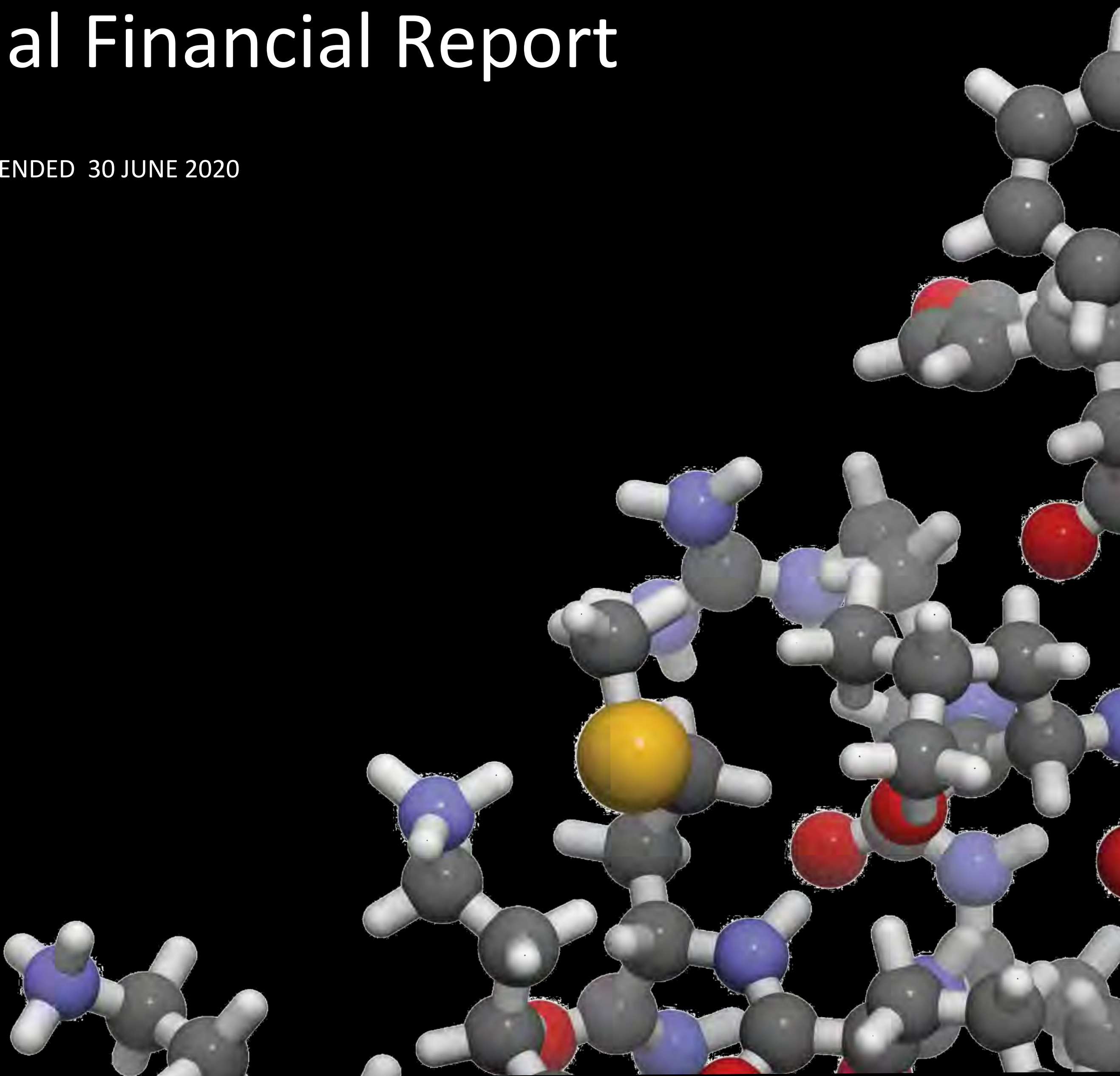
VECTUS BIOSYSTEMS LIMITED

ACN 117 526 137

AND CONTROLLED ENTITIES

# 2020
# Annual Financial Report

FOR THE YEAR ENDED 30 JUNE 2020



# VECTUS BIOSYSTEMS LIMITED
## AND CONTROLLED ENTITIES

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### 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 26 August 2020.

# VECTUS BIOSYSTEMS LIMITED
## AND CONTROLLED ENTITIES
## Directors' Report
### For the Year Ended 30 June 2020

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 2020.

**Directors' Details**

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

Ronald Shnier
Maurie Stang
Karen Duggan
Peter Bush
Susan Pond

**Review of Operations and financial results**

The consolidated loss of the Group for the 2020 financial year amounted to $2,996,071 (2019: Loss $1,596,280).

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; 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**

During the financial year Vectus Biosystems Limited has completed a Convertible Notes issue to raise an amount of $7,000,000.
Key terms of the Convertible Notes:
**Notes**: 14,000,000 Convertible Notes, each with a face value of $0.50 each.
**Term**: 36 months until Maturity Date.
**Interest**: 6% per annum capitalised and paid on Maturity Date (or investor can elect to convert any unpaid interest on their Notes at the end of each 12-month period into VBS shares at an issue price that is the higher of (i) $0.50 and (ii) 10% below the relevant VWAP).
**Conversion**: Each Note will be redeemed for $0.50 plus any unpaid interest on that Note. Each Note may be converted into one VBS ordinary share at $0.50 per share. The investors have the right to convert their Notes at any time prior to, or on, the Maturity Date.
**Listing and security**: The Convertible Notes will not be listed on ASX and are secured.
**Two Tranches**: The issue was undertaken in two tranches. Tranche 1 of 3,000,000 Notes at $0.50 raised $1,500,000. Tranche 2 of 11,000,000 Notes at $0.50 was subsequently completed to raise $5,500,000.

The funds will be used to complete the Phase I clinical trials for VB0004, which potentially prevents and reverses fibrosis in organs, to advance the library of VBS's other drugs and for general working capital.

There have been no other significant changes in the state of affairs of the consolidated entity during the 2019 and 2020 financial years.

# Review of Operations for the 2019-20 Financial Year

Vectus Biosystems Limited (Vectus or the Company) is pleased to report on its results for the year ended 30 June 2020.

## Overview

Vectus has developed potentially novel treatments for fibrosis and high blood pressure, which include treatment for four of the largest diseases in the fibrotic franchise, namely heart, kidney liver and lung disease. Since listing on the ASX in early 2016 the Company has completed pre-clinical and toxicological studies of its lead compound VB0004, which is aimed at treating the loss of functional tissue to fibrosis or scarring and high blood pressure. Vectus has conducted a range of studies, which have shown that VB0004 prevents the advance of fibrosis and repairs damaged tissue by reversing established fibrosis as well as reducing high blood pressure, in several pre-clinical studies. VB0004 has progressed through a number of important milestones, including pharmaceutical scale-up synthesis and investigational new drug (IND) enabling toxicity studies. Successful results have provided 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.

During 2020 the Vectus laboratories at North Ryde have continued to operate as normally under the Company's COVID-19 Safe Plan which has been designed to ensure the safety of the Vectus team whilst progressing key elements of its technical programme. The COVID-19 closures and working constraints have lengthened the time frames Vectus continues to progress toward its Phase 1 trial for VB0004. The Company appointed Asymchem Laboratories (Tianjin) Co. Ltd (Asymchem) to conduct the second GMP synthesis. Asymchem is a leading contract development and manufacturing organisation from China with eight manufacturing sites and 4,000 employees world-wide serving the pharmaceutical and biotech industries throughout all stages of drug development – pre-IND into commercialisation. Asymchem has worked with major pharmaceutical companies such as Merck, Pfizer and Roche. Asymchem has a quality policy for all its operations to be approved manufacturing sites, to develop and produce active pharmaceutical ingredients in compliance with high quality standards fit for human consumption, as defined in current GMPs, and for The International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use (ICH) Q7/Q8/Q9/Q10/Q11 guidelines to meet EU and U.S. Food and Drug Administration (FDA) regulatory requirements. Asymchem has completed the chemistry familiarisation phase for the VB0004 synthetic process and also completed synthesis of the standards which will be used to develop the analytical methods necessary to provide a certificate of analysis for the Good Manufacturing Practice (GMP) batch to be used in the Phase I trial. Analytical method development is currently progressing well and work has commenced on the synthesis of the GMP batch. Work on the Investigator Brochure and the Phase I trial protocol with Syneos and trial protocol has progressed significantly.

## Research

During the 2019-20 financial year Vectus continued to focus on the proposed Phase I trial of its proprietary VB0004, which potentially addresses a significant unmet need for anti-fibrotic agents for patients with cardiovascular, kidney, and/or lung disease. Aligned with the targeted anti-fibrotic activity, VB0004 has additional capability to meet another important unmet need by lowering blood pressure, particularly in systolic hypertension.

## Patents

During the 2019-20 financial year the Company's intellectual property (IP) portfolio continued to strengthen, with the number of patents granted being 12 patents in 184 jurisdictions (including peptides) or eight patents in 59 jurisdictions (i.e. drugs, excluding peptides), i.e. international patent applications that have successfully progressed to grant or gained acceptance without any material objections in the jurisdictions in which they have been filed. The Company's strategy has been to protect not only the compounds and their applications, but also the path to discovery via the peptides and fragments, thereby providing a robust protection of over 1,000 compounds in Vectus' drug library. The patents covering VB0004 and its related compound library (the T compounds) have been granted in all major jurisdictions. Other patents cover NASH (non-alcoholic steatohepatitis of the liver) and ASH (alcoholic steatohepatitis of the liver) (VB4-A32 and related compounds), pulmonary fibrosis, including idiopathic fibrosis, asbestosis and coal dust pneumoconiosis (Black Lung Disease) (VB4-A79 and related compounds), and renal fibrosis (VB4-P5 and related compounds). The Company continues to gain insights through its research and development programme. This may lead to additional intellectual property to further support Vectus' portfolio of granted and pending patents.

## Accugen

Vectus 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, consisting of **AccuCal™ and RealCount™ software**, is owned by Vectus' wholly owned subsidiary, Accugen Pty Limited. The technology offers a time, cost and accuracy benefit compared with currently available systems. The Company's commercialisation programme, where a combination of direct sales, distribution partnerships and licensing opportunities are being progressed. Opportunities are being followed up for AccuCal™ and RealCount™ products for applications related to food safety, which is a large and growing market. The Accugen reagent (Accucal D) and software are currently undergoing evaluation by two internationally renowned research groups for possible utility in diagnostic tests.

The Company is actively following up the results obtained using the Accugen kits that were made available to several key opinion leader sites for evaluation and potential endorsement.

## Capital and Trade Engagement

As Phase I work advances, the Company will accelerate its discussions with a cross-section of global and mid-size pharmaceutical companies on potential of significant transactions upon a successful Phase I human trial for VB0004. During the June 2020 quarter Vectus continued its discussions in respect of its clinical programme and commercialisation roadmap in a major international market. If successful, this will have the potential of accelerating additional compounds through the pre-clinical and clinical programme.

## Finance

The Vectus Group incurred an operating loss after income tax of $3,162,267 in the year ended 30 June 2020 (2019: $1,596,280). Operating expenses were $3,545,896 in 2019-20 compared to $2,496,222 in the 2018-19 financial year. A major portion of the funds expended during the year were largely in in connection with the preparatory work for the Phase I clinical trials for VB0004 and to advance the library of Vectus' other drugs.

On 17 September 2019 Vectus announced a successfully negotiated and documented Convertible Note issue of 14,000,000 Notes at $0.50 each, for a total amount of $7,000,000. The fund raising was carried out in two tranches, the second trance being finalised in January 2020 after shareholder approval. The funds are being used to complete the Phase I clinical trials for VB0004, to advance the library of Vectus' other drugs and for general working capital. The subscribers were sophisticated, experienced and professional investors. The Convertible Notes have a term of 36 months and an interest rate of 6% per annum, which is capitalised and paid on the maturity date (or, if agreed by the Company, the investor can elect to convert any unpaid interest on their Notes at the maturity date into Vectus shares at an issue price that is the higher of (i) $0.50 and (ii) 10% below the relevant volume-weighted average price). On conversion, each Note will be redeemed for $0.50 plus any unpaid interest on that Note. The investors have the right to convert their Notes at any time prior to redemption.

The Company remains in active dialogue with potential trade partners, which could lead to multiple international licensing opportunities.

**Karen Duggan**
Chief Executive Officer and Executive Director

**Dividends**

There were no dividends paid during the year.

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 liabile, 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.

**Board of Directors and Company Secretary**

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.

| | |
|---|---|
| Name: | Dr **Ronald Shnier** |
| Title: | Non-Executive Chairman |
| Experience and expertise: | 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.<br><br>Directorships held in other listed entities in the past three years: none<br><br>Appointed to the Board: 2 September 2015 |
| Name: | Mr **Maurie Stang** |
| Title: | Non-Executive Deputy Chairman |
| Experience and expertise: | Mr Maurie Stang has over 30-years 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).<br><br>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<br><br>Appointed to the Board: 12 December 2005 |
| Name: | Dr **Karen Duggan** |
| Title: | Executive Director and Chief Executive Officer |
| Experience and expertise: | 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.<br><br>Directorships held in other listed entities in the past three years: none<br><br>Appointed to the Board: 4 September 2006 |

Name: Mr **Peter Bush**

Title: Non-Executive Director

Experience and expertise: 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

Name: Dr **Susan Pond**

Title: Non-Executive Director

Experience and expertise: 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

**Company Secretary**

Experience and expertise: 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.

**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 2020, 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** | 11 | 5 | 1 | 2 | 1 |
| **Number of meetings attended** | | | | | |
| Ronald Shnier | 11 | N/A | 1 | N/A | N/A |
| Maurie Stang * | 11 | 5 | 1 | N/A | N/A |
| Karen Duggan | 11 | N/A | N/A | 2 | 1 |
| Peter Bush | 11 | 5 | N/A | 2 | N/A |
| Susan Pond | 11 | 5 | N/A | 2 | 1 |

* Maurie Stang became the Remuneration and Nomination Committee Chairman on 21 August 2019

In addition to the above meetings, the Board and senior executives conduct formal management meetings, and the Non-Executive Directors meet when necessary.

**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)
Maurie Stang
Susan Pond

***Corporate Governance Committee***
Susan Pond (Chairman)
Karen Duggan
Peter Bush

***Remuneration and Nomination Committee***
Maurie Stang (Chairman*)
Ronald Shnier

***R&D and Innovation Committee***
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 14.

**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 | 2,575,789 | - |
| Karen Duggan | 3,278,500 | - |
| Peter Bush | 104,550 | - |
| 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
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.

*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:

| 2020 | Number held 30 June 2019 | Acquired during year | Sold during year | Number held 30 June 2020 |
|---|---|---|---|---|
| Maurie Stang | 2,575,789 | - | - | 2,575,789 |
| Karen Duggan | 3,203,500 | 75,000 | - | 3,278,500 |
| Peter Bush | 4,550 | 100,000 | - | 104,550 |
| Ronald Shnier | 100,000 | - | - | 100,000 |
| Susan Pond | 21,500 | - | - | 21,500 |
| | 5,905,339 | 175,000 | - | 6,080,339 |

| 2019 | Number held 30 June 2018 | Acquired during year | Sold during year | Number held 30 June 2019 |
|---|---|---|---|---|
| Maurie Stang | 2,575,064 | 1,475 | 750 | 2,575,789 |
| Karen Duggan | 3,203,500 | - | - | 3,203,500 |
| Graham Macdonald * | 46,667 | - | - | 46,667 |
| Peter Bush | 3,900 | 650 | - | 4,550 |
| Ronald Shnier | 100,000 | - | - | 100,000 |
| Susan Pond | 21,500 | - | - | 21,500 |
| | 5,950,631 | 2,125 | 750 | 5,952,006 |

* Graham Macdonald retired as a Director on 31 August 2018

*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 and outstanding balances are shown below:

| | 2020 | 2019 |
|---|---|---|
| *Regional Health Care Group Pty Ltd* | $ | $ |
| Corporate and administration services | 119,721 | 163,210 |
| Current payables | - | 332,608 |

Mr M Stang is Director and shareholder of Regional Healthcare Group Pty Ltd.

| | 2020 | 2019 |
|---|---|---|
| *Aeris Environmental Ltd* | | |
| Accounting services | 22,717 | 21,328 |
| Current payables | 10,664 | 44,879 |

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

| | 2020 | 2019 |
|---|---|---|
| *Loan from M Stang, Non-Executive Deputy Chairman* | | |
| Loan borrowing | 383,500 | 1,795,500 |
| Loan repaid | (1,383,629) | (750,000) |
| Interest on loan | 130,431 | 115,571 |
| Outstanding balance | 957,371 | 1,957,500 |

## VECTUS BIOSYSTEMS LIMITED
## AND CONTROLLED ENTITIES
## Directors' Report
## For the Year Ended 30 June 2020

*Details of directors' and executive officers' remuneration for the year ended 30 June 2020*

| | Short-term benefits | | Equity based benefits | | Total | |
|---|---|---|---|---|---|---|
| | Salary and Directors' fees | Post employment benefits | Shares | Options or Rights | | Performance related |
| | $ | $ | $ | $ | $ | % |
| Non-Executive Directors: | | | | | | |
| Maurie Stang | 50,228 | 4,772 | - | - | 55,000 | 0.0% |
| Peter Bush | 41,096 | 3,904 | - | - | 45,000 | 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 | 173,516 | 16,484 | - | - | 190,000 | |
| Executive Directors: | | | | | | |
| Karen Duggan | 196,454 | 18,663 | | 14,719 | 229,836 | 0.0% |
| Total Executive Directors | 196,454 | 18,663 | - | 14,719 | 229,836 | |
| | | | | | | |
| **Total** | **369,970** | **35,147** | **-** | **14,719** | **419,836** | |

*There were no long term benefits paid to directors and executive officers during 2020 financial year*

*Details of directors' and executive officers' remuneration for the year ended 30 June 2019*

| | Short-term benefits | | Equity based benefits | | Total | |
|---|---|---|---|---|---|---|
| | Salary and Directors' fees | Post employment benefits | Shares | Options or Rights | | Performance related |
| | $ | $ | $ | $ | $ | % |
| Non-Executive Directors: | | | | | | |
| Maurie Stang | 50,228 | 4,772 | - | 16,354 | 71,354 | 0.0% |
| Graham Macdonald | 9,893 | 940 | - | - | 10,833 | 0.0% |
| (Retired 31 August 2018) | | | | | | |
| Peter Bush | 41,096 | 3,904 | - | 50,799 | 95,799 | 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 | 183,409 | 17,424 | - | 67,153 | 267,986 | |
| Executive Directors: | | | | | | |
| Karen Duggan | 183,429 | 17,426 | | 51,679 | 252,534 | 0.0% |
| Total Executive Directors | 183,429 | 17,426 | - | 51,679 | 252,534 | |
| | | | | | | |
| **Total** | **366,838** | **34,850** | **-** | **118,832** | **520,520** | |

*There were no long term benefits paid to directors and executive officers during 2019 financial year*

*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: | $ 215,117 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 below shows measures of the group's financial performance over the last three 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.

| | **2020** | **2019** | **2018** | **2017** | **2016** |
|---|---|---|---|---|---|
| | $ | $ | | $ | $ |
| Loss for the year | (2,996,071) | (1,596,280) | (2,587,296) | (3,794,254) | (3,211,324) |
| Basic loss per share (cents per share) | (12.73) | (6.83) | (11.07) | (16.24) | (16.13) |
| Dividend payments | - | - | - | - | - |
| (Decrease) / increase in share price (%) | 111.8% | -60.0% | -39.3% | 2.9% | N/A* |
| Total KMP remuneration as percentage of loss for the year (%) | -14% | -33% | -26% | -16% | -17% |

* Company was listed during the 2016 financial year

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.

***Performance rights or options***

Following rights or options for issue of shares issued to key management personnel were not vested or expired as at the end of financial year:

| | Number of options / rights | |
|---|---|---|
| | **2020** | **2019** |
| Performance rights to Peter Bush, Non-Executive Director | - | 100,000 |
| Deferred Share Awards to Karen Duggan, Chief Executive Officer | - | 75,000 |

Following shares were issued to key management personnel as the result of the exercise of options or rights:

| | Number of shares | |
|---|---|---|
| | **2020** | **2019** |
| Peter Bush, Non-Executive Director | 100,000 | - |
| Karen Duggan, Chief Executive Officer | 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**
Non-Executive Deputy Chairman

Date: 31 August 2020

UHY Haines Norton
Chartered Accountants

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**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 2020, 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.

**Franco Giannuzzi**
Partner
Sydney
31 August 2020

**UHY Haines Norton**
Chartered Accountants

# VECTUS BIOSYSTEMS LIMITED

## AND CONTROLLED ENTITIES

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

### For the Year Ended 30 June 2020

| | Note | 2020<br>$ | 2019<br>$ |
|---|---|---|---|
| Revenue and other income | 3 | 51,186 | 220 |
| Administration and corporate expenses | | (627,588) | (517,247) |
| Finance costs | 4 | (716,335) | (123,165) |
| Depreciation and amortisation expense | 4 | (19,516) | (22,627) |
| Employee benefits expense and directors remuneration | 4 | (1,034,491) | (1,125,768) |
| Occupancy expenses | | (302,517) | 9,293 |
| Research & development | 4 | (713,001) | (711,797) |
| Travel expenses | | (17,438) | (5,131) |
| ***Loss before income tax benefit from continuing operations*** | | (3,379,700) | (2,496,222) |
| Income tax benefit | 5 | 383,629 | 899,942 |
| ***NET LOSS FOR THE YEAR*** | | (2,996,071) | (1,596,280) |
| ***TOTAL COMPREHENSIVE LOSS FOR YEAR, NET OF TAX*** | | (2,996,071) | (1,596,280) |
| **Loss for the year attributable to:** | | | |
| Owners of Vectus Biosystems Limited | | (2,996,071) | (1,596,280) |
| **Total comprehensive loss for the year attributable to:** | | | |
| Owners of Vectus Biosystems Limited | | (2,996,071) | (1,596,280) |
| **Loss per share** | 25 | | |
| Basic loss per share (cents per share) from continuing operations | | (12.73) | (6.83) |
| Diluted loss per share (cents per share) from continuing operations | | (12.73) | (6.83) |

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

# VECTUS BIOSYSTEMS LIMITED
## AND CONTROLLED ENTITIES
## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
### As at 30 June 2020

| | Note | 2020<br>$ | 2019<br>$ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 6 | 2,685,283 | 43,172 |
| Financial Assets | | 30,964 | - |
| Other current assets | 7 | 203,250 | 115,807 |
| **TOTAL CURRENT ASSETS** | | 2,919,497 | 158,979 |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 8 | 78,713 | 35,129 |
| **TOTAL NON-CURRENT ASSETS** | | 78,713 | 35,129 |
| **TOTAL ASSETS** | | 2,998,210 | 194,108 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 9 | 621,403 | 1,136,727 |
| Other current liabilities | 10A | 475,387 | 527,053 |
| Provisions | 11A | 350,390 | 298,146 |
| **TOTAL CURRENT LIABILITIES** | | 1,447,180 | 1,961,926 |
| **NON-CURRENT LIABILITIES** | | | |
| Provisions | 11B | 340 | - |
| Borrowings | 12 | 7,160,123 | 1,957,500 |
| Other non-current liabilities | 10B | 35,180 | 4,503 |
| **TOTAL NON-CURRENT LIABILITIES** | | 7,195,643 | 1,962,003 |
| **TOTAL LIABILITIES** | | 8,642,823 | 3,923,929 |
| **NET LIABILITIES** | | (5,644,613) | (3,729,821) |
| **EQUITY** | | | |
| Issued Capital | 13 | 17,861,819 | 17,600,420 |
| Convertible Notes - Equity | | 1,065,808 | - |
| Reserves | 24 | 270,682 | 516,610 |
| Retained Earnings/Accumulated Losses | 14 | (24,842,922) | (21,846,851) |
| **TOTAL DEFICIT** | | (5,644,613) | (3,729,821) |

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

# VECTUS BIOSYSTEMS LIMITED
## AND CONTROLLED ENTITIES
## CONSOLIDATED STATEMENT OF CASH FLOWS
### For the Year Ended 30 June 2020

| | Note | 2020<br>$ | 2019<br>$ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| R&D tax offset rebate received | | 383,629 | 899,942 |
| Payments to suppliers and employees | | (3,254,628) | (1,825,308) |
| Interest received | | 1,186 | 220 |
| Interest paid | | (131,734) | (115,468) |
| ***Net cash used in operating activities*** | 22(b) | (3,001,547) | (1,040,614) |
| | | | |
| **Cash flows from investing activities** | | - | - |
| | | | |
| **Cash flows from financing activities** | | | |
| Lease payments | | (6,213) | (3,525) |
| Loan borrowings | | 383,500 | 1,795,500 |
| Convertible Notes Issue * | | 6,969,036 | - |
| Cost of Convertible Notes Issue | | (319,036) | - |
| Repayment of loans * | | (1,383,629) | (750,000) |
| ***Net cash provided by financing activities*** | | 5,643,658 | 1,041,975 |
| | | | |
| Net increase in cash and cash equivalents | | 2,642,111 | 1,361 |
| Cash and cash equivalents at the beginning of the financial year | | 43,172 | 41,811 |
| **Cash and cash equivalents at the end of the financial year** | 22(a) | 2,685,283 | 43,172 |

* Includes $1,000,000 of convertible notes issued to M Stang in part satisfaction of his loan to the Group

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

## VECTUS BIOSYSTEMS LIMITED
## AND CONTROLLED ENTITIES
## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## For the Year Ended 30 June 2020

| | Note | Equity | Retained Earnings | Reserves | Total attributable to equity holders of the entity |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| **Balance at 1 July 2018** | | 17,600,420 | (20,250,571) | 393,752 | (2,256,399) |
| **Comprehensive Income** | | | | | |
| Loss for the year | | - | (1,596,280) | - | (1,596,280) |
| **Total comprehensive loss for the year** | | - | (1,596,280) | - | (1,596,280) |
| **Transactions with owners** | | | | | |
| Share-based payment reserve | | - | - | 122,858 | 122,858 |
| **Balance at 30 June 2019** | | 17,600,420 | (21,846,851) | 516,610 | (3,729,821) |
| **Balance at 1 July 2019** | | 17,600,420 | (21,846,851) | 516,610 | (3,729,821) |
| **Comprehensive Income** | | | | | |
| Loss for the year | | - | (2,996,071) | - | (2,996,071) |
| **Total comprehensive loss for the year** | | - | (2,996,071) | - | (2,996,071) |
| Convertible Notes - Equity | 12 | 1,065,808 | - | - | 1,065,808 |
| **Transactions with owners** | | | | | |
| Shares issued during the year | 13 | 314,085 | - | - | 314,085 |
| Share issue costs | 13 | (52,686) | - | - | (52,686) |
| of options | | | | | |
| Movements in share-based payment reserve | | - | - | (245,928) | (245,928) |
| **Balance at 30 June 2020** | | 18,927,627 | (24,842,922) | 270,682 | (5,644,613) |

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

### 1. Summary of Significant Accounting Policies

**Corporate information**

The financial report of Vectus Biosystems Limited (the Group) for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of the Directors on 26 August 2020.

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 $2,996,071 for the year ended 30 June 2020 (2019: $1,596,280) and net equity deficit has moved from $3,729,821 as at 30 June 2019 to $5,644,613 as at 30 June 2020. The operating cash burn rate for the year ended 30 June 2020 was $3,001,547 (2019: $1,040,614). The cash balance as at 30 June 2020 was $2,685,283. If the 2020 cash burn rate continues during the year ending 30 June 2021, 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 demonstrated in previous years its ability to raise capital when needed. Vectus is currently engaged in strategic discussions and certain proposals for the funding of significant work in large scale potential markets . Vectus also expects to receive the 2020 R&D cash back in the March 2021 quarter. The Company has the ability to vary certain expenditure, by either accelerating or deferring clinical related investments as 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 Annual Financial Report.

**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 16 Leases*
The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases.
The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

As a result of this, the adoption of the above standard 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 are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

**(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.

**(i) Lease liabilities**

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

**(j) Right-to-use assets**

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

**(k) Financial Instruments**

<u>Financial assets</u>
Financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either: i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit; or ii) designated as such upon initial recognition, where they are managed on a fair value basis or to eliminate or significantly reduce an accounting mismatch. Except for effective hedging instruments, derivatives are also categorised as fair value through profit or loss. Fair value movements are recognised in profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets, principally equity securities, that are either designated as available-for-sale or not classified as any other category. After initial recognition, fair value movements are recognised in other comprehensive income through the available-for-sale reserve in equity. Cumulative gain or loss previously reported in the available-for-sale reserve is recognised in profit or loss when the asset is derecognised or impaired.

Debt and Equity Instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual agreement.

Interest

Interest is classified as an expense consistent with the balance sheet classification of the related debt or equity instruments.

Financial liabilities

The Group classifies its financial liabilities as measured at amortised cost. The Group does not use derivative financial instruments in economic hedges of currency or interest rate risk.

These financial liabilities include the following items:
Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

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, 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.

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.

**(l) 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.

**(m) Convertible Notes**

Convertible notes are separated into liability and equity components based on the terms of the contract.

On issuance of the convertible notes, the fair value of the liability component is determined using an equivalent market rate. This amount is classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in equity. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

Based on the above, classification of Convertible Notes value is in accordance with AASB 9 as per note 12.

**(n) 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.

**(o) 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.

**(o) Intangible Assets (continued)**

**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.

**(p) 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.

**(q) 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.

**(r) 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.

**(s) Earnings per share**

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## 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.

*Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black & Scholes model, with the applicable assumptions. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| **3. Other Income** | | |
| Finance revenue | 1,186 | 220 |
| ATO cash flow boost | 50,000 | - |
| | 51,186 | 220 |

| **4. Loss from Ordinary Activities** | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| Loss from ordinary activities before income tax includes the following items of expense: | | |
| **Expenses** | | |
| ***Depreciation and amortisation expense*** | | |
| Depreciation of property, plant and equipment | 19,516 | 22,627 |
| | 19,516 | 22,627 |
| ***Employment expenses and directors' remuneration*** | | |
| Base salary and fees | 886,092 | 886,993 |
| Superannuation and statutory oncosts | 69,681 | 71,083 |
| Share based payment expense | 20,246 | 122,858 |
| Other employee expenses | 5,888 | 8,403 |
| Transfers from employee entitlements provisions | 52,584 | 36,431 |
| Total employment expense | 1,034,491 | 1,125,768 |
| ***Finance Costs*** | | |
| Borrowing cost - convertible notes | 561,906 | - |
| Interest on Directors' loan | 130,431 | 115,571 |
| Other finance costs | 23,998 | 7,594 |
| | 716,335 | 123,165 |
| ***Research & Development expense*** | | |
| Research and Development expense | 309,618 | 192,375 |
| Patent costs | 403,383 | 519,422 |
| Total Research & Development expense | 713,001 | 711,797 |

**5. Income Tax**

**(a) Income tax expense**

| | 2020 | 2019 |
|---|---|---|
| The prima facie income tax benefit on pre-tax accounting loss reconciles to the income tax benefit in the financial statements as follows: | | |
| Loss for year before income tax benefit | (3,379,700) | (2,496,222) |
| Income tax benefit calculated at 30% | (1,013,910) | (748,867) |
| Temporary differences and tax losses not recognised | 998,910 | 748,867 |
| Other permanent differences | | |
| Non assessable Cash Flow Boost | 15,000 | |
| R&D tax offset rebate received | 383,629 | 899,942 |
| Income tax benefit | 383,629 | 899,942 |

**(b) Deferred tax balances not recognised**

Calculated at 30% not brought to account as assets:

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| ***Deferred tax assets relating to tax losses*** | | |
| Revenue tax losses available for offset against future tax income | 4,057,385 | 2,880,833 |
| **Net deferred tax asset not recognised in respect of tax losses** | 4,057,385 | 2,880,833 |
| ***Deferred tax assets relating to temporary differences*** | | |
| Provision for employee entitlements | 105,219 | 89,444 |
| Accruals | 9,000 | 9,000 |
| Share Issue Costs | 3,161 | 52,702 |
| | 117,380 | 151,146 |
| **Net deferred tax asset not recognised in respect of temporary differences** | 117,380 | 151,146 |

**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.

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| **6. Cash and Cash Equivalents** | | |
| Cash on Hand | 860 | 860 |
| Cash at Bank and Term Deposits | 2,684,423 | 42,312 |
| | 2,685,283 | 43,172 |
| **7. Other Current Assets** | | |
| Prepayments | 124,603 | 84,268 |
| Goods and Services Tax | 78,647 | 31,539 |
| | 203,250 | 115,807 |

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

| | 2020 $ | 2019 $ |
|---|---|---|
| **8. Property, Plant and Equipment** | | |
| Plant and Equipment | 654,566 | 596,781 |
| Less: Accumulated depreciation | (583,051) | (566,816) |
| | 71,515 | 29,965 |
| Furniture & Fittings | 15,139 | 15,139 |
| Less: Accumulated depreciation | (15,139) | (15,139) |
| | - | - |
| Office Equipment | 62,991 | 57,676 |
| Less: Accumulated depreciation | (55,793) | (52,512) |
| | 7,198 | 5,164 |
| | 78,713 | 35,129 |

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 2019 | 29,965 | - | 5,164 | 35,129 |
| Additions | 57,785 | - | 5,315 | 63,100 |
| Depreciation | (16,235) | - | (3,281) | (19,516) |
| **Balance at 30 June 2020** | 71,515 | - | 7,198 | 78,713 |
| Balance at 1 July 2018 | 35,669 | - | 10,508 | 46,177 |
| Additions | 11,579 | - | - | 11,579 |
| Depreciation | (17,283) | - | (5,344) | (22,627) |
| **Balance at 30 June 2019** | 29,965 | - | 5,164 | 35,129 |

| | 2020 $ | 2019 $ |
|---|---|---|
| **9. Current Trade and Other Payables** | | |
| Trade creditors | 606,201 | 1,119,925 |
| PAYG withholding payable | 15,202 | 16,802 |
| | 621,403 | 1,136,727 |

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

| | 2020 $ | 2019 $ |
|---|---|---|
| **10. Other current and non-current liabilities** | | |
| **A. Other current liabilities** | | |
| Accrued expenses | 454,846 | 523,193 |
| Lease liability | 20,541 | 3,860 |
| | 475,387 | 527,053 |
| **B. Other non-current Liabilities** | | |
| Lease liability | 35,180 | 4,503 |
| | 35,180 | 4,503 |

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

| | | 2020 | 2019 |
|---|---|---|---|
| | | **$** | **$** |
| **11.** | **Provisions** | | |
| **A** | **Current** | | |
| | Provision for Annual Leave | 282,733 | 240,707 |
| | Provision for Long Service Leave | 67,657 | 57,439 |
| | | 350,390 | 298,146 |
| **B** | **Non-Current** | | |
| | Provision for Long Service Leave | 340 | - |
| | | 340 | - |

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

| | | 2020 | 2019 |
|---|---|---|---|
| **12.** | **Borrowings** | | |
| | **Non-current borrowings** | | |
| | Loans from Directors | 957,371 | 1,957,500 |
| | *Interest is payable at 8% per annum* | | |
| | *Secured against R&D cash back from ATO and balance against Company's assets.* | | |
| | Convertible Notes (Notes below) | 6,202,752 | - |
| | | 7,160,123 | 1,957,500 |

**Convertible Notes**

The Convertible Note capital raising announced on 17 September 2019 was completed following approvals at the Company's 22 November2019 Annual General Meeting (AGM). Details are as follows:

**Notes**: 14,000,000 Convertible Notes, each with a face value of $0.50 each.

**Term**: 36 months until Maturity Date.

**Interest**: 6% per annum capitalised and paid on Maturity Date (or investor can elect to convert any unpaid interest on their Notes at the end of each 12-month period into VBS shares at an issue price that is the higher of (i) $0.50 and (ii) 10% below the relevant VWAP).

**Conversion**: Each Note will be redeemed for $0.50 plus any unpaid interest on that Note. Each Note may be converted into one VBS ordinary share at $0.50 per share. The investors have the right to convert their Notes at any time prior to, or on, the Maturity Date. No Note holders have yet converted their Notes into shares

**Listing and security**: The Convertible Notes will not be listed on ASX and are secured.

**Valuation**: In accordance with AASB 9, the convertible notes are presented in the balance sheet as follows:

| | 2020 | 2019 |
|---|---|---|
| | **$** | **$** |
| Face value of notes issued | 7,000,000 | - |
| Equity component | (1,065,808) | - |
| Cost of raising convertible notes (nett) | (228,158) | - |
| Interest | 496,718 | - |
| | 6,202,752 | - |

**13. Issued Capital**

| | 2020 Number of Shares | 2019 Number of Shares | 2020 $ | 2019 $ |
|---|---|---|---|---|
| Ordinary shares - fully paid | 23,654,816 | 23,379,996 | 17,861,819 | 17,600,420 |
| | 23,654,816 | 23,379,996 | 17,861,819 | 17,600,420 |

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

| | 2020 Number of Shares | 2019 Number of Shares | 2020 $ | 2019 $ |
|---|---|---|---|---|
| Balance at beginning of the year | 23,379,996 | 23,379,996 | 17,600,420 | 17,600,420 |
| Shares issued during the year | | | | |
| Shares issued to KMP | 175,000 | - | 260,975 | - |
| Other share issues | 99,820 | - | 53,110 | - |
| | 23,654,816 | 23,379,996 | 17,914,505 | 17,600,420 |
| Transaction costs relating to share issues | - | - | (52,686) | - |
| Balance at end of year | 23,654,816 | 23,379,996 | 17,861,819 | 17,600,420 |

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 2019 Annual Report.

| **14. Equity - Accumulated losses** | **2020 $** | **2019 $** |
|---|---|---|
| Accumulated loss at the beginning of the financial year | (21,846,851) | (20,250,571) |
| Loss after income tax expense for the year | (2,996,071) | (1,596,280) |
| Accumulated loss at the end of the financial year | **(24,842,922)** | **(21,846,851)** |

**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
Peter Bush
Ronald Shnier
Susan Pond

**(b)** The aggregate compensation made to key management personnel of the consolidated entity is set out below:

| | **2020** $ | **2019** $ |
|---|---|---|
| Short-term employee benefits | 369,970 | 366,838 |
| Post-employment benefits | 35,147 | 34,850 |
| Share-based payments | 14,719 | 118,832 |
| | 419,836 | 520,520 |

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

**17. Commitments**

**(a) Lease commitments - finance**

| | 2020 | 2019 |
|---|---|---|
| Committed at the reporting date and recognised as liabilities, payable: | $ | $ |
| Within one year | 95,635 | 78,246 |
| One to five years | 35,180 | 4,935 |
| | **130,815** | **83,181** |

**(b) Lease commitments - operating**

Committed at the reporting date but not recognised as liabilities, payable for the laboratory facility at North Ryde:

| | 2020 | 2019 |
|---|---|---|
| Within one year | 25,210 | 25,210 |
| One to five years | - | - |
| | **25,210** | **25,210** |

**(c) Operating Commitments**

Committed at the reporting date but not recognised as liabilities, payable:

*Research and development expenses*

| | 2020 | 2019 |
|---|---|---|
| Within one year | 606,540 | 184,889 |
| One to five years | - | - |
| | **606,540** | **184,889** |

**(d) Capital expenditure commitments**

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

**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.

| | | Ownership interest | |
|---|---|---|---|
| | **Principal place of business/** | **2020** | **2019** |
| **Name** | **Country of Incorporation** | **%** | **%** |
| **Accugen Pty Limited** | Australia | 100% | 100% |

**19. Subsequent events**

There have been no matters or circumstances, which have arisen since 30 June 2020 that have significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to 30 June 2020, of the Group; or

(b) the results of those operations;

(c) the state of affairs, in the financial years subsequent to 30 June 2020, of the Group.

## 20. Remuneration of auditors

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

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| *Audit Services - UHY Haines Norton* | | |
| Audit and review of financial statements | 41,100 | 39,200 |
| | 41,100 | 39,200 |

## 21. Parent entity information

| | 2020 | 2019 |
|---|---|---|
| | **$** | **$** |
| Loss after income tax | (2,913,501) | (1,507,446) |
| Total comprehensive loss | (2,913,501) | (1,507,446) |
| Total current assets | 4,234,716 | 1,369,871 |
| Total assets | 4,305,155 | 1,395,128 |
| Total current liabilities | 1,441,869 | 1,897,370 |
| Total liabilities | 8,637,172 | 3,894,922 |
| Equity | | |
| Issued capital (net of share issue cost) | 18,927,627 | 17,600,420 |
| Reserves | 270,682 | 516,610 |
| Retained earnings/accumulated losses | (23,530,325) | (20,616,824) |
| Total equity | (4,332,016) | (2,499,794) |

*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 2019 and 30 June 2020.

*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:

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| Cash at bank and on hand | 2,685,283 | 43,172 |
| | 2,685,283 | 43,172 |

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

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| Operating loss after income tax | (2,996,071) | (1,596,280) |
| **Non cash/non-operating items included in profit and loss** | | |
| Depreciation and amortisation | 19,516 | 22,627 |
| Convertible Notes interest | 496,718 | - |
| Amortisation of cost of Convertible Notes issue | 65,188 | |
| Share based payments | 32,156 | 122,858 |
| **Changes in assets and liabilities** | | |
| (Increase) / Decrease in other assets | (87,443) | (7,512) |
| Increase in trade creditors | (532,528) | 135,361 |
| Increase in other creditors and accruals | (51,666) | 245,900 |
| Increase in employee entitlement provision | 52,584 | 36,432 |
| **Net cash used in operating activities** | (3,001,547) | (1,040,614) |

## 23. Operating Segments

The consolidated group had no reportable segments during the year.

## 24. Reserves

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| **Share based payments reserve** | | |
| Balance at beginning of financial year | 516,610 | 393,752 |
| Share based payments during the year allocated to: | | |
| Employees and consultant | 53,438 | 4,026 |
| Directors | 14,719 | 118,832 |
| Utilised for share issue | (314,085) | - |
| Balance at end of financial year | 270,682 | 516,610 |

| **25. Loss per share** | **2020** $ | **2019** $ |
|---|---|---|
| **Basic loss per share (cents per share)** | (12.73) | (6.83) |
| **Diluted loss per share (cents per share)** | (12.73) | (6.83) |
| Loss used to calculate basic loss per share | (2,996,071) | (1,596,280) |
| Loss used to calculate diluted loss per share | (2,996,071) | (1,596,280) |
| Weighted average number of ordinary shares used to calculate basic loss per share | 23,533,025 | 23,379,993 |
| Weighted average number of ordinary shares used to calculate diluted loss per share | 23,533,025 | 23,379,993 |

**26. Financial instruments disclosures**

(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;
Loan from Directors;
Convertible Notes; 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 :

| | **2020** $ | **2019** $ |
|---|---|---|
| Bank deposits | 2,684,423 | 42,312 |

(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.

| ***Maturity Analysis - 2020*** | **Cash flows** | **< 1 year** | **1 - 3 years** | **Total** | **Carrying amount** |
|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 2,685,283 | 2,685,283 | - | 2,685,283 | 2,685,283 |
| **TOTAL** | **2,685,283** | **2,685,283** | **-** | **2,685,283** | **2,685,283** |
| **Financial liabilities** | | | | | |
| Trade Creditors | 621,403 | 621,403 | - | 621,403 | 621,403 |
| Accruals | 454,846 | 454,846 | - | 454,846 | 454,846 |
| Borrowings | 8,305,743 | - | 8,305,743 | 8,305,743 | 7,160,123 |
| **TOTAL** | **9,381,992** | **1,076,249** | **8,305,743** | **9,381,992** | **8,236,372** |
| **NET MATURITY** | **(6,696,709)** | **1,609,034** | **(8,305,743)** | **(6,696,709)** | **(5,551,089)** |

| ***Maturity Analysis - 2019*** | **Cash flows** | **< 1 year** | **1 - 3 years** | **Total** | **Carrying amount** |
|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 43,172 | 43,172 | - | 43,172 | 43,172 |
| **TOTAL** | **43,172** | **43,172** | **-** | **43,172** | **43,172** |
| **Financial liabilities** | | | | | |
| Trade Creditors | 1,136,727 | 1,136,727 | - | 1,136,727 | 1,136,727 |
| Accruals | 523,193 | 523,193 | - | 523,193 | 523,193 |
| Borrowings | 2,427,300 | - | 2,427,300 | 2,427,300 | 1,957,500 |
| **TOTAL** | **4,087,220** | **1,659,920** | **2,427,300** | **4,087,220** | **3,617,420** |
| **NET MATURITY** | **(4,044,048)** | **(1,616,748)** | **(2,427,300)** | **(4,044,048)** | **(3,574,248)** |

(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 :

| 2020 | Weighted Average Rates | Floating rates | Fixed rates | Non-interest bearing | Total |
|---|---|---|---|---|---|
| | % | $ | $ | $ | $ |
| **Financial Assets** | | | | | |
| Cash and cash equivalents | 1.0% | 2,685,283 | - | - | 2,685,283 |
| **Total** | | **2,685,283** | **-** | **-** | **2,685,283** |
| **Financial liabilities** | | | | | |
| Trade Creditors | 0.0% | - | - | 621,403 | 621,403 |
| Other payables and accruals | 0.0% | - | - | 454,846 | 454,846 |
| Loans from Directors | 8.0% | - | 957,371 | - | 957,371 |
| Convertible Notes | 6.0% | - | 6,202,752 | - | 6,202,752 |
| **TOTAL** | | **-** | **7,160,123** | **1,076,249** | **8,236,372** |
| **Net financial assets (liabilities)** | | **2,685,283** | **(7,160,123)** | **(1,076,249)** | **(5,551,089)** |

| 2019 | Weighted Average Rates | Floating rates | Fixed rates | Non-interest bearing | Total |
|---|---|---|---|---|---|
| | % | $ | $ | $ | $ |
| **Financial Assets** | | | | | |
| Cash and cash equivalents | 1.0% | 43,172 | - | - | 43,172 |
| **Total** | | **43,172** | **-** | **-** | **43,172** |
| **Financial liabilities** | | | | | |
| Trade Creditors | 0.0% | - | - | 1,136,727 | 1,136,727 |
| Other payables and accruals | 0.0% | - | - | 523,193 | 523,193 |
| Borrowings | 8.0% | - | 1,957,500 | - | 1,957,500 |
| **TOTAL** | | **-** | **1,957,500** | **1,659,920** | **3,617,420** |
| **Net financial assets (liabilities)** | | **43,172** | **(1,957,500)** | **(1,659,920)** | **(3,574,248)** |

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**

| 2020 | Carrying amount | +0.5% interest Profit & Loss | -0.5% interest Profit & Loss |
|---|---|---|---|
| | $ | $ | $ |
| Cash at bank | 2,685,283 | 13,426 | (13,426) |
| Term deposits | - | - | - |
| | | 13,426 | (13,426) |
| Tax charge of 30% | | (4,028) | 4,028 |
| Post tax profit increase / (decrease) | | 9,398 | (9,398) |

| 2019 | Carrying amount | +0.5% interest Profit & Loss | -0.5% interest Profit & Loss |
|---|---|---|---|
| | $ | $ | $ |
| Cash at bank | 43,172 | 216 | (216) |
| Term deposits | - | - | - |
| | | 216 | (216) |
| Tax charge of 30% | | (65) | 65 |
| Post tax profit increase / (decrease) | | 151 | (151) |

**27. Contingent Liabilities**

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

## DIRECTORS' DECLARATION

In the opinion of the Directors:

1 the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

2 the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;

3 the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and

4 there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

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

On behalf of the Board of Directors

**Maurie Stang**
Non-Executive Deputy Chairman

Sydney, 31 August 2020

UHY Haines Norton
Chartered Accountants

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**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 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, 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 2020 and of its financial performance for the year ended on that date; 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 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 $2,996,071 during the financial year ended 30 June 2020 and, as of that date, the Group's net liabilities balance was $5,644,613. 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.

## 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 Group has a history of making losses. The net loss for 2020 was \$3.00 million (2019: \$1.60 million). Therefore, there is an increased risk that the Group may not have the ability to continue as a going concern.<br><br>At 30 June 2020, the Group had \$2.69 million (2019: \$0.04 million) of cash in the bank. The net cash outflow from operating activities in 2020 was \$3 million (2019: \$1.04 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>▪ Reviewed the cash flow projections for 18 months from the end of the financial year ended 30 June 2020.<br><br>▪ Assessed the significant non-routine forecast cash inflows and outflows including the expected impact of a potential 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>▪ Evaluated 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>▪ Discussed with the directors and management the capital raising initiatives, their current status, including the timeline and their uncertainties. |

## 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 (FY20: $0.71 million, FY19 $0.71 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.<br><br>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>▪ Discussed with management their accounting policies for expensing and capitalising the Group's research and development costs.<br><br>▪ Updated 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>▪ Discussed with management 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>▪ Considered 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. |

**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 2020, 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, with the exception of the Remuneration Report and our related assurance opinion.

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 Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

**Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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.

- 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, actions taken to eliminate threats or safeguards applied.

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 year 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.

**Report on the Remuneration Report**

*Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 9 to 13 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Vectus Biosystems Limited, for the year ended 30 June 2020, 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.

**Franco Giannuzzi**
Partner
Sydney
31 August 2020

**UHY Haines Norton**
Chartered Accountants

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