| | **35,669** | **55,169** |
| Furniture & Fittings | 15,139 | 15,139 |
| Less: Accumulated depreciation | (15,139) | (15,139) |
| | - | - |
| Office Equipment | 57,676 | 57,676 |
| Less: Accumulated depreciation | (47,168) | (46,568) |
| | **10,508** | **11,108** |
| | **46,177** | **66,277** |

*Reconciliations of the written down values at the beginning and end of the current financial year are set out below*

| | Plant and Equipment | Furniture and Fittings | Office Equipment | Total |
|---|---|---|---|---|
| Balance at 1 July 2017 | 55,169 | - | 11,108 | 66,277 |
| Depreciation | (19,500) | | (600) | (20,100) |
| **Balance at 30 June 2018** | **35,669** | **-** | **10,508** | **46,177** |
| | | | | |
| Balance at 1 July 2016 | 79,583 | - | 4,799 | 84,382 |
| Additions | - | - | 10,100 | 10,100 |
| Depreciation | (24,414) | - | (3,791) | (28,205) |
| **Balance at 30 June 2017** | **55,169** | **-** | **11,108** | **66,277** |

## 9. CURRENT TRADE AND OTHER PAYABLES

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Trade creditors | 980,986 | 73,697 |
| PAYG withholding payable | 16,82 | 21,168 |
| | **997,814** | **94,865** |

*The carrying amount of the Group's current trade and other payables are a reasonable approximation of their fair values.*

## 10. OTHER CURRENT LIABILITIES

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| | 281,153 | 254,385 |
| **Accrued expenses** | **281,153** | **254,385** |

*The carrying amount of the Group's other current liabilities are a reasonable approximation of their fair values.*

## 11. PROVISIONS

| Current | | 2018 | 2017 |
|---|---|---|---|
| | $ | $ | $ |
| Provision for Annual Leave | | 209,027 | 209,180 |
| Provision for Long Service Leave | | 39,679 | 34,211 |
| | | **248,706** | **243,391** |

| Non-Current | 2018 | 2017 |
|---|---|---|
| Provision for Long Service Leave | 13,009 | 11,346 |
| | **13,009** | **11,346** |

*The carrying amount of the Group's provisions are a reasonable approximation of their fair values.*

## 12. BORROWINGS

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Loans from Directors | 912,000 | - |
| (Interest is payable at ATO benchmark rates) | | |
| | **912,000** | **-** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## 13. ISSUED CAPITAL

| | 2018 Number of Shares | 2017 Number of Shares | 2018 $ | 2017 $ |
|---|---|---|---|---|
| Ordinary shares - fully paid | 23,379,996 | 23,374,770 | 17,600,420 | 17,591,420 |
| | 23,379,996 | 23,374,770 | 17,600,420 | 17,591,420 |

### Movements in ordinary share capital of Vectus Biosystems Limited

| | 2018 Number of Shares | 2017 Number of Shares | 2018 $ | 2017 $ |
|---|---|---|---|---|
| Balance at beginning of the year | 23,374,770 | 23,369,744 | 17,591,420 | 17,581,368 |
| Shares issued during the year | | | | |
| Other share issues | 5,226 | 5,026 | 9,000 | 10,052 |
| **Balance at end of year** | **23,379,996** | **23,374,770** | **17,600,420** | **17,591,420** |

For the purposes of these disclosures, the Group considers its capital to comprise its ordinary share capital and accumulated retained earnings. Neither the share based payments reserve nor the translation reserve is considered as capital.

### Capital Risk Management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management are constantly adjusting the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital risk management policy remains unchanged from the 30 June 2017 Annual Report.

## 14. EQUITY - ACCUMULATED LOSSES

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Accumulated loss at the beginning of the financial year | (17,663,275) | (13,869,021) |
| Loss after income tax expense for the year | (2,587,296) | (3,794,254) |
| **Accumulated loss at the end of the financial year** | **(20,250,571)** | **(17,663,275)** |

## 15. RELATED PARTY DISCLOSURES

a. **Subsidiary**
Vectus Biosystems Limited has a 100% interest in Accugen Pty Limited.

b. **Key management personnel**
Disclosures relating to key management personnel are set out in note 16.

c. **Transactions with related parties**
Details of transactions occurred with related parties are disclosed in Remuneration Report in the Directors' report.

## 16. KEY MANAGEMENT PERSONNEL

### a. The Directors of Vectus Biosystems Limited during the year were:

Maurie Stang
Karen Duggan
Graham Macdonald (Retired 31 August 2018)
Peter Bush
Ronald Shnier
Susan Pond

### b. The aggregate compensation made to key management personnel of the consolidated entity is set out below:

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Short-term employee benefits | 423,643 | 436,329 |
| Post-employment benefits | 40,246 | 41,452 |
| Share-based payments | 204,742 | 144,961 |
| | **668,631** | **622,742** |

Futher, disclosures relating to the key management personnel are set out in remuneration report in the directors' report.

## 17. COMMITMENTS

### a. Lease commitments – finance

| | 2018 | 2017 |
|---|---|---|
| Lease commitments - finance | $ | $ |
| Committed at the reporting date and recognised as liabilities, payable: | | |
| Within one year | 68,845 | - |
| One to five years | - | - |
| | **68,845** | **-** |

### b. Lease commitments - Operating

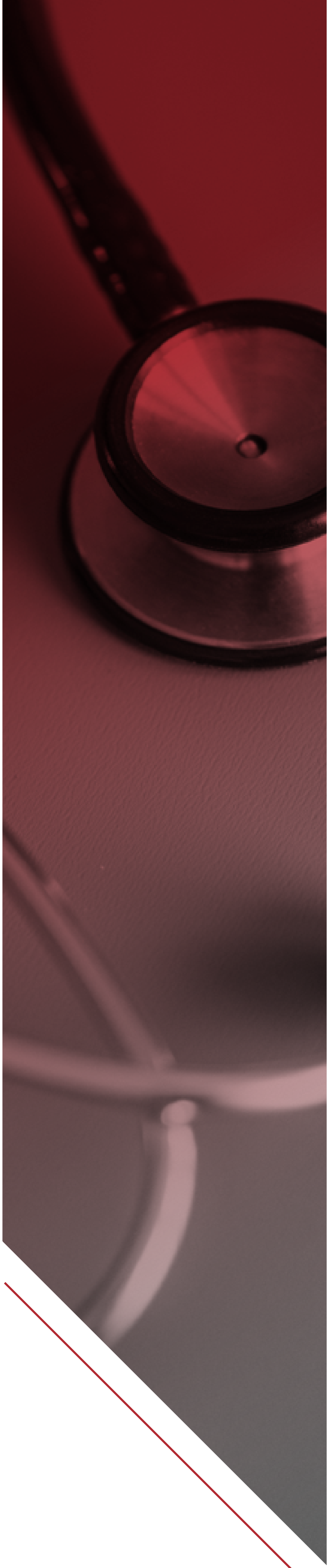
| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Committed at the reporting date and recognised as liabilities, payable for the laboratory facility at North Ryde: | | |
| Within one year | 36,789 | 25,845 |
| One to five years | - | - |
| | **36,789** | **25,845** |

### c. Operating commitments

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| *Research and development expenses* | | |
| Within one year | 184,889 | 844,370 |
| One to five years | - | - |
| | **184,889** | **844,370** |

### d. Capital expenditure commitments

There are no capital expenditure commitments at the end of the financial year.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED 30 JUNE 2018**

## 18. INTEREST IN SUBSIDIARY

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy described in note 1.

| Name | Principal place of business/ Country of Incorporation | Ownership interest 2018 % | Ownership interest 2017 % |
|---|---|---|---|
| Accugen Pty Limited | Australia | 100% | 100% |

## 19. SUBSEQUENT EVENTS

There have been no matters or circumstances, which have arisen since 30 June 2018 that have significantly affected or may significantly affect:

a. the operations, in financial years subsequent to 30 June 2018, of the consolidated entity; or
b. the results of those operations;
c. the state of affairs, in the financial years subsequent to 30 June 2018, of the consolidated entity.

## 20. REMUNERATION OF AUDITORS

During the financial year the following fees were paid or payable for services provided by UHY Haines Norton, Chartered Accountants.

| | 2018 $ | 2017 $ |
|---|---|---|
| Audit Services - UHY Haines Norton | | |
| Audit and review of financial statements | 38,000 | 36,000 |
| | **38,000** | **36,000** |

## 21. PARENT ENTITY INFORMATION

| | 2018 $ | 2017 $ |
|---|---|---|
| Loss after income tax | (2,459,310) | (3,703,575) |
| Total comprehensive loss | (2,459,310) | (3,703,575) |
| | | |
| Total current assets | 1,256,924 | 1,639,029 |
| Total assets | 1,303,038 | 1,704,643 |
| | | |
| Total current liabilities | 2,418,244 | 563,528 |
| Total liabilities | - | 574,874 |
| | | |
| Equity | | |
| Issued capital (net of share issue cost) | 17,600,420 | 17,591,420 |
| Reserves | 393,752 | 188,418 |
| Retained earnings/accumulated losses | (19,109,378) | (16,650,069) |
| Total (deficit) / equity Total equity | (1,115,206) | 1,129,769 |

### Guarantees entered into by the parent entity in relation to the debts of its subsidiary

The parent entity has not entered into guarantee agreement on behalf of its subsidiary.

### Operating commitments and Contingent liabilities

Operating commitments and contingent liabilities of the parent entity as at the reporting date are same as of the Group disclosed in note 17 and 27 respectively.

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that future sacrifice of economic benfits will be required or the amount is not capable of reliable measurement.

### Capital Commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2018 and 30 June 2017.

### Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, with exception of the investment in subsidiary that is accounted for at cost.

## 22. NOTES TO CASH FLOW STATEMENTS

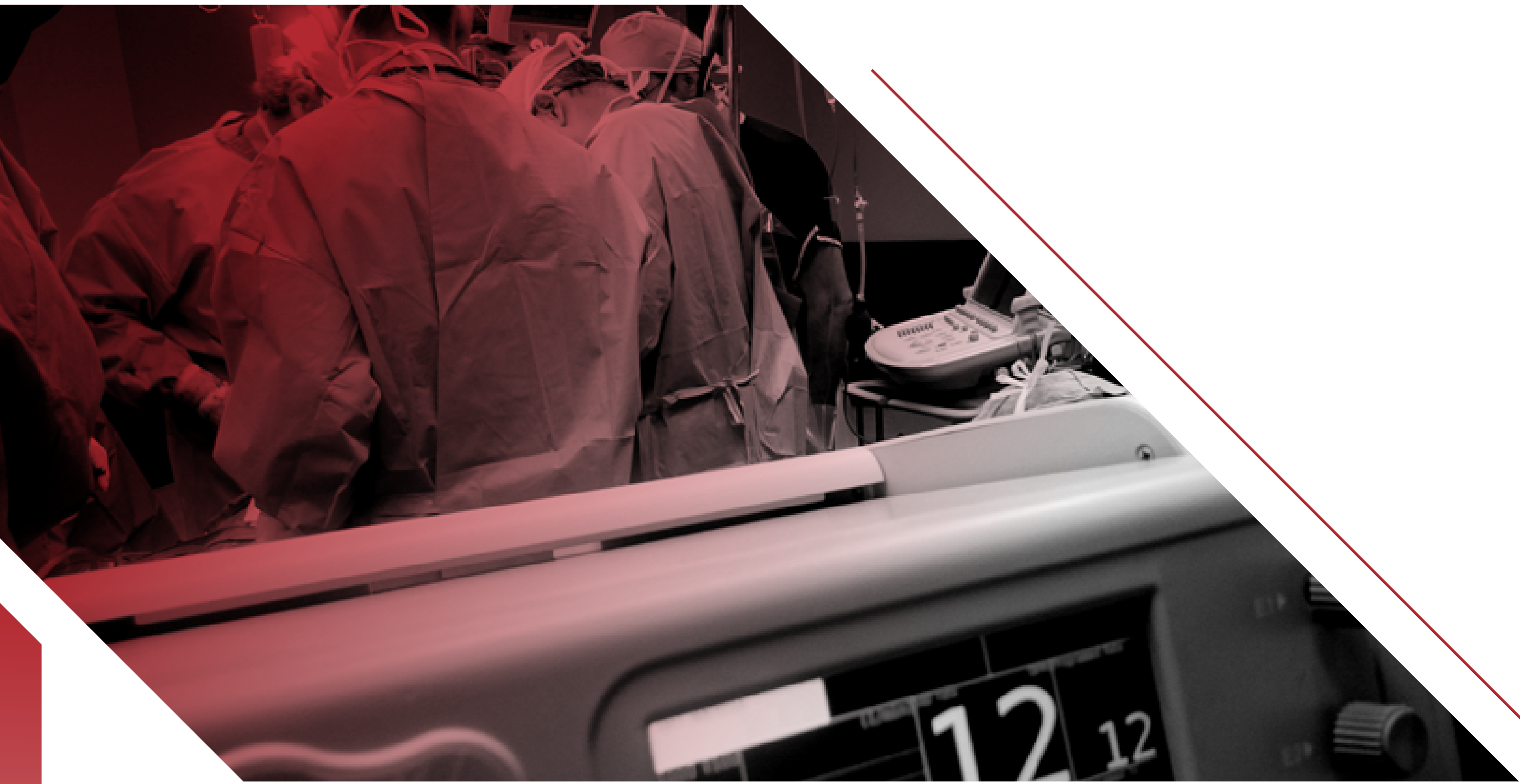
### a. Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled in the related items in the statement of financial position as follows:

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Cash at bank and on hand | 41,811 | 516,913 |
| | **41,811** | **516,913** |

### b. Reconciliation of operating loss after income tax to net cash flows from operating activities

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Operating loss after income tax | (2,587,296) | (3,794,254) |
| **Non cash/non-operating items included in profit and loss** | | |
| Depreciation and amortisation | 20,100 | 28,205 |
| Share based payments | 214,334 | 151,981 |
| **Changes in assets and liabilities** | | |
| Decrease in other assets | 29,065 | 8,161 |
| Increase / (decrease) in trade creditors | 902,949 | (216,581) |
| Increase / (decrease) in other creditors and accruals | 26,768 | (114,257) |
| Increase in employee entitlement provision | 6,979 | 43,686 |
| **Net cash used in operating activities** | **(1,387,102)** | **(3,893,059)** |




## 23. OPERATING SEGMENTS

The consolidated group had no reportable segments during the year.

## 24. RESERVES

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| **Share based payments reserve** | | |
| Balance at beginning of financial year | 188,418 | 36,437 |
| | | |
| Share based payments during the year allocated to: | | |
| Employees and consultant | 592 | 10,854 |
| Directors | 204,742 | 141,127 |
| Balance at end of financial year | **393,752** | **188,418** |

## 25. LOSS PER SHARE

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| **Basic loss per share (cents per share)** | **(11.07)** | **(16.24)** |
| | | |
| **Diluted loss per share (cents per share)** | **(11.07)** | **(16.24)** |
| | | |
| Loss used to calculate basic loss per share | (2,587,296) | (3,794,254) |
| Loss used to calculate diluted loss per share | (2,587,296) | (3,794,254) |
| Weighted average number of ordinary shares used to calculate basic loss per share | 23,376,414 | 23,372,978 |
| Weighted average number of ordinary shares used to calculate diluted loss per share | 23,376,414 | 23,372,978 |

CONTINUED >

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## 26. FINANCIAL INSTRUMENTS DISCLOSURE

a. Capital:

The Group considers its capital to comprise its ordinary share capital and accumulated retained earnings.

In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and distributions. In order to achieve this objective, the Group seeks to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through new share issues or debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

b. Financial instrument risk exposure and management:

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them.

Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

c. Principal financial instruments:

The principal financial instruments used by the Group, from which financial instrument risks arise, are:

Cash at bank;
Deposits and bonds; and
Trade and other payables.

d. General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and has the responsibility for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives monthly reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

*i. Credit risk:*

Credit risk arises principally from the Group's cash and term deposits. It is the risk that the counterparty fails to discharge its obligation in respect of the instrument.

The maximum exposure to credit risk at balance sheet date is as follows:

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Deposits with ANZ Bank (credit rating Aa2) | 40,951 | 516,253 |

*ii. Liquidity risk*

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 45 days.

The Board receives cash flow projections on a monthly basis as well as information regarding cash balances. At the balance sheet date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

**Maturity analysis of financial assets and liability based on management's expectations**

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as property, plant, equipment and investments in working capital (e.g., trade receivables and inventories). These assets are considered in the Group's overall liquidity risk.

CONTINUED >

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2018

| MATURITY ANALYSIS 2018 | Cash flows | < 1 year | 1 - 3 years | Total | Carrying amount |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Financial assets | | | | | |
| Cash and cash equivalents | 41,811 | 41,811 | - | 41,811 | 41,811 |
| **TOTAL** | **41,811** | **41,811** | **-** | **41,811** | **41,811** |
| Financial liabilities | | | | | |
| Trade Creditors | 997,814 | 997,814 | - | 997,814 | 997,814 |
| Accruals | 281,153 | 281,153 | - | 281,153 | 281,153 |
| Borrowings | 984,960 | 984,960 | - | 984,960 | 912,000 |
| **TOTAL** | **2,263,927** | **2,263,927** | **-** | **2,263,927** | **2,190,967** |
| **NET MATURITY** | **(2,222,116)** | **(2,222,116)** | **-** | **(2,222,116)** | **(2,149,156)** |

| MATURITY ANALYSIS 2017 | Cash flows | < 1 year | 1 - 3 years | Total | Carrying amount |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Financial assets | | | | | |
| Cash and cash equivalents | 516,913 | 516,913 | - | 516,913 | 516,913 |
| **TOTAL** | **516,913** | **516,913** | **-** | **516,913** | **516,913** |
| Financial liabilities | | | | | |
| Trade Creditors | 94,865 | 94,865 | - | 94,865 | 94,865 |
| Accruals | 254,385 | 254,385 | - | 254,385 | 254,385 |
| **TOTAL** | **349,250** | **349,250** | **-** | **349,250** | **349,250** |
| **NET MATURITY** | **167,663** | **167,663** | **-** | **167,663** | **167,663** |

*iii. Interest rate risk*

The Group's exposure to fluctuations in interest rates that are inherent in financial markets arise predominantly from assets and liabilities bearing variable interest rates.

The company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below :

| 2018 | Weighted Average Rates | Floating Rates | Fixed Rates | Non-interest bearing | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Financial Assets | | | | | |
| Cash and cash equivalents | 1.0% | 41,811 | - | - | 41,811 |
| **Total** | | **41,811** | **-** | **-** | **41,811** |
| Financial Liabilities | | | | | |
| Trade Creditors | 0.0% | - | - | 997,814 | 997,814 |
| Other payables and accruals | 0.0% | - | - | 281,153 | 281,153 |
| Borrowings | 8.0% | - | 912,000 | - | 912,000 |
| **TOTAL** | | **-** | **912,000** | **1,278,967** | **2,190,967** |
| **NET FINANCIAL ASSETS (LIABILITIES)** | | **41,811** | **(912,000)** | **(1,278,967)** | **(2,149,156)** |

| 2017 | Weighted Average Rates | Floating Rates | Fixed Rates | Non-interest bearing | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Financial Assets | | | | | |
| Cash and cash equivalents | 1.0% | 516,913 | - | - | 516,913 |
| **Total** | | **516,913** | **-** | **-** | **516,913** |
| Financial Liabilities | | | | | |
| Trade Creditors | 0.0% | - | - | 94,865 | 94,865 |
| Other payables and accruals | 0.0% | - | - | 254,385 | 254,385 |
| **TOTAL** | | **-** | **-** | **349,250** | **349,250** |
| **NET FINANCIAL ASSETS (LIABILITIES)** | | **516,913** | **-** | **(349,250)** | **167,663** |

The following sensitivity analysis is based on the interest rate risk exposure in existence at the balance sheet date. The analysis assumes all other variables remain constant.

## Sensitivity Analysis

| 2018 | Carrying amount | +0.5% interest Profit & Loss | -0.5% interest Profit & Loss |
|---|---|---|---|
| | $ | $ | $ |
| Cash at bank | 41,811 | 209 | (209) |
| | | 209 | (209) |
| Tax charge of 30% | | (63) | 63 |
| Post tax profit increase / (decrease) | | 146 | (146) |

| 2017 | Carrying amount | +0.5% interest Profit & Loss | -0.5% interest Profit & Loss |
|---|---|---|---|
| | $ | $ | $ |
| Cash at bank | 516,913 | 2,584 | (2,584) |
| | | 2,584 | (2,584) |
| Tax charge of 30% | | (775) | 775 |
| Post tax profit increase / (decrease) | | 1,808 | (1,808) |

# 27. CONTINGENT LIABILITIES

There are no contingent liabilities of the company or the Group other than commitments disclosed in note 17.

# DIRECTORS' DECLARATION

In accordance with a resolution of directors, I state that:

1. In the opinion of the Directors:

   a. the financial statements and notes, as set out on pages 21 to 48, are in accordance with the Corporations Act 2001 and

      i. give a true and fair view of the consolidated entity's financial position as at 30 June 2018 and its performance for the year ended on that date; and

      ii. comply with Accounting Standards and the Corporations Regulations 2001;

   b. the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1; and

   c. There are reasonable grounds to believe that the company and the consolidated entity will be able to pay its debts as and when they become due and payable;

2 This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2018.

On behalf of the Board of Directors

**MAURIE STANG**
Deputy Chairman

Sydney, 28 September 2018

# INDEPENDENT AUDITOR'S REPORT

UHY Haines Norton
Chartered Accountants

Level 11 | 1 York Street | Sydney | NSW | 2000
GPO Box 4137 | Sydney | NSW | 2001
t: +61 2 9256 6600 | f: +61 2 9256 6611
sydney@uhyhn.com.au
www.uhyhnsydney.com.au

**INDEPENDENT AUDITOR'S REPORT**

**To the Members of Vectus Biosystems Limited**

**Report on the Audit of the Financial Report**

**Opinion**

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

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

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

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

**Basis for Opinion**

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

**Material Uncertainty Related to Going Concern**

We draw attention to Note 1 in the financial report, which indicates that the Group incurred a net loss of $2,587,296 during the financial year ended 30 June 2018 and, as of that date, the Group's net liabilities balance was $2,256,399. The Group's ability to continue as a going concern is dependent on the ability of the Group to successfully implement various capital raising initiatives. There is a risk that the Group may not be successful in implementing these initiatives or the implementation of alternative options which may be available to the Group. These conditions together with other matters described in Note 1, indicate material uncertainty that may cast doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

Our opinion is not modified in respect of this matter.

Haines Norton
Chartered Accountants

**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 year. 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.

**GOING CONCERN**

| Why a key audit matter | How our audit addressed the risk |
|---|---|
| The Company has had a history of making losses. The net loss for 2018 was $2.59 million (2017: $3.79 million). Therefore, there is an increased risk that the Company may not have the ability to continue as a going concern.<br><br>As at 30 June 2018, the company had $0.04 million (2017: $0.52 million) of cash in the bank. The net cash outflow from operating activities in 2018 was $1.39 million (2017: $3.89 million).<br><br>The magnitude of losses relative to the level of cash and net assets in the entity are indicative of a possible going concern risk.<br><br>A key audit matter is the entity's ability to continue as a going concern. | Our audit procedures included, amongst others:<br><br>▪ Analysis of the cash flow projections<br><br>▪ Assessing significant non-routine forecast cash inflows and outflows including the expected impact of a planned capital raising for quantum and timing. We used our knowledge of the Group, its industry and current status of these initiatives to assess the level of the associated uncertainty<br><br>▪ Evaluating the Group's going concern disclosures in the financial report by comparing them to our understanding of the matter, the events or conditions incorporated into the cash flow projection assessment, the Group's plans to address those events or conditions, and accounting standards requirements<br><br>▪ Discussions with the directors and management regarding the capital raising initiatives, their current status, including the timeline and their uncertainties |

UHY Haines Norton
Chartered Accountants

## RESEARCH AND DEVELOPMENT COSTS

| Why a key audit matter | How our audit addressed the risk |
|---|---|
| As disclosed in the financial report, the Group has expensed all research and development expenditure (FY18: $1.37 million, FY17 $1.56 million), in the statement of profit or loss and other comprehensive income.<br><br>Our audit focused on this area due to the value of the research and development costs incurred, and the fact that there is judgment involved in assessing whether the requirements detailed in the accounting standards for expensing or capitalising these costs have been met.<br><br>The Group is currently performing a range of animal toxicology studies on its main compound. This research continues to progress over time with corresponding increases in the probability of future economic benefits flowing to the Company. AASB 138: Intangible Assets prescribes that research and development expenditure on an asset or product be capitalised as an intangible asset when specific criteria (relating to commercial viability) are met.<br><br>Significant judgments relevant to the Group for capitalisation of research and development costs include determining if the development stage has been reached.<br><br>Management's conclusion is that no material element of the spending this year on research and development met the criteria for capitalisation on the basis that the Group was still in the research phase and had not started with human trials of the main compounds yet. | In responding to the significant judgments involved in determining whether the research and development spend has been recognized in accordance with the relevant accounting standards, our audit procedures included:<br><br>▪ Discussions with management regarding their accounting policies for expensing and capitalising the Group's research and development costs.<br><br>▪ Updating our understanding of management's process for assessing whether any research and development spend has met all of the AASB 138 recognition criteria;<br><br>▪ Meeting with management and discussing the nature of work being completed and their assessment of the areas of judgment, particularly the current stage of the research and development.<br><br>▪ Considering other information obtained during the audit, including products being developed, nature of contracts with key suppliers and the stage of related sales prospects.<br><br>The results of our procedures did not identify any inconsistencies with management's conclusions that no material element of the spending this year on research and development meets criteria for capitalisation.<br><br>It is likely that in the future, some of the Group's research and development spend will meet the criteria for capitalisation. The Group's systems and processes for recording research and development spend and assessing the stage of the development against all of the specific criteria for recognition under AASB 138 will require further development to provide a framework for capitalisation. |

UHY Haines Norton
Chartered Accountants

**Other Information**
The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our 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 Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has 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.

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

UHY Haines Norton
Chartered Accountants

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

UHY Haines Norton
Chartered Accountants

**Report on the Remuneration Report**

*Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 14 to 19 of the directors' report for the year ended 30 June 2018.

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

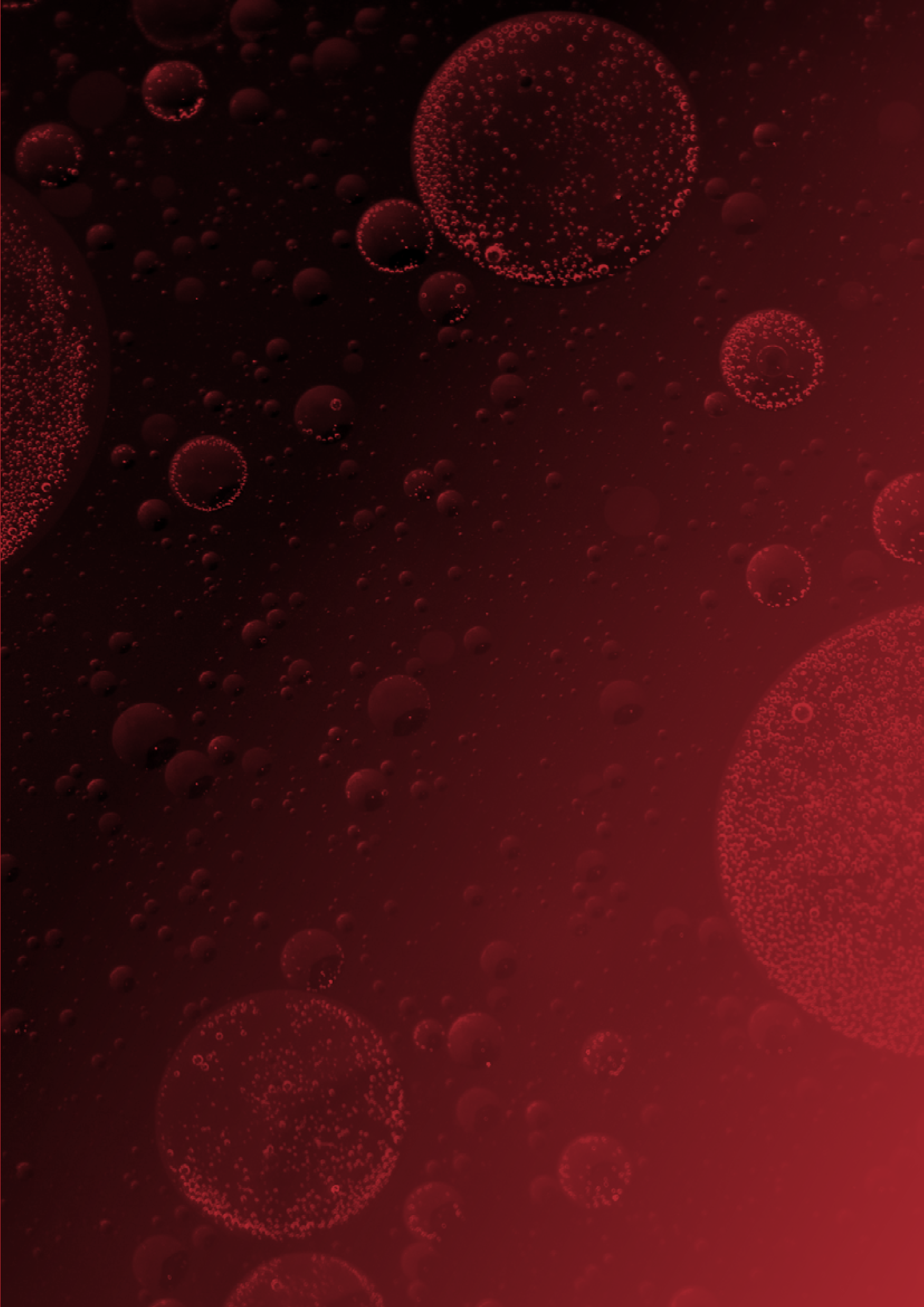
*Responsibilities*

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

UHY Haines Norton

**Mark Nicholaeff**
Partner
Sydney
28 September 2018

**UHY Haines Norton**
Chartered Accountants



# AUSTRALIAN SECURITIES EXCHANGE (ASX) ADDITIONAL INFORMATION

Additional information required by the ASX Listing Rules, and not disclosed elsewhere in this Annual Report, is detailed below. This information was prepared based on Vectus Biosystems Limited's Share Registry information.

## SHAREHOLDING INFORMATION

### Distribution of Shareholders

Analysis of the fully paid ordinary shares by holding as at 21 September 2018:

| Spread of Holdings | Number of Holders | Ordinary shares | % of Total Issue Capital |
|---|---|---|---|
| 1 – 1,000 | 41 | 22,064 | 0.094 |
| 1,001 – 5,000 | 136 | 297,868 | 1.274 |
| 5,001 – 10,000 | 35 | 269,493 | 1.153 |
| 10,001 – 100,000 | 129 | 4,731,493 | 20.237 |
| 100,001 – and over | 37 | 18,059,078 | 77.242 |
| **Total** | **378** | **23,379,996** | **100.000** |

On 21 September 2018 there were 25 shareholders holding less than a marketable parcel of $500 worth of shares at a share price of $0.95. There were 8,521,37 fully paid ordinary shares subject to ASX restriction for 24 months until 23 February 2018, which are now out of escrow.

### Statement of Shareholdings as at 20 September 2018

The names of the 20 largest holders of fully paid ordinary shares are listed below:

| Shareholder | Number of Shares | % Holding |
|---|---|---|
| Ajjika Technology Pty Limited <The Ajjika A/C> | 3,200,000 | 13.687 |
| Energy Trading Systems Pty Ltd <The MPF A/C> | 2,550,000 | 10.907 |
| Bernard Stang | 2,550,000 | 10.907 |
| 3rd Pulitano Pty Ltd | 801,667 | 3.429 |
| Grizzly Holdings Pty Limited | 733,333 | 3.137 |
| Australian Shareholder Nominees Pty Ltd | 619,566 | 2.650 |
| Bennelong Resources Pty Ltd <John Egan Super Fund> | 588,000 | 2.515 |
| Gleneagle Securities (Aust) Pty Ltd <House Prop A/C> | 566,942 | 2.425 |
| Finot Pty Limited | 550,000 | 2.352 |
| Red Star Developments Pte Ltd | 534,153 | 2.285 |
| Fleray Pty Ltd <The Senior Super Fund AC> | 531,083 | 2.272 |
| Victor Zheng Chun Ye | 400,000 | 1.711 |
| Mr Norman Nathan Gelbart <Alex Wartski Family A/C> | 356,775 | 1.526 |
| Kent's Flowers Pty Ltd <The Flawless Flowers A/C> | 324,524 | 1.388 |
| Madrettor Pty Ltd <Russell and Linda Super A/C> | 280,000 | 1.198 |
| Helensleigh Pty Ltd <Helensleigh Staff S/F A/C> | 257,441 | 1.101 |
| Adziel Pty Limited | 250,000 | 1.069 |
| Mr Norman Nathan Gelbart | 224,160 | 0.959 |
| Capricorn Eleven Superannuation Fund Pty Ltd <Capricorn Eleven P/L S/F A/C> | 204,167 | 0.873 |
| Australian Direct Investments Pty Limited <Super Fund A/C> | 183,333 | 0.784 |
| **Total of Top 20 Holdings** | **15,705,144** | **67.173** |
| **Other Holdings** | **7,674,852** | **32.827** |
| **Total Ordinary Shares** | **23,379,996** | **100.000** |

## VOTING RIGHTS

At general meetings of the Company, all fully paid ordinary shares carry one vote per share without restriction. On a show of hands, every member present at a general meeting, or by proxy, shall have one vote and, upon a poll, each share shall have one vote. Option holders, performance rights holders and deferred share awards holders have no voting rights until the options are exercised, or the rights or awards are converted into ordinary shares.

## SUBSTANTIAL SHAREHOLDERS

Substantial shareholders in Vectus Biosystems Limited, based on Substantial Shareholder Notices received by the Company, are as follows:

| Name | Shares | % of Shares Issued |
|---|---|---|
| Dr Karen Duggan | 3,201,500 | 13.640 |
| Mr Maurie Stang | 2,562,000 | 10.963 |
| Mr Bernard Stang | 2,562,000 | 10.963 |

### **Performance Rights issued under Employee Incentive Plan** as at 21 September 2018 (not escrowed)

| Name of Performance Holder | Performance Shares the Holder is Entitled to |
|---|---|
| Dillon Ventures Pty Ltd <The Dillon Ventures A/C> | 100,000 – expire if not converted by 23 February 2019 |
| Vectus Directors – three holders x 100,000 | 300,000 – expire if not converted by 5 December 2018 |

The conversion ratio of the Performance Rights into ordinary shares upon achievement of a relevant performance milestone is one ordinary share for each Performance Right.

### **Deferred Share Awards issued under Employee Incentive Plan** as at 21 September 2018 (not escrowed)

| Name of Deferred Share Awards Holder | Share Awards the Holder is Entitled to |
|---|---|
| Karen Duggan | 75,000 – expire if not exercised by 17 November 2019 |

### **Options issued under Employee Incentive Plan** as at 21 September 2018 (not escrowed)

| Details of Option Holders | Zero Exercise Price Options (progressive vesting dates) |
|---|---|
| Vectus employee – one holder | 11,630 – expire if not exercised by 11 September 2020 |
| Vectus employees – five holders | 39,986 – expire if not exercised by 25 January 2022 |
| Vectus employees – five holders | 6,000 – expire if not converted by 25 January 2022 |
| Vectus employees – five holders | 6,500 – expire if not converted by 29 May 2022 |

## USE OF FUNDS

In accordance with ASX Listing Rule 4.10.19, the Company advises that it has used its cash and assets in a form readily convertible to cash, that it had at the time of admission to ASX, in a way consistent with its business objectives, as set out in its Replacement Prospectus dated 23 November 2015. This statement refers to the time between the Company's admission to ASX and the end of the reporting period, being 30 June 2018.

## ON-MARKET BUY-BACK

In accordance with ASX Listing Rule 4.10.18, the Company advises that there is no current on-market buy-back.

# CORPORATE DIRECTORY

## VECTUS BIOSYSTEMS LIMITED

ACN: 117 526 137
ABN: 54 117 526 137

## DIRECTORS

MR MAURIE STANG
Non-Executive Deputy Chairman

DR KAREN DUGGAN
Executive Director and Chief Executive Officer

MR PETER BUSH
Non-Executive Director

DR RONALD SHNIER
Non-Executive Director

DR SUSAN POND
Non-Executive Director

## COMPANY SECRETARY

Mr Robert Waring

## REGISTERED AND PRINCIPAL OFFICE

3 – 11 Primrose Avenue
Rosebery NSW 2018 Australia
Telephone: +61 2 9662 4144
Facsimile: +61 2 9662 6040
Email: info@vectusbiosystems.com.au
Website: www.vectusbiosystems.com.au

## RESEARCH DIVISION

Level 3, 11 Julius Avenue
North Ryde, NSW 2113 Australia
Telephone: +61 2 8876 8200
Facsimile: +61 2 9870 7420

## SHARE REGISTRY

Boardroom Pty Limited
Level 12, Grosvenor Place, 225 George Street,
Sydney NSW 2000
GPO Box 3993, Sydney NSW 2001
Telephone: +61 2 9290 9600
Facsimile: +61 2 9279 0664
Email: enquiries@boardroomlimited.com.au
Website: www.boardroomlimited.com.au

## AUDITOR

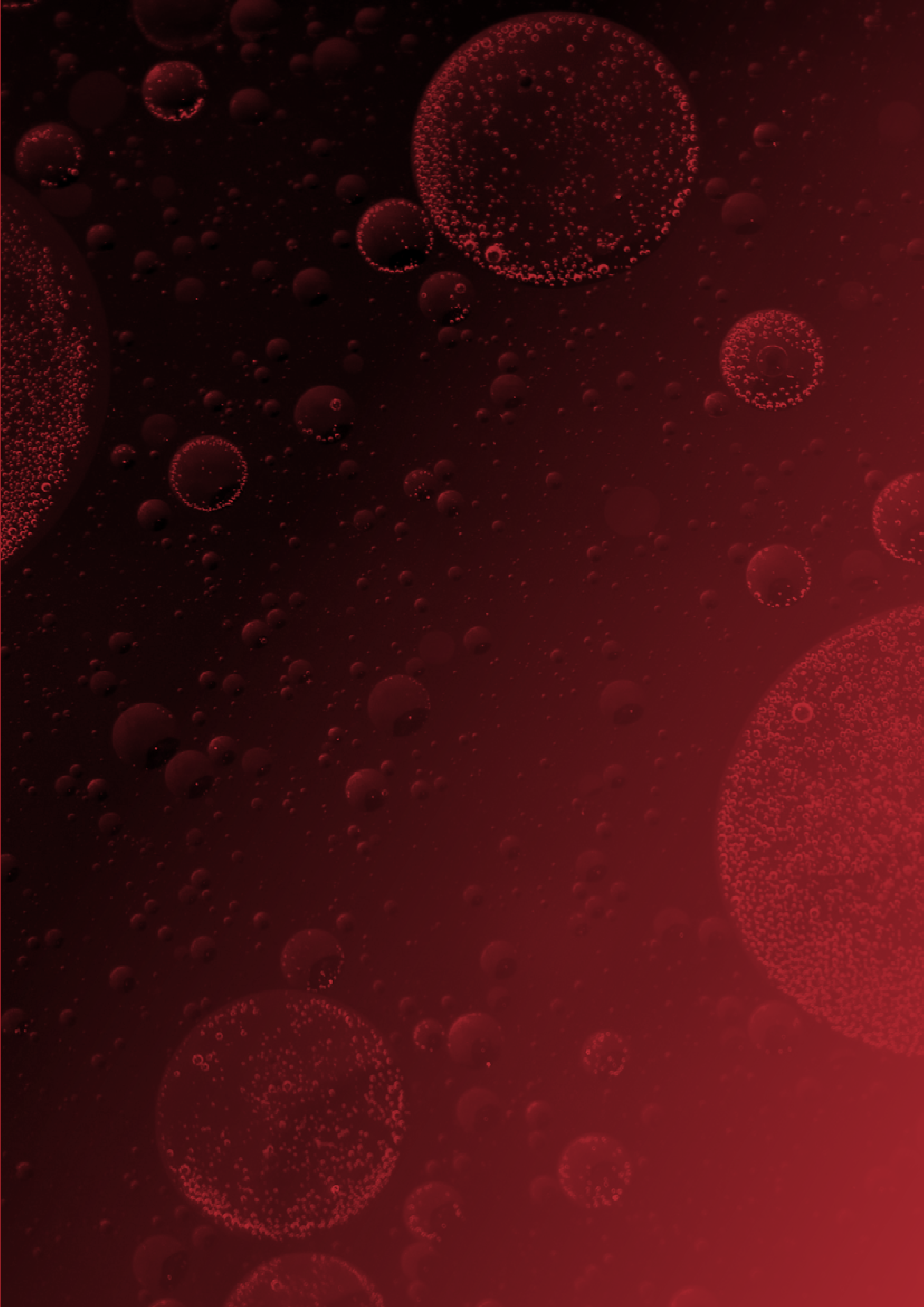
UHY Haines Norton Sydney
Level 11, 1 York Street, Sydney NSW 2000
GPO Box 4137, Sydney NSW 2001
Telephone: + 61 2 9256 6600
Website: www.uhyhnsydney.com.au

## STOCK EXCHANGE LISTING

The Company is listed on the Australian Securities Exchange (ASX Limited).

## ASX CODE

VBS



VECTUS
BIOSYSTEMS