



Regeneus Ltd
ABN 13 127 035 358

ASX Half-Year Report for 6 months to 31st December 2019

Provided to the ASX under Rule 4.2.A.3

This report is to be read in conjunction with the Annual Report for the year ended 30th June 2019 and any public announcements made during the reporting period, in accordance with the continuous disclosure requirements of the Australian Stock Exchange Listing Rules and the Corporations Act 2001.

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Half-Year Report for the 6 months to 31st December 2019

Regeneus Ltd – ABN 13 127 035 358

Reporting period

Report for the half-year ended 31st December 2019

Corresponding period is for the half-year ended 31st December 2018

Results for announcement to the market

	Up / down	% Change		\$'000's
Revenues from ordinary activities	down	95%	to	1
Loss from ordinary activities after tax attributable to members	up	55%	to	(1,232)
Net loss from ordinary activities attributable to the members	up	55%	to	(1,232)
It is not proposed to pay any dividend.				
Included within the results is a \$1.85m Gain on settlement, arising from the termination of the JV Agreements with AGC Inc. of Japan for shares in Regeneus at a fixed subscription price of A\$0.16 a 100% premium to the Company's share price at the date of the agreement giving rise to this gain.				
Full details are in the attached accounts.				

Net Tangible assets / liabilities per security

The net tangible liabilities per security

31 st December 2019	0.001cents
31 st December 2018	0.014 cents

Independent review of the financial information

The independent audit review is attached to the half-year financial statements.



Half-Year Report 31st December 2019

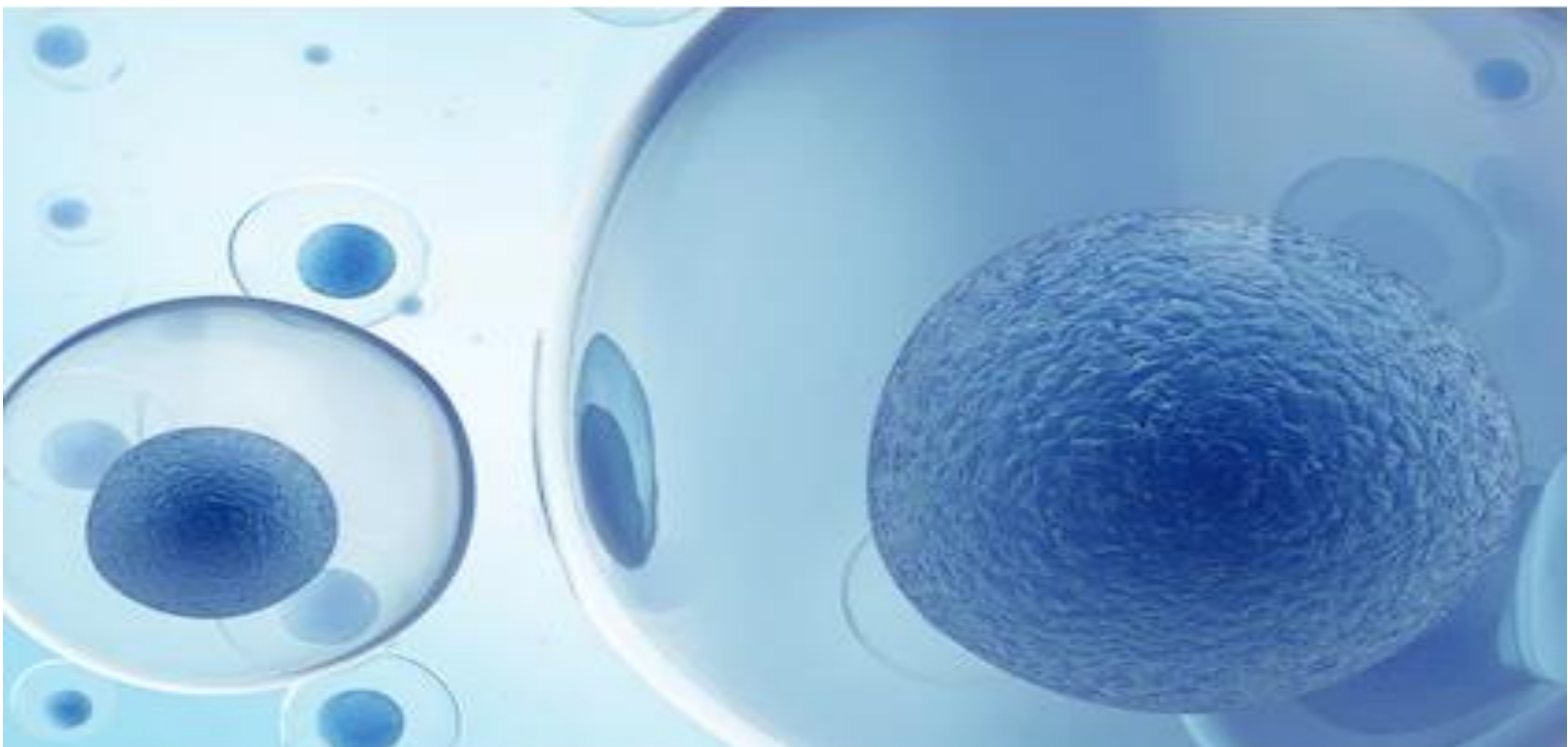


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01 Directors' Report

Your Directors present their half-year report for Regeneus Ltd (Regeneus or the Company) and its controlled entities (the Group) for the half-year ended 31 December 2019, in order to comply with the provisions of the Corporations Act 2001. The Directors' report the following information.

1. Directors

The following persons were Directors of Regeneus during the whole of the half-year and up to the date of this report, unless otherwise stated.

Name	Position
Barry Sechos	Non-executive Chairman, member of the Remuneration and Nominations Committee, Chair of the Audit and Risk Committee
Leo Lee	CEO and Executive Director, member of the Remuneration and Nominations Committee
Professor Graham Vesey	CSO and Executive Director
Dr Glen Richards	Non-executive Director, Chair of the Remuneration and nominations Committee, member of the Audit and Risk Committee
Dr Alan Dunton	Non-executive Director,
Dr John Chiplin	Non-executive Director

2. Review of operations

Overview and strategy

- Regeneus is an ASX-listed clinical stage regenerative medicine company using stem cell technologies to develop a portfolio of novel cell-based therapies focused on neuropathic pain, including osteoarthritis and various skin conditions. The Company has two platform technologies, Progenza and Sygenus.
- The Company's strategy – which was refined during the first half of the 2020 financial year – focuses on bringing Progenza to commercialisation in Japan, targeting osteoarthritis (OA). Regeneus has progressed on this strategy, including terminating its agreement with AGC to pave way for a new commercial partner in Japan, streamlining operations, reducing operational costs and bringing on a Japan-based institutional investor.

Partnering Progenza in Japan

- During the period, Regeneus advanced its negotiations for a commercial licensing partnership for Progenza OA in Japan. In particular, it terminated its exclusive manufacturing licence and joint venture agreement with AGC - this mutual decision provides the Company with the flexibility to conclude commercial license discussions with partners who intend to manufacture and commercialise the platform technology.
- The termination of the agreement also entitled AGC to be issued with 22,797,531 ordinary shares in Regeneus, making AGC the single largest shareholder in the Company.

Streamlining operations and cost containment initiatives

- In the half year, the Company also focused on implementing financial and operational activities aligned with its revised strategy. This included introducing cost containment initiatives which are anticipated to reduce operational costs to \$250k a month.
- Regeneus completed a \$5.5 million private placement and rights issue in November 2019, with a Japan-based institutional investor with significant experience in the life sciences and regenerative medicine sector taking up the shortfall.

Other clinical developments

- In terms of clinical developments in the period, the Company announced that Progenza demonstrated positive preclinical results in treating allodynia, a skin pain condition caused from non-painful stimulation of the skin, such as a light touch. The pre-clinical results demonstrated a single injection of Progenza showed a complete reversal of the symptoms of allodynia. While these are early stage results, this positive data supports the Company's growth strategy to target the pain market.

01 Directors' Report

3. Financial results

Operating results

The Group's operating results for the 6 month period to 31 December was a loss of \$1.2m. This included a gain of \$1.9m from the finalisation of the AGC Inc equity position. The loss prior to the one-off gain of \$3.1m is significantly higher than the prior comparative period of \$2.7m loss reflective of the one-off costs to the business from redundancies and exiting the premises lease of nearly \$1m.

The reduction in operating expenditure including R&D has a marked effect on the forecast R&D tax incentive.

Revenue and gross margin from continuing operations

There was no material revenue during the period as was the case in the prior comparable period.

Other income

The Group's research and development activities are eligible expenditure under the Australian Government tax incentive.

The R&D tax incentive recognised in the Consolidated Statement of Profit or Loss for the period to 31 December 2019 is \$0.3m (31 December 2018: \$0.8m). The marked reduction is a reflection of the decreased expenditure incurred by the business as it focuses on securing a licence partner.

Expenses from continuing operations

Research and Development

Expenditure on research in the half-year period to 31 December 2019 was \$0.9m compared to 31 December 2018 of \$1.3m.

Research expenditure includes costs associated with product development as well as clinical trials. Post the successful Phase 1 clinical trial the research expenditure has been maintained at lower levels than prior years. It is anticipated that R&D expenditure will remain well below historic levels until a partner is secured.

The current accounting policy, and to comply with the accounting standards, is that all costs incurred for research are fully expensed. This policy is being continually reviewed as products move toward licensing and commercialisation.

Corporate

Corporate expenses at almost \$2.0m compared to the prior year of \$1.6m is significantly higher and while part of this is 'non-cash' cost of options \$0.2m the more significant contributor is the cost of implementing the strategic review. The reduction in staff led to redundancy costs of more than \$450k as well as incremental cash costs from paying out employee liabilities of \$200k. To ensure the success of the Japanese negotiations consulting costs in Japan also increased by \$100k.

Occupancy

Occupancy expenditure at \$0.2m is the same as the prior year, this is despite Regeneus exiting the premises at the end of September. The reason for the increased expenditure is reflective of the lease expiring in March and the tenancy continuing to end of September on a month by month arrangement at a significant premium. Additionally, incremental costs such as 'further make good expenses' were incurred during the current period. Occupancy costs are minimal moving forward.

Finance

Finance costs remain consistent in the current period compared to the prior comparative period. This a reflection of changing debt instruments where in 2018 the debt was the Paddington St Finance loan facility which in February 2019 was partly replaced by the Directors providing \$2.5m of debt funding. In September 56% of the Directors loan was converted to equity and in October the Paddington St Finance loan was repaid from the R&D tax incentive receipt.

Cash flows

The net inflow for the period was \$563k compared to the prior corresponding period outflow 2018: \$52k.

	31 Dec 19 \$	31 Dec 18 \$	Movement \$
Cash flows from (used in) operating activities	(2,070,632)	(823,878)	(1,246,754)
Cash flows from (used in) investing activities	5,430	(3,690)	9,120
Cash flows from financing activities	2,627,786	880,000	1,747,786
Net cash flows	562,584	52,432	510,152

01 Directors' Report

Operating activities – cash used in operating activities at \$2.1m was significantly higher than as compared to the \$0.8m to 31 December 2018. The increased cash used in operations is due to: the lower receipt by way of the RD tax incentive 2019 at \$1.5m, 2018 was \$2.4m; increased cash expenditure from the restructure including redundancies; and paying out accumulated entitlements totalling approximately \$0.7m. Ongoing cash used in operations is continuing to decline with a target of \$250k per month.

Financing activities – cash provided by financing activities includes the \$5.3m (after costs) capital raising offset by \$1.4m of the Directors loans converted resulting in net new capital of \$3.9m and the repayment of Paddington St Finance loan from the receipt of the R&D tax incentive. The comparative amount for 2018 of \$0.9m represents draw downs of the Paddington St Finance facility.

Significant changes in state of affairs

There were no significant changes in the Group's state of affairs during the first-half FY20.

Events subsequent to the end of the reporting date

In the period since 31 December 2019 to the signing of the financial report, the following significant events have occurred:

On 28 February Leo Lee as a director and investor agreed to loan a further \$900,000 to the Company. Also, on 28 February Paddington St Finance Pty Ltd agreed to put in place a further facility of \$2 million, to ensure that Regeneus had access to adequate cash reserves pending the Company securing licence arrangements in Japan in the ensuing quarter. On 27 February the ASX granted a waiver from ASX Listing Rule 10.1 for both loans. The waiver permitted Regeneus to grant security by way of first ranking fixed charge over all assets and undertakings in favour of Mr Lee. Once the \$2 million facility provided by Mr Lee has been fully drawn down and upon the Paddington St Finance loan being drawn down, the Paddington St Finance loan will also be secured over assets and undertakings of Regeneus. That security will rank equally with the security granted to Mr Lee.

Regeneus had previously considered funding from other sources and determined these Director loans were the most attractive commercial arrangement and entered into the relevant loan documentation on arm's length terms. The loans are secured over the assets and undertakings of the Company and are repayable on the earlier of 12 months from the date of the relevant Loan Agreements and the date that is 5 Business Days after the Company receives an upfront payment in connections with a licensing transaction to commercialise Progenza in Japan.

On 12 February 2020 the Company finalised the purchase of all outstanding shares in Regeneus Japan from AGC as agreed on 18 December. On 27 February Regeneus Japan was sold to CJ Partners Inc for \$37k representing the net assets of cash.

Other than the above, there are no matters or circumstances that have arisen since 31 December 2019 that have significantly affected or may significantly affect either the entity's operations in future financial years, the results of those operations in future financial years or the entity's state of affairs in future financial years.

Auditor's Independence Declaration

A copy of the auditor's independence declaration, as required under Section 307C of the Corporations Act 2001, is included on page 5 of this report.

Rounding

The amounts shown in this Financial Report, including the Directors' report, have been rounded off, except where otherwise stated, to the nearest dollar as the Company is in a class specified in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016.

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



Barry Sechos

Non-executive Chairman

28 February 2020

Auditor's Independence Declaration

To the Directors of Regeneus Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Regeneus Limited for the half-year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been:

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



Grant Thornton Audit Pty Ltd
Chartered Accountants



N/J Bradley
Partner – Audit & Assurance

Sydney, 28 February 2020

03 Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December	Note	31 Dec 19 \$	31 Dec 18 \$
Revenue		780	14,863
Cost of sales		-	-
Gross profit		780	14,863
Other income	7	260,688	825,000
Research and development expenses		(851,287)	(1,298,949)
Occupancy expenses		(238,644)	(235,794)
Corporate expenses		(1,973,906)	(1,600,927)
Finance costs		(179,019)	(192,141)
Share of loss on investments accounted for using equity method		-	(16,512)
Unrealised foreign exchange loss on contract liability		-	(163,900)
Realised foreign exchange loss on contract liability		(87,500)	-
Loss on disposal of fixed assets		(17,621)	-
Gain on settlement	5	1,854,783	-
Profit/(loss) before income tax		(1,231,726)	(2,668,360)
Income tax expense	8	-	-
Profit/(loss) for the period		(1,231,726)	(2,668,360)
Other comprehensive income		-	-
Total comprehensive profit/(loss) for the year		(1,231,726)	(2,668,360)
Earnings per share			
Basic earnings per share from continuing operations	9	(0.005)	(0.013)
Dilute earnings per share from continuing operations	9	(0.005)	(0.013)

Note: These financial statements should be read in conjunction with the accompanying notes.

03 Consolidated Statement of Financial Position

As at 31 December	Note	31 Dec 19 \$	30 Jun 19 \$
Current assets			
Cash and cash equivalents		818,047	255,463
Inventories		-	8,615
R&D tax incentive receivable		18,630	1,249,440
Other current assets		83,492	275,016
Financial asset at amortised cost		570,227	596,157
Total current assets		1,490,396	2,384,691
Non-current assets			
Property, plant and equipment		90,526	153,448
Right of use assets under lease		21,055	-
Investments accounted for using the equity method		3,675	3,675
Total non-current assets		115,256	157,123
Total assets		1,605,652	2,541,814
Current liabilities			
Trade and other payables		688,096	1,055,946
Provisions		117,961	352,677
Other current liabilities	12	1,100,000	3,780,000
Lease liabilities		4,950	-
Contract liabilities		-	3,564,300
Total current liabilities		1,911,007	8,752,923
Non-current liabilities			
Lease liabilities		16,401	-
Provisions		55,807	175,386
Total non-current liabilities		72,208	175,386
Total liabilities		1,983,215	8,928,309
Net assets		(377,563)	(6,389,495)
Equity			
Issued capital		36,358,675	31,076,819
Other contributed equity		1,797,017	-
Accumulated losses		(38,946,005)	(37,875,379)
Reserves		412,750	412,065
Total equity		(377,563)	(6,386,495)

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

03 Consolidated Statement of Changes in Equity

For the half-year ended 31 December	Share capital \$	Other contributed equity \$	Share option reserve \$	Accumulate d losses \$	Total attributable to parent owners \$	Total equity \$
Balance at 1 July 2018	31,076,819	-	1,619,450	(29,774,504)	2,921,765	2,921,765
Restatement for adoption of accounting standard AASB15	-	-	-	(3,384,150)	(3,384,150)	(3,384,150)
Restated balance at 1 July 2018	31,076,819	-	1,619,450	(33,158,654)	(462,385)	(462,385)
Reported loss for the period	-	-	-	(2,668,360)	(2,668,360)	(2,668,360)
Employee share-based payment option expense	-	-	-	-	-	-
Transfer from reserves to retained earnings for options forfeited	-	-	(1,219,975)	1,219,975	-	-
Balance at 31 December 2018	31,076,819	-	399,475	(34,607,039)	(3,130,745)	(3,130,745)
Balance at 1 July 2019	31,076,819	-	412,065	(37,875,379)	(6,386,495)	(6,386,495)
Reported loss for the period	-	-	-	(1,231,726)	(1,231,726)	(1,231,726)
Employee share-based payment option expense	-	-	161,785	-	161,785	161,785
Transfer from reserves to retained earnings for options forfeited	-	-	(161,100)	161,100	-	-
Equity confirmed pending issuance to AGC Inc (Japan)	-	1,797,017	-	-	-	1,797,017
Issue of share capital net of transaction costs	5,281,856	-	-	-	5,281,856	5,281,856
Balance at 31 December 2019	36,358,675	1,797,017	412,750	(38,946,005)	(2,174,580)	(377,563)

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

03 Consolidated Statement of Cash Flows

For the half-year ended 31 December	31 Dec 19 \$	31 Dec 18 \$
Operating activities		
Payments to suppliers and employees	(3,505,051)	(3,074,616)
Interest received	780	10,863
R&D tax incentive refund	1,491,498	2,356,937
Grant received	-	4,000
Finance costs	(57,859)	(121,062)
Net cash used in operating activities	(2,070,632)	(823,878)
Investing activities		
Purchase of property, plant and equipment	-	(3,690)
Receipts from sale of property, plant and equipment	5,430	-
Net cash from / (used in) investing activities	5,430	(3,690)
Financing activities		
Receipts from loans to shareholders	25,930	-
Proceeds from related party loan	-	880,000
Repayments of related party loans	(1,280,000)	-
Proceeds from issue of shares	3,881,856	-
Net cash provided by financing activities	2,627,786	880,000
Net change in cash and cash equivalents held	562,584	52,432
Cash and cash equivalents at beginning of financial year	255,463	1,091,579
Cash and cash equivalents at end of financial year	818,047	1,144,011

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

04 Notes to the Consolidated Financial Statements

1. Nature of operations

Regeneus is a Sydney based ASX listed clinical stage regenerative medicine company that develops innovative cell-based therapies to address significant unmet medical needs in the human health markets with a focus on osteoarthritis and other musculoskeletal disorders, neuropathic pain and dermatology.

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

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

2. General information and basis of preparation

The half-year consolidated financial statements of the Group are for the six months ended 31 December 2019 and are presented in Australian dollars (\$), which is the functional currency of the parent company.

These general purpose half-year financial statements have been prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 Interim Financial Reporting. They do not include all of the information required in annual financial statements in accordance with Australian Accounting Standards, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 30 June 2019 and any public announcements made by the Group during the half-year in accordance with continuous disclosure requirements arising under the Australian Stock Exchange Listing Rules and the Corporations Act 2001.

The half-year financial statements have been approved and authorised for issue by the Board of Directors on 28 February 2020.

3. Going concern basis of accounting

For the half-year ended 31 December 2019, the Group generated a loss after income tax of \$1.2m (2018: \$2.7m), had net cash outflows from operating activities of \$2.1m (2018: \$0.8m); This includes the receipt of the R&D tax incentive of \$1.5m (2018: \$2.4m), and has a net deficiency of current assets of \$0.4m (30 June 2019 deficiency: \$6.4m). The Group has a deficiency of net assets of \$0.4m (30 June 2019 deficiency: \$6.4m).

The Directors have prepared the financial statements on a going concern basis which contemplates continuity of normal activities and realisation of assets and settlement of liabilities in the normal course of business. In making their going concern assessment the Directors have considered the following:

- The near-term opportunity as a listed company to raise additional capital at an appropriate time, which could include a private placement, possible rights issue or share purchase plan.
- The Directors expect that the Group will enter a licence with a Japanese partner in the coming months. It is expected this licence will provide upfront funding and future payments contributing to the Group's funding requirements for the next 2 to 3 years.
- On 28 February Mr Lee as a director and investor agreed to loan a further \$900,000 to the Company. Also on 28 February Paddington St Finance Pty Ltd agreed to put in place a further facility of \$2 million, to ensure that Regeneus had access to adequate cash reserves pending the Company securing licence arrangements in Japan in the ensuing quarter. (Note 15)
- The Group has available to it and will consider, if necessary, further cost reduction strategies.

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

04 Notes to the Consolidated Financial Statements

4. Significant accounting policies

The half-year financial statements have been prepared in accordance with the same accounting policies adopted in the Group's last annual financial statements for the year ended 30 June 2019 with the exception of the following accounting standard, implemented in the reporting period.

Adoption of AASB 16: Leases

AASB 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting AASB 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied AASB 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of AASB 16, being 1 July 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of AASB 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to AASB 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under AASB 16 was 7.0%.

The Group has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

On the date of initial application of AASB 16, the impact to retained earnings was \$nil. The table below highlights the impact of AASB 16 on the Group's statement of financial position for the half year ending 31 December 2019. The adoption of AASB 16 did not have a material impact on the Groups Consolidated Statement of Profit or Loss and Other Comprehensive Income or Loss, and Consolidated Statement of Cash Flows.:

	Amounts under AASB 117 \$	Adjustment \$	Amounts under AASB 16 \$
Lease liability	-	(23,742)	(23,742)
Right of use asset	-	23,742	23,742

5. Estimates

When preparing the half-year financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

The judgements, estimates and assumptions applied in the half-year financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 30 June 2018 except as set out below:

Licence revenue

In December 2016 the Company entered into a Manufacturing Licence Agreement and Shareholders Agreement with AGC Inc of Japan (AGC). As part of these arrangements and in satisfaction of performance obligations the Company received an upfront payment and milestone payment totalling US\$6.5million. The Shareholders Agreement anticipated that AGC and Regeneus would work together to secure a marketing partner for the clinical development and commercialisation of Progenza in Japan.

04 Notes to the Consolidated Financial Statements

Furthermore, if securing such a partner was not achieved by 31 December 2018 then AGC had the opportunity to use US\$2.5million, paid as upfront and milestone payments, to subscribe for shares in Regeneus and to cancel the arrangements.

In December 2019 the Company and AGC Inc agreed to the termination of their JV Agreements including the exclusive Manufacturing Licence Agreement and Regeneus Japan Shareholder Agreement. As part of the termination the parties agreed to the conversion of the US\$2.5 million of upfront and milestone payments into equity of the Company at a fixed subscription price of A\$0.16 per share, representing a 100% premium to the Company's share price at the date of the agreement.

The issuance of shares is dependent upon AGC nominating the timing, which has not been invoked. The financial statements for 31 December 2019 include these shares as 'Other contributed equity' of \$1.8 million. The subscription price of \$0.16 as compared to the market price at the date of the agreement gave rise to a 'Gain on settlement' of \$1.9 million recognised in the income statement for the period.

Loans to Shareholders

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

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

At the date of this report the share price was \$0.065, if this was the share price at reporting date an additional impairment of \$52k would have been recorded in respect of the shareholder loans receivable.

Included within the shareholder loan are balances owing by the Directors of \$150,552.

6. Segment reporting

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

The Group's operating segment is based on the internal reports that are reviewed and used by the Board of Directors (being the CODM) in assessing performance and in determining the allocation of resources. Reports provided to the CODM reference the Group operating in one segment, being the development of innovative cell-based therapies to address significant unmet medical needs in the human health markets. Initial focus is osteoarthritis and other musculoskeletal disorders, neuropathic pain and dermatology. The information reported to the CODM, on a monthly basis, is profit or loss before tax, assets and liabilities and cash flow.

7. Revenue and other income

The Groups revenue and other income include the following:

	31 Dec 19 \$	31 Dec 18 \$
Operating activities		
Interest received	781	10,863
Grant income	-	4,000
Total revenue	781	14,863
Other income		
R&D tax incentive	260,688	825,000
Other income	260,688	825,000

R&D tax incentive

The Group's research and development activities are eligible expenditure under the Australian Government tax incentive program. Under this program the government provides a cash refund for 43.5% (2018: 43.5%) of eligible research and development expenditures.

For the 6 month period ended 31 December 2019, the Group estimated the R&D tax incentive income receivable following the lodgement of the 2019 tax return to be \$0.26m (2017: \$0.83m). The Group has confidence about the quantum of expenditure at the half year which will qualify under the program and confidence in its internal systems and processes in order to enable it to reliably measure the eligible R&D expenditure at 31 December 2019 half year.

04 Notes to the Consolidated Financial Statements

8. Income tax expense

No income tax expense or liability has been recognised in the half-year accounts as the Group has tax losses during the period and available unused tax losses as at 30 June 2019 of \$12,719,670 (30 June 2018: \$5,119,801) which have not previously been brought to account.

9. Earnings per share

Both the basic and diluted earnings per share have been calculated using the loss attributable to shareholders of the parent company (Regeneus Ltd) as the numerator, i.e. no adjustments to profits were necessary during the six month period to 31 December 2019 and 31 December 2018.

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

	31 Dec 19 \$	31 Dec 18 \$
Basic earnings per share from continuing operations	(0.005)	(0.013)
The weighted average number of ordinary shares used as the denominator on calculating the EPS	253,762,521	208,885,143
Diluted earnings per share		
Basic earnings per share from continuing operations	(0.005)	(0.013)
The weighted average number of ordinary shares used as the denominator on calculating the DEPS	253,762,521	208,885,143

At 31 December 2019 share options are not included in the diluted EPS calculation because they are anti-dilutive. (2018: nil)

10. Share capital

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

During the six months to 31 December 2019, there were 68,939,845 shares issued at \$0.08 as follows:

Private placement	29,250,000
Directors loan conversion	17,500,000
Directors subscription	5,000,000
Non-renounceable rights issue	7,751,973
Shortfall fully placed	9,437,872
Total issued during period	68,939,845

During the prior comparable period no shares were issued.

Shares issued and authorised are summarised as follows:

Share Capital	31 Dec 19 \$	30 Jun 19 \$
Fully paid shares	36,358,675	31,076,819
	36,358,675	31,076,819

The company has 14,271,774 options on issue to acquire ordinary shares in the company. These options are unlisted, restricted and summarised as follows:

Share options	31 Dec 19 Number	30 Jun 19 Number
Employee share option plan	2,771,774	2,671,774
Share option agreement	11,500,000	5,000,000
	14,271,774	7,671,774

04 Notes to the Consolidated Financial Statements

11. Share-based payments

The grant date fair value of options granted to employees is recognised as an employee benefit expense, with a corresponding increase in equity within the shares options reserve. The amount recognised is adjusted to reflect actual number of the share options vested.

All share-based remuneration will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options.

The fair value of share options was calculated using a binomial options pricing model. For the options outstanding at period end, the following inputs were used:

Grant date	1 Jul 2010	21 Feb 2011	31 Jan 2019	31 Jan 2019	1 Oct 2019
Share price at date of grant	\$0.136	\$0.136	\$0.155	\$0.155	\$0.069
Volatility	45%	45%	57%	57%	91%
Option life	10 years	10 years	5 years	5 years	5 years
Dividend yield	0%	0%	0%	0%	0%
Risk free investment rate	5.10%	5.60%	1.9%	1.9%	0.745%
Fair value at grant date	\$0.085	\$0.085	\$0.067	\$0.058	\$0.044
Exercise price at date of grant	\$0.136	\$0.136	\$0.20	\$0.25	\$0.10

Grant date	1 Oct 2019	1 Oct 2019	1 Oct 2019	1 Oct 2019	1 Oct 2019	1 Oct 2019
Share price at date of grant	\$0.069	\$0.069	\$0.069	\$0.069	\$0.069	\$0.069
Volatility	91%	91%	91%	91%	91%	91%
Option life	5 years	5 years	5 years	5 years	5 years	5 years
Dividend yield	0%	0%	0%	0%	0%	0%
Risk free investment rate	0.745%	0.745%	0.745%	0.745%	0.745%	0.745%
Fair value at grant date	\$0.044	\$0.039	\$0.037	\$0.034	\$0.032	\$0.030
Exercise price at date of grant	\$0.10	\$0.15	\$0.20	\$0.25	\$0.30	\$0.35

Employee benefits expenses in the profit or loss includes \$161,786 relating to employee share options (Dec 2018: nil).

Share options granted under the option plans	31 Dec 19		30 Jun 19	
	Number	Weighted avg exercise price \$	Number	Weighted avg exercise price \$
Options outstanding at beginning of period	7,671,774	0.20	9,159,984	0.22
Granted	11,000,000	0.16	5,000,000	0.23
Forfeited	(4,400,000)	0.11	(6,488,210)	0.25
Outstanding at end of period	14,271,774	0.20	7,671,774	0.20
Exercisable at end of period	1,771,774	0.14	2,671,774	0.15

Options forfeited predominantly relate to share options that included a performance hurdle that was not achieved.

12. Related party transactions

The Paddington St Finance Pty Ltd loan, established on 29 June 2018 and renegotiated on 27 August 2018 was repaid upon receipt of the FY19 R&D tax incentive on 15 October 2019.

On 1 August 2019 the Company made a private placement of 29,250,000 shares at 8 cents per share, which raised new capital of \$2.34 million. The Company also announced a 1 for 6 rights issue which was partly underwritten by the conversion of \$1.4 million of the Directors' loans.

On 28 February Mr Lee as a director and investor agreed to loan a further \$900,000 to the Company. Also, on 28 February Paddington St Finance Pty Ltd agreed to put in place a further facility of \$2 million, to ensure that Regeneus had access to adequate cash reserves pending the Company securing licence arrangements in Japan in the ensuing quarter.

04 Notes to the Consolidated Financial Statements

Related party loan payable	31 Dec 19 \$	30 Jun 19 \$
Paddington St Finance Pty Ltd	-	1,280,000
Leo Lee	1,100,000	2,100,000
Barry Sechos	-	250,000
Glen Richards	-	100,000
Total related parties loans payable	1,100,000	3,730,000

At the time of the IPO in August 2013, the Company provided loans to shareholders in connection with the funding of the exercise of employee options. The loans are full recourse interest-free loans for 4 years, with maturity extended to June 2019. Included within the loans to shareholders in other current assets, are balances owing by the Directors as follows:

Related party loan receivable	31 Dec 19 \$	30 Jun 19 \$
Graham Vesey	150,552	150,552
Total related parties loans receivable	150,552	150,552

13. Dividends

No dividends were paid during the period (2018: \$nil).

14. Contingent liabilities

As part of the agreement with AGC Inc., on the termination of the JV Agreements including the exclusive Manufacturing License Agreement and Regeneus Japan Shareholder Agreement, AGC will transfer all of the shares it holds in the JV company for a cash consideration of JPY1,814,254 (approximately A\$25k). On 12 February 2020 the cash consideration was paid to AGC (refer note 15).

Other than the above, the Group had no contingent liabilities as at 31 December 2019 (31 December 2018: Nil).

15. Events after the reporting date

In the period since 31 December 2019 to the signing of the financial report, the following significant events have occurred:

On 28 February Mr Lee as a director and investor agreed to loan a further \$900,000 to the Company. Also, on 28 February Paddington St Finance Pty Ltd agreed to put in place a further facility of \$2 million, to ensure that Regeneus had access to adequate cash reserves pending the Company securing licence arrangements in Japan in the ensuing quarter. On 27 February the ASX granted a waiver from ASX Listing Rule 10.1 for both loans. The waiver permitted Regeneus to grant security by way of first ranking fixed charge over all assets and undertakings in favour of Mr Lee. Once the \$2 million facility provided by Mr Lee has been fully drawn down and upon the Paddington St Finance loan being drawn down, the Paddington St Finance loan will also be secured over assets and undertakings of Regeneus. That security will rank equally with the security granted to Mr Lee.

Regeneus had previously considered funding from other sources and determined these Director loans were the most attractive commercial arrangement and entered into the relevant loan documentation on arm's length terms. The loans are secured over the assets and undertakings of the Company and are repayable on the earlier of 12 months from the date of the relevant Loan Agreements and the date that is 5 Business Days after the Company receives an upfront payment in connections with a licensing transaction to commercialise Progenza in Japan.

On 12 February 2020 the Company finalised the purchase of all outstanding shares in Regeneus Japan from AGC as agreed on 18 December. On 27 February Regeneus Japan was sold to CJ Partners Inc for \$37k representing the net assets of cash.

Other than the above, there are no matters or circumstances that have arisen since 31 December 2019 that have significantly affected or may significantly affect either the entity's operations in future financial years, the results of those operations in future financial years or the entity's state of affairs in future financial years.

05 Director's Declaration

Directors' declaration

1. In the opinion of the Directors of Regeneus Ltd:

- a. the consolidated financial statements and notes of Regeneus Ltd are in accordance with the Corporations Act 2001, including:
 - i) giving a true and fair view of its financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
 - ii) complying with Accounting Standard AASB 134 Interim Financial Reporting; and
- b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Non-executive Chairman

Barry Sechos

Dated 28 February 2020

Independent Auditor's Review Report

To the Members of Regeneus Limited

Report on the review of the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Regeneus Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of Regeneus Limited does not give a true and fair view of the financial position of the Group as at 31 December 2019, and of its financial performance and its cash flows for the half-year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

Material uncertainty related to going concern

We draw attention to Note 3 in the financial report, which indicates that the Group incurred a net loss of \$1.2m during the half year ended 31 December 2019 and, as of that date, the Group's current liabilities exceeded its current assets by \$0.4m. As stated in Note 3, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the half year financial report

The Directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Regeneus Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Grant Thornton Audit Pty Ltd
Chartered Accountants



N.J. Bradley

Partner – Audit & Assurance

Sydney, 28 February 2020

Registered Office and Principal Place of Business

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Paddington, NSW 2021, Australia

Board of Directors

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

Company Secretary

Sandra McIntosh

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Stock Exchange Listing

Australian Stock Exchange
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