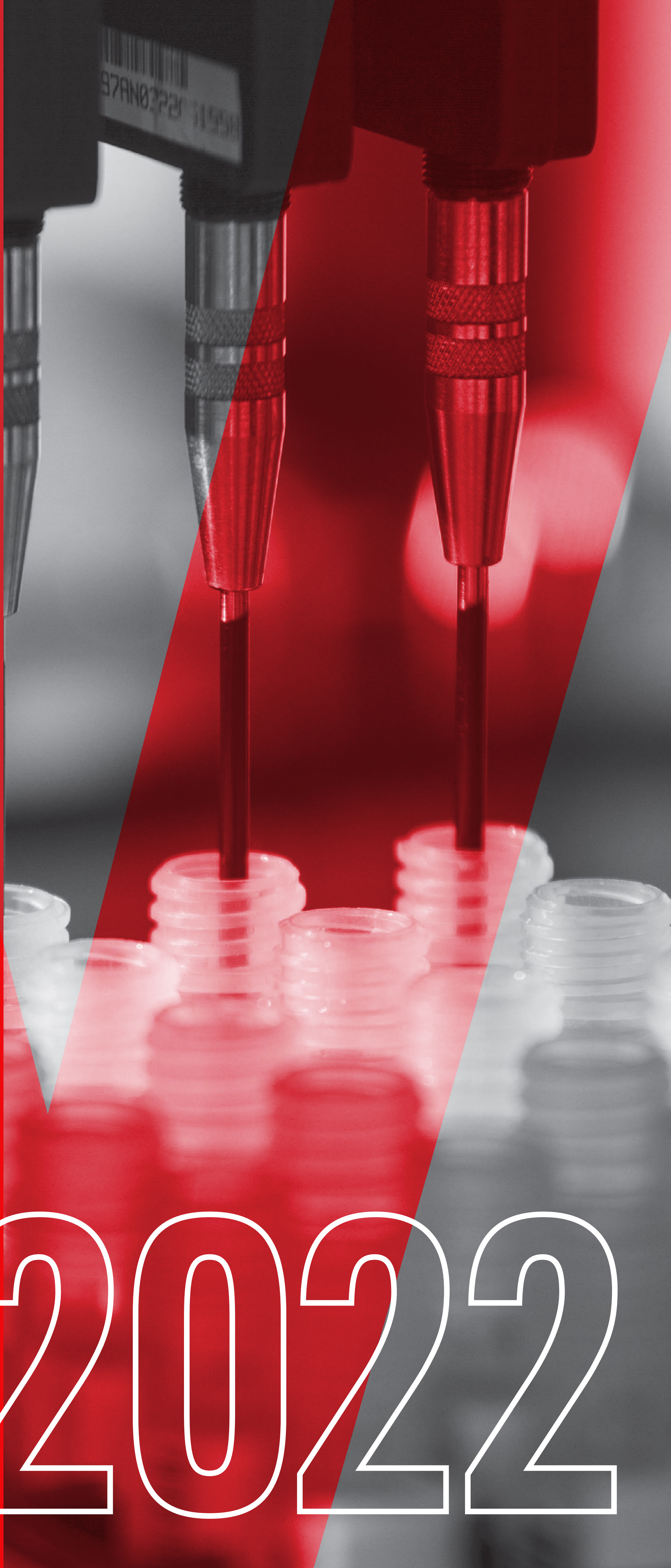
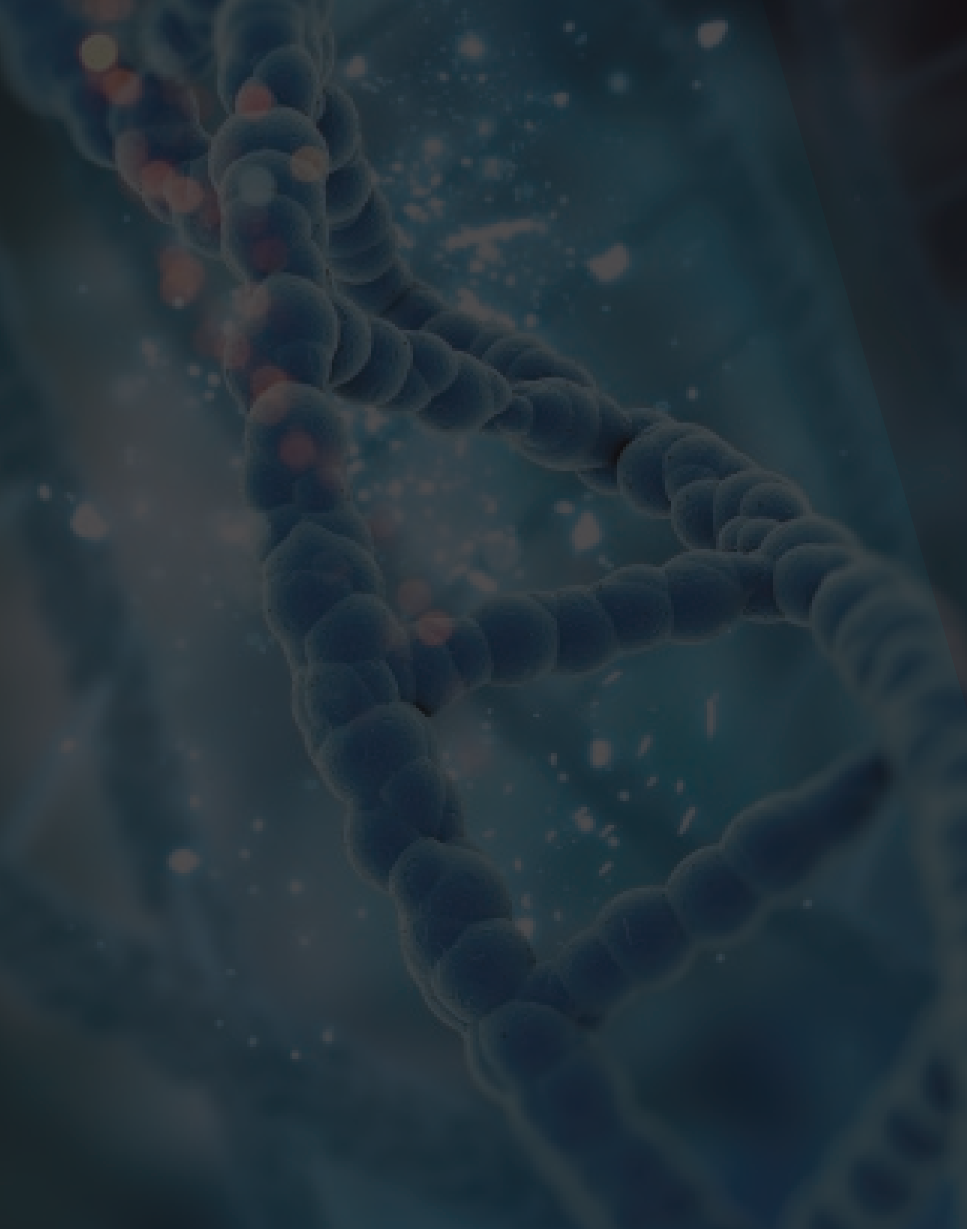
Annual Report

VECTUS BIOSYSTEMS LIMITED
AND CONTROLLED ENTITIES
ACN 117 526 137



2022

VECTUS BIOSYSTEMS



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Chairman's Report

01

It is my pleasure to present the Company's Annual Report for the year ended 30 June 2022. The last year has seen a number of important advancements achieved by Vectus, and a significant milestone has been achieved with progress in the Phase Ia human safety clinical trial in collaboration with the Nucleus Network in Melbourne and Syneos Health, which were completed in September 2022. The Company's lead cardiovascular candidate, VB0004, is supported by a broad portfolio of issued patents.

In the past two years Vectus has successfully completed the good manufacturing practice work on VB0004, which has progressed from pre-clinical and toxicology trials into a Phase I human clinical trial. On 14 September 2022 the Company announced to the market that it had completed all protocol requirements of both the Single Ascending Dose (S.A.D.) and the Multiple Ascending Dose (M.A.D.) segments of its first-in-human trial. The Trial Safety Committee has reviewed data from all five planned S.A.D. cohorts as well as all three planned M.A.D. cohorts. The Phase Ia trial has established an impressive safety profile for VB0004, with a maximum tolerated single dose of 300mg and no significant adverse events seen in M.A.D. studies at 10mg, 30mg or 100mg administered daily over a 14-day period. Also established are consistent pharmacokinetics of six-to-eight hours to achieve maximal plasma concentration and a half life in excess of 10 hours.

The completion of the Phase Ia trial is a significant milestone in proving the safety of Vectus' antifibrotic / antihypertensive drug, and is particularly pleasing as the Company moves towards the next phase of testing of a compound that can have a significant and widespread, global positive impact on disease, the pathology of which has many aetiologies.

Vectus' drug library covers over 1,000 compounds and the Company has selected additional emerging leads to more specifically address liver fibrosis (VB4-A32) and lung fibrosis (VB4-A79).

Vectus continues its research into the possible opportunity to target the fibrotic damage resulting, in some cases, from COVID-19. VB0004 has the potential for its orally-active small molecules to play a role in this unmet need.

The key to the Company's ability to meet the needs of pharmaceutical companies is Vectus' success in converting peptides into small molecule orally-active drugs. Importantly, the Company's drug candidates have the potential to attract first-in-class status, and therefore the potential for higher levels of re-imbursement on the basis of being innovator compounds that address unmet needs. Vectus' drugs are targeting some of the largest pharmaceutical franchises in the world. Fibrotic diseases can account for up to 40% of the world's current mortality rate. The Company's initial human clinical trial targeted the validation of safety and tolerance. Further studies are examining the efficacy of VB0004 to treat various conditions such as hypertension and the damage that this induces in the heart and kidney.

Commercialisation

Following the successful completion of the Phase Ia human trial, Vectus will increase its dialogue with some of the world's leading pharmaceutical companies and regional mid-sized firms. The Company's objective is to partner with one or more companies via a licencing programme focusing initially on VB0004. The additional compounds also present an attractive commercial opportunity for Vectus, and clinical success in any one of the Company's compounds is likely to generate increased interest by pharmaceutical companies with particular interest in the franchises and disease states that Vectus addresses.

Particularly in Asia, liver fibrosis represents an important market because of the significance of hepatitis in this region. Whilst new drugs have become available to deal with this viral infection, they do not reverse existing damage and, in many cases, the fibrosis can be progressive. The Company's compound ideally complements these new drugs by potentially arresting progression and reversing damage in a clinically-significant way. This represents, both socially and financially, a very large unmet need, and could be a transformational therapy of great significance.

Vectus' Accugen platform, comprising reagents and software that quantitate polymerase chain reactions (qPCR), has been instrumental in the rapid development of the Company's lead compounds and library, and advancements have been made over the last 12 months. Vectus continues discussions in relation to the introduction of its consumables and software into the qPCR market. This novel and well-patented platform is owned in its entirety by the Company.

Intellectual Property (IP) Portfolio

Vectus continues to successfully grow and consolidate its IP portfolio, both in terms of scope and the increasing number of granted patents targeting high-value unmet needs across multiple disease states in major international territories. This expanded portfolio of granted patents increasingly affords the Company a potentially-leading position in treating fibrotic disease. Vectus believes that its proprietary small molecules will be well positioned as first-in-class therapeutics with attractive reimbursement and long patent protection.

The Company's patent portfolio encompasses claims covering compositions of matter, methods of use and methods of manufacture. Patents have been filed, and secured, in all major jurisdictions and in a number of minor, but strategically important, jurisdictions. For patents covering mimetics directly relevant to Vectus' drug development programme, the remaining patents have lives ranging from 12 to 15 years, excluding any patent term extension (up to five years) that may apply following registration of a pharmaceutical product with relevant regulatory authorities.

People

The Board's sincere gratitude goes to Dr Karen Duggan and her team for their work during the past year in moving VB0004 through the important Phase Ia stage during a period of unprecedented medical challenges because of COIVID-19. Thank you for the efforts and guidance from the Board members in working towards success and growth for Vectus. The Company's shareholders have been active in their support during this exciting phase of Vectus' development. We look forward to progressing our activities and growth with the objective of contributing in a meaningful way to society, patients, our stakeholders and the delivery of improved healthcare worldwide.

Ron Shnier
Chairman

SECTION 02

Review of Operations

for the 2021-22 Financial Year

02

Vectus Biosystems Limited (Vectus or the Company) is pleased to report its results for the year ended 30 June 2022.

Overview

The Company has developed novel treatments for fibrosis and high blood pressure, which include potential treatments for four of the major indications in the fibrotic franchise, namely heart, kidney, liver and lung diseases. In recent years Vectus 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. The Company's increased expenditure in the current year is directed to the human Phase I Clinical Trials. The yield from the good manufacturing practice (GMP) production of VB0004 has validated the attractive cost per dose profile of Vectus' orally administered compound. The Company's strategy is to develop and perform early validation of its drug candidates to the point that they become commercially attractive to potential pharmaceutical partners.

During the year Vectus continued to successfully progress its clinical, pre-clinical and research activities despite the impact of the COVID-19 pandemic. The COVID-19 closures and working constraints continued to lengthen the time frames for the Phase I trial for VB0004. The trial was registered on the Clinical Trials Protocol Registration and Results Systems (ClinicalTrials.gov), and provided with the identifier NCT04925050. The trial site for Phase I is Nucleus Network (Alfred Hospital Melbourne) and, the Single Ascending Dose (S.A.D.) and Multiple Ascending Dose (M.A.D.) components were completed in the third quarter of 2022, and reported to ASX on 14 September 2022. On 23 August 2021 Vectus announced the commencement of the first two-milligram dose in the S.A.D. component of its Phase I / IB trial entitled:

"A phase I/Ib, first-time-in-human, single centre, double blind, randomised, placebo-controlled, dose-escalating study of the safety, tolerability and pharmacokinetics of single and repeat doses of VB0004 administered orally to healthy volunteers; and to patients with mild to moderate hypertension with low cardiovascular risk".

During the past year, the five planned S.A.D. cohorts were completed, with no significant adverse events reported. The S.A.D. segment of the trial involved doses ranging from two milligrams in Cohort 1 to 300 milligrams in Cohort 5. On 14 September 2022 the Company announced that all of the segments of its first-in-human M.A.D. trial had been completed, with no significant adverse events reported, adding again to the impressive safety record of VB0004.

VB0004 represents a first-in-class drug that could prevent and, unlike known competitors in this area, reverse fibrosis. Fibrosis is the process that causes organ failure in damaged or diseased hearts, lungs and kidneys. Vectus continues its research into the possible opportunity to target the fibrotic damage resulting, in some cases, from COVID-19.

Other Compounds

Following the detailed investigation of the mechanisms involved in the development of hepatic fibrosis in the rat models of fibrosis employed by the Company, the data obtained demonstrated multiple and significant parallels with human disease. Detailed investigation into how VB4-A32 reverses hepatic fibrotic damage has elucidated several novel mechanisms of action. Work continues on pulmonary fibrosis and VB4-A79, the molecule that Vectus has found reverses fibrosis in the bleomycin-treated rat (the most used animal model of pulmonary fibrosis). If the Phase I clinical trial confirms the pre-clinical safety profile of VB0004 in humans, the Company will be able to accelerate progress with other compounds, such as VB4-A32, through GMP synthesis and Investigational New Drug toxicology studies to human Phase I clinical trials.

Review of Operations
continued

Intellectual Property Portfolio

Vectus continues to successfully grow and consolidate its intellectual property portfolio, both in terms of scope and the increasing number of granted patents targeting high-value unmet needs across multiple disease states in major international territories. This expanded portfolio of granted patents increasingly affords the Company a potentially leading position in treating fibrotic disease. Vectus believes that its proprietary small molecules will be well positioned as first-in-class therapeutics with attractive reimbursement and long patent protection. Patents have been filed, and secured, in all major jurisdictions and in several minor, but strategically important, jurisdictions. For patents covering mimetics directly relevant to the Company's drug development programme, remaining patent life ranges from 13 to 16 years, excluding any patent term extension (up to five years) that may apply following registration of a pharmaceutical product with relevant regulatory authorities.

There was a significant increase in the number of granted patents during the year. Vectus has received notices of grant of the patent covering pulmonary fibrosis for VB4-A79 and its related compounds from Mexico and South Africa, while notification of acceptance has been received from South Korea. These compounds have shown efficacy in treating liver fibrosis in animal models. The patents covering VB0002, VB0003, VB0005 and their associated libraries have been received, and, in total, more than 700 unique compounds have now been granted in the United States of America as well the Russian Federation. The patent covering the method of synthesis for VB0004 has been granted by Hong Kong. The Company received notices of grant of patents covering VB0004, the T series of compounds, and VB4-A32 and its related compounds, from India. Notice of grant of the patents covering the P series of compounds, and VB4-A32 and its related compounds, has been received from Malaysia. The patent relating to PCR quantitation by Accugen has been granted by Thailand. The patent relating to the probe method of PCR quantitation by Accugen has also been granted by South Korea.

Accugen

During the year Vectus has worked to enhance its 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 the Company's wholly-owned subsidiary, Accugen Pty Limited. The technology offers a time, cost and accuracy benefit compared with currently-available systems. Activities in Vectus' commercialisation programme, which comprises a combination of direct sales, distribution partnerships and licencing opportunities, have broadened the potential market for the Accugen product. Opportunities are being worked on for the AccuCal™ and RealCount™ products for applications related to food safety, which is a large and growing market. The Accugen reagent (AccuCal-D™) and software evaluation by internationally-renowned research groups continue for possible utility in diagnostic tests. The Company continues to follow 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

Now that the Phase Ia human trial has been completed, Vectus will increase its dialogue concerning VB0004 with some of the world's leading pharmaceutical companies and regional mid-sized firms. The Company continues to receive enquiries from industry participants who recognise the significant potential of Vectus' novel anti-fibrotic compounds. Feedback from all levels of the industry indicates the potential for significant transactions given successful completion of the Phase Ia human trial for VB0004.

Finance

The Vectus Group, being Vectus and Accugen, incurred a loss for the year after income tax of $3,993,775 in the year ended 30 June 2022 (2021: $3,861,244 (re-stated)). Operating expenses were $5,293,856 in the 2021-22 financial year compared to $4,879,239 in the 2020-21 financial year. A major portion of the funds expended during the year were largely in connection with the Phase I human clinical trials for VB0004 and advancing the library of the Company's other drugs.

During the year Vectus issued 4,602,431 fully paid ordinary shares to convertible note holders following the conversion of 4,380,000 convertible notes, at a conversion price of $0.50 per note. In relation to the accumulated interest on these notes, at an interest rate of 6% per annum, the interest was paid as a total of 222,431 shares calculated as provided for in the Convertible Note Deed.

General

The Company has been successful during the S.A.D. segment of the trials and has achieved a positive outcome in the M.A.D. phase of its human clinical trial. Vectus believes that VB0004 and the additional emerging leads have the potential to address large-scale, unmet medical needs, drive improved healthcare and achieve these outcomes in the context of lower overall costs to the healthcare system, whilst driving shareholder value in parallel. The Company remains in active dialogue with potential trade partners, which could lead to multiple international licencing opportunities.

Karen Duggan

Chief Executive Officer and Executive Director

SECTION 03

Directors' Report

03

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 2022.

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 after tax of the Group for the 2022 financial year amounted to $3,993,775 (2021: Re-stated loss $3,861,244).

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

On 7 September 2022 Vectus Biosystems Limited issued a total of 763,529 fully paid ordinary shares, as set out below:

- A total of 680,000 fully paid ordinary to two covertible note holders following the conversion of 680,000 notes, at a conversion price of $0.50 per note.
- In relation to the accumulated interest on these notes, at an interest rate of 6% per anum, the two note holders have elected to have the interest paid as 83,529 fully paid ordinary shares calculated at $0.77 per share.

On 28 September 2022 Vectus Biosystems Limited issued a total of 10,218,207 fully paid ordinary shares, as set out below:

- A total of 8,940,000 fully paid ordinary to twenty covertible note holders following the conversion of 8,940,000 notes, at a conversion price of $0.50 per note.
- In relation to the accumulated interest on these notes, at an interest rate of 6% per anum, the twenty note holders have elected to have the interest paid as 1,278,207 fully paid ordinary shares calculated at $0.67 per share

Other than those stated above, 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.

Directors' Report

continued

SECTION 03

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the consolidated entity during the financial year.

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.

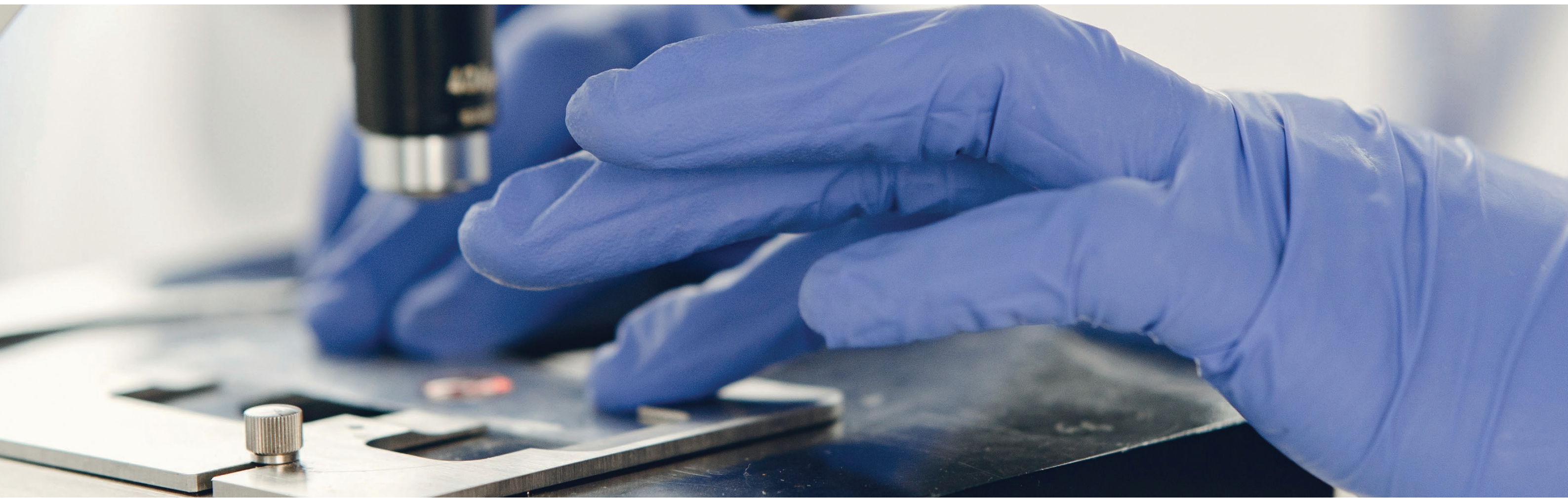
Indemnity and insurance of auditor

The Company has agreed to indemnify the auditor, UHY Haines Norton, to the extent permitted by law.

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's (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.

Dr Ronald Shnier
Non-Executive Chairman

Dr Ronald Shnier completed his 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. He is currently the Chief Medical Officer of I-MED Radiology network.

Directorships held in other listed entities in the past three years: none

Appointed to the Board: 2 September 2015

Mr Maurie Stang
Non-Executive Deputy Chairman

Mr Maurie Stang has more than three decades of experience building and managing companies in the healthcare and biotechnology industry in Australia and internationally. His strong business development and marketing skills have resulted in the successful commercialisation of intellectual property across global markets.

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 until 1 July 2022 (Deputy Chairman since 1 July 2022) and a member of its Board since 14 November 2000 and Non-Executive Chairman of Aeris Environmental Ltd (ASX:AEI) since 24 July 2002.

Appointed to the Board: 12 December 2005

Directors’ Report

continued

SECTION 03

Dr Karen Duggan
Executive Director and Chief Executive Officer

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

Directorships held in other listed entities in the past three years: none

Appointed to the Board: 4 September 2006

Mr Peter Bush
Non-Executive Director

Mr Peter Bush (BCom, CA) previously acted as the Chief Financial Officer and Company Secretary of Vectus and of Accugen Pty Limited. He is an experienced senior executive having held C-suite (CEO/CFO) and Director (Executive/Non-Executive) roles in various Public (ASX/Unlisted) and Private entities in Australia, the USA, Europe and Asia (Singapore). Mr Bush began his career working for five years at BDO, a global accounting and consulting firm, and has since then spent over two decades in industry, predominantly focussed on technology commercialisation, strategy, global expansion and financing, including numerous Initial Public Offerings, private and follow-on rounds. He holds a degree in Commerce from Macquarie University and a graduate diploma in Chartered Accounting from the Institute of Chartered Accountants in Australia.

Directorships held in other listed entities in the past three years: Alternate Director of Aeris Environmental Ltd (ASX:AEI) until November 2020.

Appointed to the Board: 9 July 2015

Dr Susan Pond

Non-Executive Director

Dr Susan Pond AM (MD, DSc, FRACP) has a strong scientific and commercial background, having held executive positions in the biotechnology and pharmaceutical industry for 12 years, including as Chairman and Managing Director of Johnson & Johnson Research Pty Limited (2003 to 2009 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 held academic appointments at the University of California in San Francisco and the University of Queensland before joining industry.

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

Mr Robert Waring

Company Secretary

Mr Robert Waring (BEc, CA, FCIS, FFin, FAICD) has over 40 years experience in financial and corporate roles, including over 30 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 and Xref 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: 9 July 2015

Directors' Report
continued

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 2022, and the number of meetings attended by each Director / Committee member were:

	Board of Directors Meetings	Audit & Risk Management Committee Meetings	Remuneration & Nomination Committee Meetings	Corporate Governance Committee Meetings	R&D and Innovation Committee Meetings
Number of meetings held	11	3	2	2	-
Number of meetings attended					
Ronald Shnier	11	N/A	1	N/A	-
Maurie Stang	11	3	2	N/A	N/A
Karen Duggan	11	N/A	N/A	2	-
Peter Bush	11	3	N/A	2	N/A
Susan Pond	11	3	2	2	-

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, an R&D and Innovation Committee, and a Disclosure Committee of the Board of Directors. Members acting on the Committees of the Board are:

Audit and Risk Management Committee

Peter Bush (Chair)
Maurie Stang
Susan Pond

Corporate Governance Committee

Susan Pond (Chair)
Karen Duggan
Peter Bush

Remuneration and Nomination Committee

Maurie Stang (Chair)
Ronald Shnier
Susan Pond

R&D and Innovation Committee

Susan Pond (Chair)
Karen Duggan
Ronald Shnier

Disclosure Committee

Made up of three Directors, which would normally be the Chairman (Ronald Shnier), a Non-Executive Director and the Executive Director (Karen Duggan). This Committee approves ASX announcements when the full Board is not available and did not meet during the 2021-22 financial year.

Share Registry

Boardroom Pty Limited
GPO Box 3993
Sydney, NSW 2001
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 28.

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
Ronald Shnier	308,291	-
Maurie Stang	2,591,000	-
Karen Duggan	3,278,500	-
Peter Bush	105,200	-
Susan Pond	21,500	-

Directors' Report

continued

SECTION 03

Remuneration Report (Audited)

Key Management Personnel (KMP)

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

Ronald Shnier
Maurie Stang
Karen Duggan
Peter Bush
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 but has not used their services during the year.

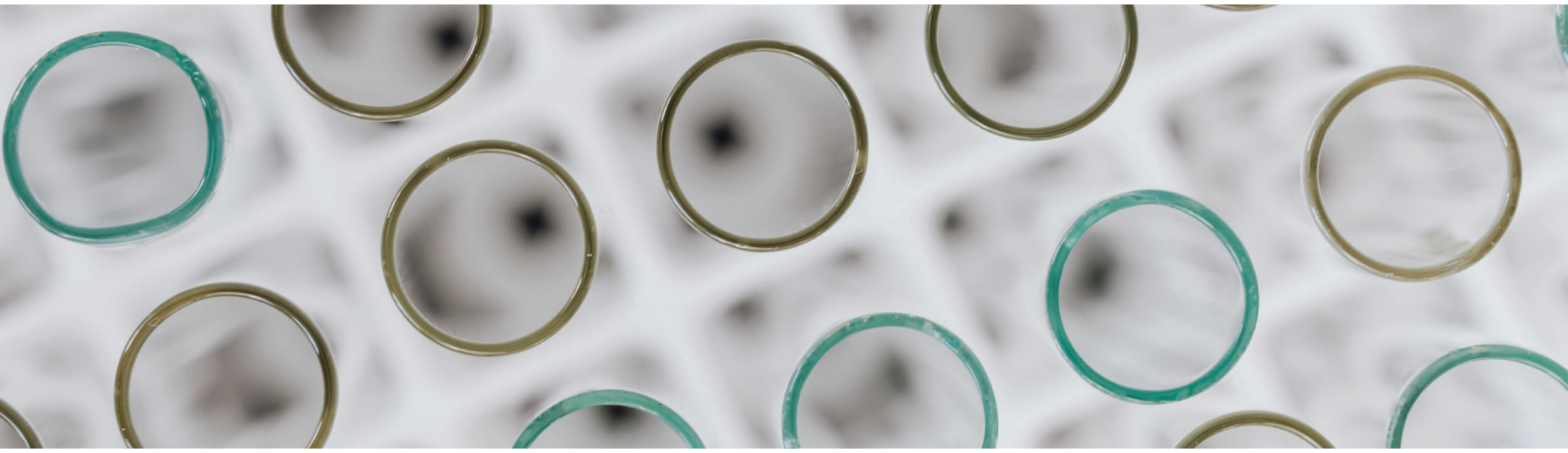
(b) Non-Executive Directors:

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:

2022	Number held 30 June 2021	Acquired during year	Sold during year	Number held 30 June 2022
Ronald Shnier	100,000	208,291	-	308,291
Maurie Stang	2,575,039	15,961	-	2,591,000
Karen Duggan	3,278,500	-	-	3,278,500
Peter Bush	105,200	-	-	105,200
Susan Pond	21,500	-	-	21,500
	6,080,239	224,252	-	6,304,491

2021	Number held 30 June 2020	Acquired during year	Sold during year	Number held 30 June 2021
Ronald Shnier	100,000	-	-	100,000
Maurie Stang	2,575,789	-	750	2,575,039
Karen Duggan	3,278,500	-	-	3,278,500
Peter Bush	104,550	650	-	105,200
Susan Pond	21,500	-	-	21,500
	6,080,339	650	750	6,080,239

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:

Regional Health Care Group Pty Ltd	($) 2022	($) 2021
Corporate and administration services	128,269	142,695
Current payables	15,688	7,591

Maurie Stang is a director and shareholder of Regional Health Care Group Pty Ltd.

Aeris Environmental Ltd	($) 2022	($) 2021
Accounting services	24,552	25,619
Current payables	12,916	28,181

Maurie Stang is a director and shareholder of Aeris Environmental Ltd.

Loan from Maurie Stang, Non-Executive Deputy Chairman	($) 2022	($) 2021
Loan repaid	-	(515,080)
Interest paid on loan	35,383	75,235
Outstanding balance	442,291	442,291

Details of directors' and executive officers' remuneration for the year ended 30 June 2022

	Short-term benefits		Equity based benefits			
	Salary and Directors' fees	Post employment benefits	Shares	Options or Rights	Total	Performance Related
	$	$	$	$	$	%
Non-Executive Directors:						
Ronald Shnier*	91,815	9,018	-	-	100,833	0.0%
Maurie Stang	50,000	5,000	-	-	55,000	0.0%
Peter Bush	40,909	4,091	-	-	45,000	0.0%
Susan Pond	40,909	4,091	-	-	45,000	0.0%
Total Non-Executive Directors	223,633	22,200	-	-	245,833	
Executive Directors:						
Karen Duggan	209,046	20,885		-	229,931	0.0%
Total Executive Directors	209,046	20,885	-	-	229,931	
Total	432,679	43,085	-	-	475,764	

There were no long term benefits paid to directors and executive officers during 2022 financial year.

* Includes payment to Dr Shnier of additional fee for acting as Chairman for period from September 2019.

Back-payment for prior years included:

Directors' fees	32,725
Post employment benefit	3,108
Total	35,833

Directors' Report
continued

SECTION 03

Details of directors' and executive officers' remuneration for the year ended 30 June 2021

	Short-term benefits			Equity based benefits		
	Salary and Directors' fees	Post employment benefits	Shares	Options or Rights	Total	Performance Related
	$	$	$	$	$	%
Non-Executive Directors:						
Ronald Shnier	41,096	3,904	-	-	45,000	0.0%
Maurie Stang	50,228	4,772	-	-	55,000	0.0%
Peter Bush	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	204,458	19,424		-	223,883	0.0%
Total Executive Directors	204,458	19,424	-	-	223,883	
Total	377,974	35,908	-	-	413,882	

There were no long term benefits paid to directors and executive officers during 2021 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:	$211,654 per year plus superannuation. 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: • All unvested short term or long term benefits are forfeited. • All vested but unexercised benefits are forfeited after 90 days following cessation of employment.
Statutory entitlements:	Annual leave applies in all cases of separation. 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: (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 (ii) interfere with the relationship between the Company and its customers, employees or suppliers; or (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 five 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.

	2022	2021	2020	2019	2018
	$	$ (Re-stated)	$	$	$
Loss for the year	(3,993,775)	(3,861,244)	(2,996,071)	(1,596,280)	(2,587,296)
Basic loss per share (cents per share)	(11.97)	(13.71)	(12.73)	(6.83)	(11.07)
Dividend payments	-	-	-	-	-
(Decrease) / increase in share price (%)	(27.0%)	87.5%	111.8%	(60.0%)	(39.3%)
Total KMP remuneration as percentage of loss for the year (%)	(12%)	(11%)	(14%)	(33%)	(26%)

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	
	2022	2021
Performance rights to Peter Bush, Non-Executive Director Deferred Share Awards to Karen Duggan, Chief Executive Officer	-	-
Deferred Share Awards to Karen Duggan, Chief Executive Officer	-	-

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

	Number of shares	
	2022	2021
Peter Bush, Non-Executive Director Karen Duggan, Chief Executive Officer	-	-
Karen Duggan, Chief Executive Officer	-	-

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: 29 September 2022

SECTION 04

Auditor's Independence Declaration

04

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 lead auditor for the audit of Vectus Biosystems Limited for the year ended 30 June 2022, I declare that, to the best of my knowledge and belief, there have been:

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

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

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

UHY Haines Norton

Mark Nicholaeff
Partner
Sydney
29 September 2022

UHY Haines Norton
Chartered Accountants

SECTION 05

Consolidated Statement

of Profit or Loss and Other Comprehensive Income for the Year Ended 30 June 2022

05

	Note	2022	2021
		$	$ (Re-stated, refer note 3)
Revenue and other income	4	1,300,081	1,017,995
Administration and corporate expenses		(734,694)	(899,729)
Finance costs	5	(693,485)	(1,074,269)
Depreciation and amortisation expense	5	(20,189)	(17,416)
Employee benefits expense and directors' remuneration	5	(1,135,930)	(1,161,175)
Occupancy expenses		(173,764)	(11,318)
Research & development	5	(2,535,652)	(1,715,318)
Travel expenses		(142)	(14)
Loss before income tax benefit from continuing operations		(3,993,775)	(3,861,244)
Income tax benefit	6	-	-
NET LOSS FOR THE YEAR		(3,993,775)	(3,861,244)
TOTAL COMPREHENSIVE LOSS FOR YEAR, NET OF TAX		**(3,993,775)**	**(3,861,244)**
Loss for the year attributable to:			
Owners of Vectus Biosystems Limited		(3,993,775)	(3,861,244)
Total comprehensive loss for the year attributable to:			
Owners of Vectus Biosystems Limited		(3,993,775)	(3,861,244)
Loss per share	26		
Basic loss per share (cents per share) from continuing operations		(11.97)	(13.71)
Diluted loss per share (cents per share) from continuing operations		(11.97)	(13.71)

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

SECTION 06

Consolidated Statement

of Financial Position as at 30 June 2022

06

	Note	2022	2021
		$	$ (Re-stated, refer note 3)
Current Assets			
Cash and cash equivalents	7	1,281,341	5,778,124
Other current assets	8	2,447,404	1,127,504
TOTAL CURRENT ASSETS		**3,728,745**	**6,905,628**
Non-Current Assets			
Property, plant and equipment	9	207,508	73,353
TOTAL NON-CURRENT ASSETS		**207,508**	**73,353**
TOTAL ASSETS		**3,936,253**	**6,978,981**
Current Liabilities			
Trade and other payables	10	149,012	350,199
Other current liabilities	11A	943,598	457,443
Borrowings	13A	5,889,724	442,291
Provisions	12A	416,006	405,519
TOTAL CURRENT LIABILITIES		**7,398,340**	**1,655,452**
Non-Current Liabilities			
Provisions	12B	1,642	1,642
Borrowings	13B	-	7,191,131
Other non-current liabilities	11B	70,266	16,953
TOTAL NON-CURRENT LIABILITIES		**71,908**	**7,209,726**
TOTAL LIABILITIES		**7,470,248**	**8,865,178**
NET LIABILITIES		**(3,533,995)**	**(1,886,197)**
Equity			
Issued Capital	14	27,302,638	24,834,995
Convertible Notes - Equity		887,485	1,013,122
Reserves	25	458,743	454,772
Retained Earnings/Accumulated Losses	15	(32,182,861)	(28,189,086)
TOTAL DEFICIT		**(3,533,995)**	**(1,886,197)**

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

Consolidated Statement

of Cash Flows for the Year Ended 30 June 2022

07

SECTION 07

	Note	2022	2021
		$	$
Cash flows from operating activities			
R&D tax offset rebate received		-	542,838
Receipt from customers		-	173
Payments to suppliers and employees		(4,344,323)	(3,723,529)
Interest received		163	221
Interest paid		(97,071)	(75,235)
Net cash used in operating activities	**23(b)**	**(4,441,231)**	**(3,255,532)**
Cash flows from investing activities			
Investment in property, plant and equipment		(21,001)	-
Net cash used in investing activities		**(21,001)**	**-**
Cash flows from financing activities			
Lease payments		(34,551)	(23,216)
Issue of shares		-	7,000,000
Cost of Issue of shares		-	(113,331)
Repayment of loans		-	(515,080)
Net cash used in/provided by financing activities	**23(c)**	**(34,551)**	**6,348,373**
Net (decrease)/ increase in cash and cash equivalents		(4,496,783)	3,092,841
Cash and cash equivalents at the beginning of the financial year		5,778,124	2,685,283
Cash and cash equivalents at the end of the financial year	**23(a)**	**1,281,341**	**5,778,124**

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

Consolidated Statement

of Changes in Equity for the Year Ended 30 June 2022

SECTION 08

08

	Note	Equity	Convertible Notes	Retained Earnings	Reserves	Total attributable to equity holders of the entity
		$	$	$	$	$
Balance at 1 July 2020 (reported as at 30 June 2020)		17,861,819	1,065,808	(24,842,922)	270,682	(5,644,613)
Prior period adjustment		-	-	515,080	-	515,080
Re-stated as at 1 July 2020		17,861,819	1,065,808	(24,327,842)	270,682	(5,129,533)
Comprehensive Income						
Loss for the year (Restated, refer note 3)		-	-	(3,861,244)	-	(3,861,244)
Total comprehensive loss for the year		**-**	**-**	**(3,861,244)**	**-**	**(3,861,244)**
Convertible Notes - Equity	13	-	(52,686)	-	-	(52,686)
Transactions with owners						
Shares issued during the year	14	7,200,520	-	-	-	7,200,520
Share issue costs		(227,344)	-	-	-	(227,344)
Movements in share-based payment reserve		-	-	-	184,090	184,090
Balance at 30 June 2021		**24,834,995**	**1,013,122**	**(28,189,086)**	**454,772**	**(1,886,197)**
Balance at 1 July 2021		24,834,995	1,013,122	(28,189,086)	454,772	(1,886,197)
Comprehensive Income						
Loss for the year		-		(3,993,775)	-	(3,993,775)
Total comprehensive loss for the year		**-**		**(3,993,775)**	**-**	**(3,993,775)**
Convertible Notes - Equity	13	-	(125,637)	-	-	(125,637)
Transactions with owners						
Shares issued during the year	14	2,467,643	-	-	-	2,467,643
Movements in share-based payment reserve		-	-	-	3,971	3,971
Balance at 30 June 2022		**27,302,638**	**887,485**	**(32,182,861)**	**458,743**	**(3,533,995)**

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

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2022

09

SECTION 09

1. Summary of Significant Accounting Policies

Corporate information

The financial report of Vectus Biosystems Limited (the Group) for the year ended 30 June 2022 was authorised for issue in accordance with a resolution of the Directors on 29 September 2022.

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 $3,993,775 for the year ended 30 June 2022 (2021: Operating loss of $3,861,244 (re-stated)) and the net equity deficit has increased from $1,886,197 (re-stated) as at 30 June 2021 to $3,533,995 as at 30 June 2022. The operating cash burn rate for the year ended 30 June 2022 was $4,441,231 (2021: $3,255,532). The cash balance as at 30 June 2022 was $1,281,341.

The above matters give rise to a material uncertainty that may cast significant doubt over the Group's ability to continue as a going concern. Therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business at the amounts stated in the financial report. However, the Directors believe that the Group will be able to continue as a going concern due to the following mitigating factors in relation to the material uncertainty.

The Directors have prepared detailed cash flow projections for the period of 12 months from the date of signing this Report. The Group is dependent on capital raisings to continue to operate with enough cash on hand for the next 12 months. The Group demonstrated in previous years its success in raising capital, including in October 2021 when an amount of $7 million was raised, before costs. The Directors remain confident that this can be repeated as required to support the Group's continuing activities, and the Group has budgeted a capital raise of $3.5 million in October 2022, $1.5 million in November 2022 (after AGM approval) and a further raising in 2023 if required. The convertable notes matured on 29 September 2022 and all the noteholders have elected to convert them into shares. Further, in the event of the Group not raising sufficient funds to meet its current cash flow forecasts, the Group will reduce its expenditure accordingly to be able to pay its debts as and when they are due.

Consequently, the Group's financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and satisfaction of liabilities and commitments in the normal course of business. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities should the Group be unable to continue as a going concern.

Notes to the Consolidated Financial Statements
continued

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. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity. Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. Management does not currently expect any of the new accounting standards not yet effective to have a material impact on the group, however these will be continued to be monitored ahead of the effective date.

There are no standards that have been issued by the International Accounting Standards Board, not yet adopted by Australia, that needs to be considered or is expected to have any material impact on the financial performance or position of the consolidated entity.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

Conceptual Framework for Financial Reporting (Conceptual Framework)

The consolidated entity has adopted the revised Conceptual Framework from 1 July 2021. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards, but it has not had a material impact on the consolidated entity's financial statements.

AASB 2020-3 Amendments to Australian Accouning Standards –Annual Improvements 2018–2020 and Other Amendments [AASB 1, AASB 3, AASB 9, AASB 116, AASB 137 & AASB 141]

The consolidated entity has adopted these amendments to Australian Accounting Standards, but it has not had a material impact or is not currently applicable on the consolidated entity's financial statements.

- AASB 9 Financial Instruments
- AASB 1 First-time Adoption of International Financial Reporting Standards
- AASB 3 Business Combinations
- AASB 116 Property, Plant and Equipment (PP&E)

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 19.

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 the 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%

Notes to the Consolidated Financial Statements
continued

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 long service leave not expected to be settled within 12 months of the reporting date is 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 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.

Notes to the Consolidated Financial Statements

continued

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

Financial assets
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 or derecognised 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.

Liability component is removed from the balance sheet upon conversion or redemption. The difference between the carrying amount of a financial liability that has been redeemed and the consideration paid, including any non-cash settlement, is recognised as equity.

Based on the above, classification of Convertible Notes value is in accordance with AASB 9 as per note 13.

Notes to the Consolidated Financial Statements

continued

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.

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.

Refer note 3 for detailed disclosure of re-statements in relation to 2021 financial year.

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.

Notes to the Consolidated Financial Statements

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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.

3. Re-statement of comparatives

The Group has made a retrospective change in accounting policy for the annual R&D rebate receivable from the Australian Taxation Office. For the financial year ended 30 June, 2021, and prior financial year ends, the Group recognised the R&D rebate on a cash basis as it was not possible to reliably estimate the amount. For the financial year ended 30 June, 2022 the Group has determined it can reliably estimate the amount of the R&D rebate to be able to account for it on an accruals basis. The retrospective adjustment has resulted in a re-statement of other income for the financial year ended 30 June 2021 and for the financial year ended 30 June 2020. Additional to the change in accounting policy above, the Group has also reclassified the R&D Tax incentive as other income for both the 30 June 2022 and 30 June 2021 financial years (historically shown as a credit to income tax expense).

For details of the restatement refer to the table below:

	June 2021		June 2021
	$ Reported	$ Adjustment	$ Restated
Extract from the financial statements for the year ended 30 June 2021			
Other current assets	191,099	936,405	1,127,504
Total assets	6,042,576	936,405	6,978,981
Net liabilities	(2,822,602)	936,405	(1,886,197)
Accumulated losses	(29,125,491)	936,405	(28,189,086)
Revenue and other income	81,590	936,405	1,017,995
Income tax benefit	515,080	(515,080)	-
Loss after tax	(4,282,569)	421,325	(3,861,244)
Loss per share (cents per share)	(15.20)	1.49	(13.71)

Re-statement adjustments also affect the 2020 balances, and they are disclosed below:

	June 2020		June 2020
	$ Reported	$ Adjustment	$ Restated
Extract from the financial statements for the year ended 30 June 2020			
Other current assets	203,249	515,080	718,329
Total assets	2,998,210	515,080	3,513,290
Net liabilities	(5,644,613)	515,080	(5,129,533)
Accumulated losses	(24,842,922)	515,080	(24,327,842)
Revenue and other income	51,186	515,080	566,266
Income tax benefit	383,629	(383,629)	-
Loss after tax	(2,996,071)	131,451	(2,864,620)
Loss per share (cents per share)	(12.73)	**0.56**	**(12.17)**

Notes to the Consolidated Financial Statements

continued

4. Other Income

	2022	2021
	$	$
		(Re-stated, refer note 3)
Sales revenue	-	180
R&D tax offset rebate	1,300,000	936,405
EMDG grant	-	31,189
Finance revenue	81	221
ATO cash flow boost	-	50,000
	1,300,081	**1,017,995**

5. Loss from Ordinary Activities

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

Expenses	2022	2021
	$	$
Depreciation and amortisation expense		
Depreciation of property, plant and equipment	20,189	17,416
	20,189	**17,416**
Employment benefits and directors' remuneration		
Base salary and fees	1,020,229	1,015,890
Superannuation and statutory oncosts	89,077	80,687
Share based payment expense	8,637	5,440
Other employee expenses	7,500	2,728
Transfers from employee entitlements provisions	10,487	56,430
	1,135,930	**1,161,175**

	2022	2021
	$	$
Finance Costs		
Borrowing cost - convertible notes	652,223	988,379
Interest on Directors' loan	35,383	78,705
Other finance costs	5,879	7,185
	693,485	**1,074,269**
Research & Development expense		
Research and Development expense	2,107,836	1,219,825
Patent costs	427,816	495,493
	2,535,652	**1,715,318**

6. Income Tax

a. Income tax expense

The prima facie income tax benefit on pre-tax accounting loss reconciles to the income tax benefit in the financial statements as follows:

	2022	2021
	$	$
		(Re-stated, refer note 3)
Loss for year before income tax benefit*	(3,993,775)	(3,861,244)
Income tax benefit calculated at 30%*	(1,198,132)	(1,158,373)
Temporary differences and tax losses not recognised*	808,132	862,452
Other permanent differences		
Non assessable Cash Flow Boost	-	15,000
R&D tax offset rebate received / receivable*	390,000	280,922
Income tax benefit	**-**	**-**

*Re-statement of comparatives

Pursuant to note 3, these balances have been re-stated for 2021.

Notes to the Consolidated Financial Statements
continued

b. Deferred tax balances not recognised

Calculated at 30% not brought to account as assets:

	2022	2021
	$	$
Deferred tax assets relating to tax losses		
Revenue tax losses available for offset against future tax income	4,890,298	4,837,013
Net deferred tax asset not recognised in respect of tax losses	**4,890,298**	**4,837,013**
Deferred tax assets relating to temporary differences		
Provision for employee entitlements	125,294	122,148
Accruals	266,345	109,750
Share Issue Costs	30,443	16,802
	422,082	**248,700**
Net deferred tax asset not recognised in respect of temporary differences	**422,082**	**248,700**

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.

7. Cash and Cash Equivalents

	2022	2021
	$	$
Cash on Hand	860	860
Cash at Bank and Term Deposits	1,280,481	5,777,264
	1,281,341	**5,778,124**

8. Other Current Assets

	2022	2021
	$	$
		(Re-stated, refer note 3)
Prepayments	128,666	150,131
R&D Grant Receivable	2,236,405	936,405
Inventory	395	-
Goods and Services Tax	81,938	40,968
	2,447,404	**1,127,504**

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

Notes to the Consolidated Financial Statements
continued

9. Property, Plant and Equipment

	2022	2021
	$	$
Plant and Equipment	808,744	666,623
Less: Accumulated depreciation	(615,783)	(598,812)
	192,961	**67,811**
Furniture & Fittings	15,139	15,139
Less: Accumulated depreciation	(15,139)	(15,139)
	-	**-**
Office Equipment	75,213	62,991
Less: Accumulated depreciation	(60,666)	(57,449)
	14,547	**5,542**
	207,508	**73,353**

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 2021	67,811	-	5,542	73,353
Additions	142,122	-	12,222	154,344
Depreciation	(16,972)	-	(3,217)	(20,189)
Balance at 30 June 2022	**192,961**	**-**	**14,547**	**207,508**
Balance at 1 July 2020	71,515	-	7,198	78,713
Additions	12,056	-	-	12,056
Depreciation	(15,760)	-	(1,656)	(17,416)
Balance at 30 June 2021	**67,811**	**-**	**5,542**	**73,353**

10. Current Trade and Other Payables

	2022	2021
	$	$
Trade creditors	120,350	328,272
PAYG withholding payable	28,662	21,927
	149,012	**350,199**

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

Notes to the Consolidated Financial Statements

continued

11. Other current and non-current liabilities

A. Other current liabilities

	2022	2021
	$	$
Accrued expenses*	887,818	439,216
Lease liability	55,780	18,227
	943,598	**457,443**

B. Other non-current Liabilities

	2022	2021
	$	$
Lease liability	70,266	16,953
	70,266	**16,953**

SECTION 09

* Accrued expenses include:

	2022	2021
	$	$
Accrued Directors' fees	348,333	384,166
Accrued R&D expenses	406,985	-
Other accruals	132,500	55,050
	887,818	**439,216**

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

C. Particulars relating to lease liabilities

The Group has entered into finance lease contracts for fixed assets included in property, plant and equipment (note 9). The balance outstanding on finance lease is accounted as lease liability (current and non-current) in note 11A and 11B.

The financial statements shows the following amounts relating to leases:

	2022	2021
	$	$
Depreciation	13,574	6,438
Interest expense (included in finance cost)	3,107	2,675
Value of asset included in property, plant and equipment	173,050	55,106
Total cash flows for finance leases	36,953	23,216
Expense relating to short-term operating leases (included in occupancy expenses)	173,764	11,318

12. Provisions

A. Current

	2022	2021
	$	$
Provision for Annual Leave	332,799	329,910
Provision for Long Service Leave	83,207	75,609
	416,006	**405,519**

B. Non-Current

	2022	2021
	$	$
Provision for Long Service Leave	1,642	1,642
	1,642	**1,642**

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

Notes to the Consolidated Financial Statements
continued

13. Borrowings

A. Current borrowings

	2022	2021
	$	$
Loans from Directors	442,291	442,291
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)	5,447,433	-
	5,889,724	**442,291**

B. Non-current borrowings

	2022	2021
	$	$
Convertible Notes (Notes below)	-	7,191,131
	-	**7,191,131**

Convertible Notes

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

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

Maturity date: 27 September 2022

Interest: 6% per annum capitalised and paid on redemption.

Conversion: As at the balance sheet date 4,380,000 Notes were redeemed and balance of 9,620,000 Notes were redeemed in September 2022. (Refer to note 20 for further information).

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

Valuation: In accordance with AASB 9, the convertible notes (liability and equity) are presented in the balance sheet as follows:

	2022	2021
	$	$
Convertible Notes - Liability		
Face value of notes issued	7,000,000	7,000,000
Equity component	(1,013,122)	(1,013,122)
Cost of raising convertible notes (nett)	(346,033)	(346,033)
Interest	2,202,509	1,550,286
Redeemed	(2,395,921)	-
	5,447,433	**7,191,131**
Convertible Notes - Equity		
Equity component recognised	1,013,122	1,013,122
Redemption adjustments	(125,637)	-
	887,485	**1,013,122**

Notes to the Consolidated Financial Statements

continued

14. Issued Capital

	2022 Number of Shares	2021 Number of Shares	2022 $	2021 $
Ordinary shares - fully paid (no par value)	36,263,658	31,655,394	27,302,638	24,834,995
Balance at 30 June 2021	**36,263,658**	**31,655,394**	**27,302,638**	**24,834,995**
Movements in ordinary share capital of Vectus Biosystems Limited				
Balance at beginning of the year	31,655,394	23,654,816	24,834,995	17,861,819
Shares issued during the year				
Shares issued against redemption of convertible notes	4,602,431	-	2,462,977	-
Other share issues	5,833	8,000,578	4,666	7,200,520
	36,263,658	**31,655,394**	**27,302,638**	**25,062,339**
Transaction costs relating to share issues	-	-	-	(227,344)
Balance at end of year	**36,263,658**	**31,655,394**	**27,302,638**	**24,834,995**

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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.

15. Equity - Accumulated losses

	2022	2021
	$	$
		(Re-stated, refer note 3)
Accumulated loss at the beginning of the financial year	(28,189,086)	(24,327,842)
Loss after income tax expense for the year	(3,993,775)	(3,861,244)
Accumulated loss at the end of the financial year	**(32,182,861)**	**(28,189,086)**

16. 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 17.

(c) Transactions with related parties

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

17. Key management personnel

(a) The Directors of Vectus Biosystems Limited during the year were:

Ronald Shnier	Maurie Stang	Karen Duggan
Peter Bush	Susan Pond	

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

	2022	2021
	$	$
Short-term employee benefits	432,679	377,974
Post-employment benefits	43,085	35,908
	475,764	**413,882**

Further disclosures relating to the key management personnel are set out in remuneration report in the Directors' Report.

Notes to the Consolidated Financial Statements

continued

18. Commitments

(a) Lease commitments - finance

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

	2022	2021
	$	$
Within one year	55,780	18,227
One to five years	70,266	**16,953**
	126,046	**35,181**

(b) Lease commitments - operating

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

	2022	2021
	$	$
Within one year	14,810	44,520
One to five years	-	-
	14,810	**44,520**

(c) Operating Commitments

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

	2021	2020
Research and development expenses	$	$
Within one year	1,909,544	3,313,073
One to five years	-	-
	1,909,544	**3,313,073**

d. Capital expenditure commitments

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

19. 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	
Name	**"Principal place of business/ Country of Incorporation"**	**2022**	**2021**
		%	%
Accugen Pty Limited	Australia	100%	100%

20. Subsequent events

On 7 September 2022 Vectus Biosystems Limited issued a total of 763,529 fully paid ordinary shares, as set out below:

*A total of 680,000 fully paid ordinary to two covertible note holders following the conversion of 680,000 notes, at a conversion price of $0.50 per note.

*In relation to the accumulated interest on these notes, at an interest rate of 6% per anum, the two note holders have elected to have the interest paid as 83,529 fully paid ordinary shares calculated at $0.77 per share.

On 28 September 2022 Vectus Biosystems Limited issued a total of 10,218,207 fully paid ordinary shares, as set out below:

*A total of 8,940,000 fully paid ordinary to twenty covertible note holders following the conversion of 8,940,000 notes, at a conversion price of $0.50 per note.

*In relation to the accumulated interest on these notes, at an interest rate of 6% per anum, the twenty note holders have elected to have the interest paid as 1,278,207 fully paid ordinary shares calculated at $0.67 per share

Other than those stated above, there have been no matters or circumstances, which have arisen since 30 June 2022 that have significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to 30 June 2022, of the Group; or
(b) the results of those operations; or
(c) the state of affairs, in the financial years subsequent to 30 June 2022, of the Group.

21. Remuneration of auditors

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

	2022	2021
	$	$
Audit Services - UHY Haines Norton		
Audit and review of financial statements	43,400	41,000
	43,400	**41,000**

22. Parent entity information

	2022	2021
	$	$
		(Re-stated refer note below)
Loss after income tax*	(4,149,752)	(3,877,636)
Total comprehensive loss*	(4,149,752)	(3,877,636)
Total current assets*	4,873,341	8,208,157
Total assets*	5,074,890	8,274,394
Total current liabilities	1,508,668	1,212,371
Total liabilities	7,468,658	8,864,387
Equity		
Issued capital and convertible notes (net of share issue cost)	27,302,638	24,834,995
Convertible notes	887,485	1,013,122
Reserves	458,742	454,771
Retained earnings/accumulated losses*	(31,042,633)	(26,892,881)
Total equity*	**(2,393,768)**	**(589,993)**

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 18 and 28 respectively.

Capital Commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2022 and 30 June 2021.

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.

*Re-statement of comparatives
These lines reflect a retrospective change in accounting policy for the annual R&D rebate receivable from the Australian Taxation Office in accordance to details included in note 3. The re-statements disclosed in note 3 relates to the Parent Entity and therefore adjusted in note 22.

23. 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:

	2022	2021
	$	$
Cash at bank and on hand	1,281,341	5,778,124
	1,281,341	**5,778,124**

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

	2022	2021
	$	$
		(*Re-stated, refer note 3)
Operating loss after income tax*	(3,993,775)	(3,861,244)
Non cash/non-operating items included in profit and loss		
Depreciation and amortisation	20,189	17,416
Convertible Notes interest	593,642	988,379
Share based payments	8,637	189,940
Other adjustments	(98,792)	70,096
Changes in assets and liabilities		
(Increase) / Decrease in other assets*	(1,319,900)	(409,174)
Increase / (Decrease) in trade creditors	(201,187)	(271,204)
Increase in other creditors and accruals	539,468	(36,171)
Increase in employee entitlement provision	10,487	56,430
Net cash used in operating activities	(4,441,231)	(3,255,532)

* Re-stated for 2021 - refer note 3

Notes to the Consolidated Financial Statements
continued

(c) Changes in liabilities arising from financing activities

	Lease liability	Loan Borrowings	Convertible notes
Balance at 1 July 2021	35,180	442,291	7,191,131
Interest	3,107	35,383	652,223
Payments / adjustments	(37,658)	(35,383)	(2,395,921)
Borrowings	125,417	-	-
Balance at 30 June 2022	**126,046**	**442,291**	**5,447,433**
Balance at 1 July 2020	55,721	957,371	6,202,752
Interest	2,675	75,235	1,053,568
Payments / adjustments	(23,216)	(590,315)	(65,189)
Borrowings	-	-	-
Balance at 30 June 2021	**35,180**	**442,291**	**7,191,131**

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24. Operating Segments

The consolidated group had no reportable segments during the year.

25. Reserves

Share based payments reserve

	2022	2021
	$	$
Balance at beginning of financial year	454,772	270,682
Share based payments during the year allocated to:		
Employees and consultants	8,637	189,940
Utilised for share issue	**(4,666)**	(5,850)
Balance at end of financial year	**458,743**	**454,772**

Particulars of options or rights granted over unissued shares

	2022	2021
Weighted average remaining contractual life	0.67 years	1.60 years
Range of exercise prices	$0.00 to $0.50	$0.00 to $0.50
Options or rights on issue		
Employees and consultants	527,099	523,909
Key Management Personnel	-	-
	527,099	**523,909**
Options or rights granted during the year (Details noted below*)		
Employees and consultants	10,689	513,910
Key Management Personnel	-	-
	10,689	**513,910**
Shares issued as a result of exercise of options or rights		
Employees and consultants (at NIL exercise price)	5,833	6,501
Key Management Personnel (at NIL exercise price)	-	-
	5,833	**6,501**
Options or rights expired or forfeited during the year		
Employees and consultants	1,666	-
Key Management Personnel	-	-
	1,666	**-**

Notes to the Consolidated Financial Statements
continued

*Details of options or rights granted during the year.

	2022	2021	2021
	Granted to Employees	Granted to Employees	Granted to Consultants
Number of options	10,689	13,910	500,000
Exercise price	-	-	0.50
Expiry date	23/2/2027	28/4/2026	24/12/2022
Grant date	7/6/2022	27/5/2021	27/7/2020

26. Loss per share

	2022	2021
	$	$
		(Re-stated, refer note 3)
Basic loss per share (cents per share)	(11.97)	(13.71)
Diluted loss per share (cents per share)	(11.97)	(13.71)
Loss used to calculate basic loss per share	(3,993,775)	(3,861,244)
Loss used to calculate diluted loss per share	(3,993,775)	(3,861,244)
Weighted average number of ordinary shares used to calculate basic loss per share	33,375,823	28,171,438
Weighted average number of ordinary shares used to calculate diluted loss per share*	33,375,823	28,171,438
Options and rights eligible for conversion into ordinary shares in future		
Options	527,099	523,909
Convertible notes	9,620,000	14,000,000
	10,147,099	**14,523,909**

*Weighted average number of shares including convertible note options and other options are not included because they were anti-dilutive.

27. 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;
R&D Rebate receivable;
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:

	2022	2021
	$	$
Bank deposits	1,280,481	5,777,264

(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. As stated in note 1 (Going Concern paragraphs), the Group expected to have sufficient liquid resources to meet its obligations under all reasonable 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 - 2022	Cash flows	< 1 year	1 - 3 years	Total	Carrying amount
	$	$	$	$	$
Financial assets					
Cash and cash equivalents	1,281,341	1,281,341	-	1,281,341	1,281,341
TOTAL	**1,281,341**	**1,281,341**	**-**	**1,281,341**	**1,281,341**
Financial liabilities			-		
Trade Creditors	149,012	149,012	-	149,012	149,012
Accruals	887,818	887,818	-	887,818	887,818

	Cash flows	< 1 year	1 - 3 years	Total	Carrying amount
	$	$	$	$	$
Financial liabilities cont'd					
Loans	477,674	477,674	-	477,674	442,291
Lease liabilities	138,651	138,651	-	138,651	126,046
Convertible notes	5,728,787	5,728,787	-	5,728,787	5,447,433
TOTAL	**7,381,942**	**7,381,942**	**-**	**7,381,942**	**7,052,600**
NET MATURITY	**(6,100,601)**	**(6,100,601)**	**-**	**(6,100,601)**	**(5,771,259)**

Maturity Analysis - 2021	Cash flows	< 1 year	1 - 3 years	Total	Carrying amount
	$	$	$	$	$
Financial assets					
Cash and cash equivalents	5,778,124	5,778,124	-	5,778,124	5,778,124
TOTAL	**5,778,124**	**5,778,124**	**-**	**5,778,124**	**5,778,124**
Financial liabilities					
Trade Creditors	350,199	350,199	-	350,199	350,199
Accruals	439,216	439,216	-	439,216	439,216
Loans	477,674	477,674	-	477,674	442,291
Lease liabilities	38,698	38,698	-	38,698	35,180
Convertible notes	8,337,112	-	8,337,112	8,337,112	7,191,131
TOTAL	**9,642,899**	**1,305,787**	**8,337,112**	**9,642,899**	**8,458,017**
NET MATURITY	(3,864,775)	4,472,337	(8,337,112)	(3,864,775)	(2,679,893)

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.

Notes to the Consolidated Financial Statements

continued

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:

2022	Weighted average rates	Floating rates	Fixed rates	Non-interest bearing	Total
	%	$	$	$	$
Financial Assets					
Cash and cash equivalents	0.0%	1,281,341	-	-	1,281,341
TOTAL		**1,281,341**	-	-	**1,281,341**
Financial liabilities					
Trade Creditors	0.0%	-	-	149,012	149,012
Other payables and accruals	0.0%	-	-	887,818	887,818
Lease liabilities	5.3%	-	138,651	-	138,651
Loans from Directors	8.0%	-	442,291	-	442,291
Convertible Notes	6.0%	-	5,447,433	-	5,447,433
TOTAL		-	**6,028,374**	**1,036,830**	**7,065,204**
Net financial assets (liabilities)		**1,281,341**	**(6,028,374)**	**(1,036,830)**	**(5,783,863)**

2021	Weighted average rates	Floating rates	Fixed rates	Non-interest bearing	Total
	%	$	$	$	$
Financial Assets					
Cash and cash equivalents	1.0%	5,778,124	-	-	5,778,124
TOTAL		**5,778,124**	-	-	**5,778,124**
Financial liabilities					
Trade Creditors	0.0%	-	-	350,199	350,199
Other payables and accruals	0.0%	-	-	439,216	439,216
Lease liabilities	10.0%	-	38,698	-	38,698

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Loans from Directors	8.0%	-	442,291	-	442,291
Convertible Notes	6.0%	-	7,191,131	-	7,191,131
TOTAL		**-**	**7,672,119**	**789,415**	**8,461,535**
Net financial assets (liabilities)		**5,778,124**	**(7,672,119)**	**(789,415)**	**(2,683,411)**

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

2022	**Carrying amount**	**+0.5% interest Profit & Loss**	**-0.5% interest Profit & Loss**
	$	$	$
Cash at bank	1,281,341	6,407	(6,407)
Term deposits	-	-	-
		6,407	(6,407)
Tax charge of 30%		(1,922)	1,922
Post tax profit increase / (decrease)		4,485	(4,485)
2021	**Carrying amount**	**+0.5% interest Profit & Loss**	**-0.5% interest Profit & Loss**
	$	$	$
Cash at bank	5,778,124	28,891	(28,891)
Term deposits	-	-	-
		28,891	(28,891)
Tax charge of 30%		(8,667)	8,667
Post tax profit increase / (decrease)		20,223	(20,223)

28. Contingent Liabilities

There are no contingent liabilities of the company or the Group.

Directors' Declaration

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In the opinion of the Directors:

1. the attached financial statements and notes that are set out on pages 30 to 73 and remuneration disclosures that are contained in the Remuneration Report in the Directors' Report 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 2022 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, 29 September 2022

Independent Auditor's Report

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SECTION 11

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) for the year ended 30 June 2022, which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, 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 2022 and of its financial performance for the year then 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 of the financial report, which discloses the Group's ability to continue as a going concern. The matters described in Note 1 of the Financial Report, indicate a 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.

We have determined the matters described below to be the key audit matters to be communicated in our report.

GOING CONCERN	
Why a key audit matter	**How our audit addressed the risk**
The Group has had a history of making losses. The net loss after tax for the financial year ended 30 June 2022 was $3.99 million (2021: $3.86 million (restated)). The Group has a net asset deficiency as at 30 June 2022 of $3.53 million (2021 : $1.87 million (restated)). Therefore, there is a risk that the Group may not have the ability to continue as a going concern. As at 30 June 2022, the Group had $1.28 million (2021: $5.78 million) of cash in the bank. The net cash outflow from operating activities for the financial year ended 30 June 2022 was $4.44 million (2021: $3.26 million). A key audit matter is the Group's ability to continue as a going concern.	Our audit procedures included, amongst others: ▪ Assessed the cash flow projections for 15 months from the end of the financial year ended 30 June 2022. ▪ Assessed the significant forecast cash inflows and outflows including the expected impact of a planned capital raising for quantum and timing. We used our knowledge of the Group, its industry and current status of these initiatives to assess the level of the associated uncertainty. ▪ 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. ▪ Discussed with management the capital raising initiatives and whether they will be required, and the ability to slow down the monthly expenditures in the event of any difficulty with the capital raising.

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 (FY22: 2.54 million, FY21: $1.72 million), in the statement of profit or loss and other comprehensive income. Our audit focused on this area due to the amount 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. 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 Group. 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. Significant judgments relevant to the Group for capitalisation of research and development costs include determining if the development stage has been reached. Management's conclusion is that no material element of the spending this year on research and development met the criteria for capitalisation.	Our audit procedures included, amongst others: ▪ Discussed with management regarding their accounting policies for expensing and capitalising the Group's research and development costs. ▪ Updated our understanding of management's process for assessing whether any research and development spend has met all of the AASB 138 recognition criteria. ▪ Discussed with management the nature of the R&D work being completed and their assessment of the areas of judgment, particularly the current stage of the research and development. ▪ We performed substantive procedures on expenses recognised. ▪ Considered other information obtained during the audit, including products being researched, the nature of contracts with key suppliers and the stage of related sales prospects.

PRIOR YEAR RESTATEMENT DUE TO CHANGE IN ACCOUNTING POLICY

Why a key audit matter	How our audit addressed the risk
As disclosed in note 3 of the financial report, the Group has made a retrospective change in accounting policy for the annual R&D claim receivable from the Australian Taxation Office. The Group has historically accounted for the R&D claim on a cash basis as it was not possible to reliably estimate the amount for the current financial year. This has resulted in a mismatch in the timing of the expenses incurred, and the corresponding claim for refunds for those expenses. For the financial year ended 30 June 2022 the Group has determined it can reliably estimate the amount of the R&D claim to be able to account for it on an accruals basis. The retrospective adjustment has resulted in a re-statement of other income for the financial year ended 30 June 2021. There has also been a change in the disclosure of the claims to be recognised in the profit and loss. These were historically shown as credits to income tax expense, however as there is no income tax expense, the claims are now disclosed as "Other Income" in the profit and loss. Our audit focused on this area due to the amount of the R&D claim receivable for both the 2022 and 2021 financial years, and that this change in accounting policy has resulted in prior year restatements.	Our audit procedures included, amongst others: ▪ Enquired with management regarding this process for the purpose of the 30 June 2022 audit. ▪ Obtained the supporting calculations from management for the balance of the R&D claim for FY2022, and checked these for reasonableness. ▪ Obtained the supporting calculations for the balance of the R&D claim for FY2021, and traced to the subsequent cash receipt post 30 June 2022. ▪ Considered adjustments posted by management for the FY2022 balances and the prior year restatements. ▪ Assessed the reasonability and completeness of the Group's disclosures against the requirements of Australian Accounting Standards.

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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 2022, 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 has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 20 - 26 of the directors' report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of Vectus Biosystems Limited, for the year ended 30 June 2022, complies with section 300A of the *Corporations Act 2001*.

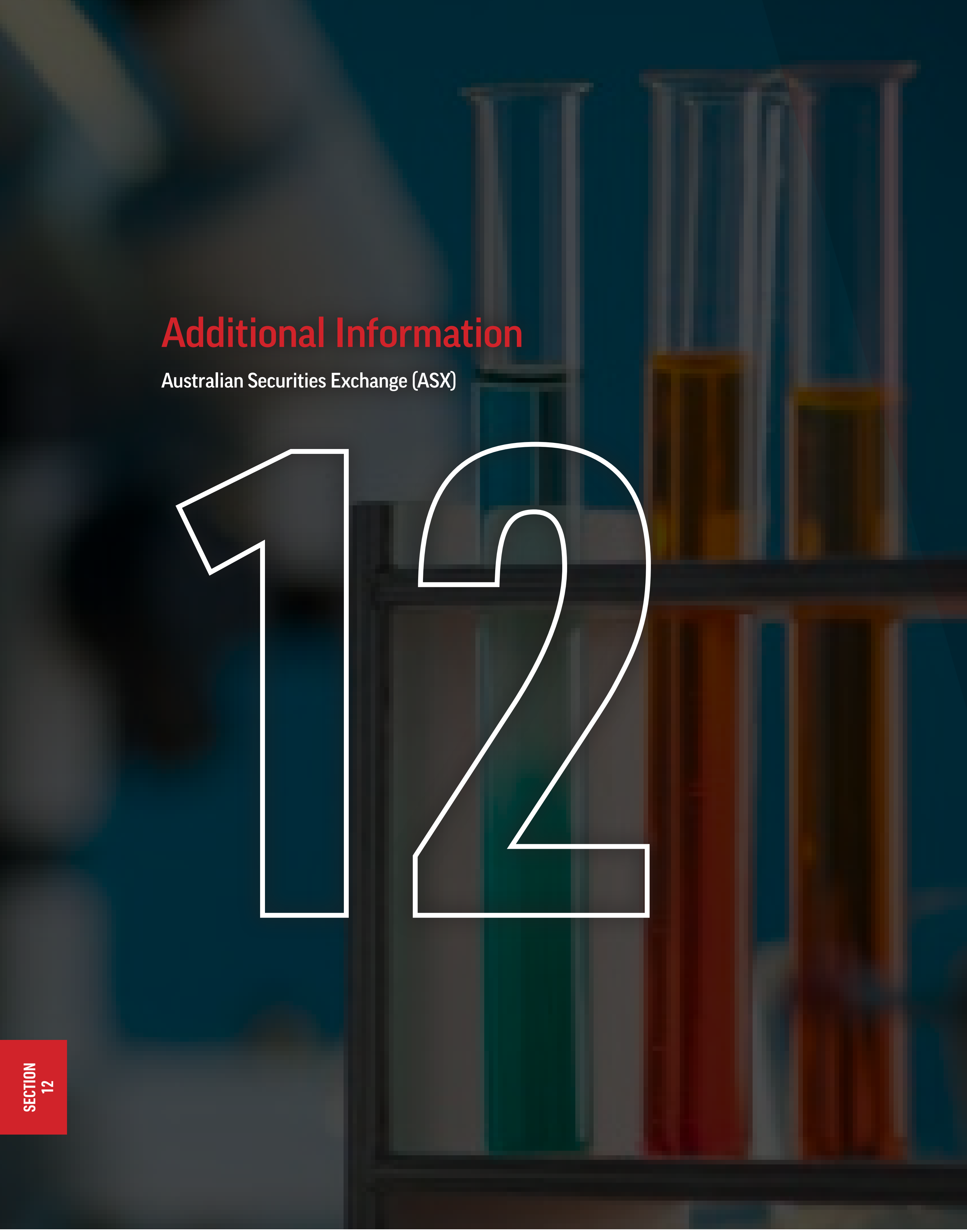
Responsibilities

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

UHY Haines Norton

Mark Nicholaeff
Partner
Place: Sydney
Date: 29 September 2022

UHY Haines Norton
Chartered Accountants



Additional Information

Australian Securities Exchange (ASX)

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SECTION 12

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

Security Holder Information

Distribution of Shareholders

Analysis of the fully paid ordinary shares by holding as at 17 September 2022:

Spread of Holdings	Number of Holders	Ordinary shares	% of Total Issued Capital
1 – 1,000	88	48,484	0.13
1,001 – 5,000	179	414,050	1.12
5,001 - 10,000	58	443,398	1.20
10,001 - 100,000	185	6,903,336	18.64
100,001 - and over	64	29,223,832	78.91
Total	**574**	**37,033,100**	**100.00**

On 17 September 2022 there were 57 shareholders holding less than a marketable parcel of $500 worth of shares at a share price of $0.75.

Distribution of Convertible Noteholders

Analysis of the convertible notes by holding as at 17 September 2022:

Spread of Holdings	Number of Holders	Convertible Notes	% of Total Issued Notes
1 – 1,000	0	0	0.00
1,001 – 5,000	0	0	0.00
5,001 - 10,000	0	0	0.00
10,001 - 100,000	11	680,000	7.61
100,001 - and over	9	8,260,000	92.39
Total	**20**	**8,940,000**	**100.00**

Statement of Shareholdings as at 17 September 2022

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

#	Shareholder	Number of Shares	% Holding
1	Ajjika Technology Pty Limited <The Ajjika A/C>	3,200,000	8.641
2	Energy Trading Systems Pty Ltd <The MPF A/C>	2,550,000	6.886
3	Bernard Stang	2,550,000	6.886
4	Kefford Holdings Pty Ltd <The Kefford Family A/C>	2,288,321	6.179
5	Truebell Capital Pty Ltd <Truebell Investment Fund>	1,670,000	4.509
6	Grizzly Holdings Pty Limited	1,407,035	3.799
7	Bennelong Resources Pty Ltd <John Egan Super Fund A/C>	1,021,163	2.757
8	Spinite Pty Ltd	1,014,327	2.739
9	CS Fourth Nominees Pty Limited <HSBC Cust Nom Au Ltd 11 A/C>	801,361	2.164
10	USB Nominees Pty Ltd	584,847	1.579
11	Gleneagle Securities (Aust) Pty Ltd <House Prop A/C>	570,000	1.539
12	BNP Paribas Nominees Pty Ltd <IB AU Noms RetailClient DRP>	550,520	1.487
13	Finot Pty Limited	550,000	1.485
14	Benlee Company Pty Ltd <The Benlee A/C>	469,398	1.268
15	Cadel Lee Evans	468,000	1.264
16	T S Rai 2 Pty Ltd <Websta Super Fund A/C>	460,000	1.242
17	Victor Zheng Chun Ye	432,921	1.169
18	Satwant Kaur Rai	425,000	1.148
19	Merrill Lynch (Australia) Nominees Pty Limited	343,068	0.926
20	Wagga Family Services Pty Ltd <Wagga Family Services SF A/C>	333,222	0.900
	Total of Top 20 Holdings	**21,689,183**	**58.567**
	Other Holdings	**15,343,917**	**41.433**
	Total Ordinary Shares	**37,033,100**	**100.000**

Voting Rights

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

Substantial Shareholders

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

Name	Shares
Dr Karen Duggan	3,201,500
Mr Maurie Stang	2,562,000
Mr Bernard Stang	2,562,000
Kefford Holdings Pty Ltd <The Kefford Family A/C>	2,549,321
Spinite Pty Ltd	1,542,881

Options (ASX:VBSAD and VBSAG) issued under Employee Incentive Plan as at 17 September 2022

Details of Option Holders	Zero Exercise Price Options (progressive vesting dates)
Vectus employees – two holders	6,825 – expire, if not exercised, by 28 April 2026 (VBSAD)
Vectus employees – two holders	10,689 – expire, if not exercised, by 23 February 2027 (VBSAG)

Options (ASX:VBSAF) issued for corporate advisory and consulting services as at 17 September 2022

Details of Option Holders	500,000 Options with a $0.50 Exercise Price
Gleneagle Securities (Aust) Pty Ltd	450,000 – expire, if not exercised, on 24 December 2022
Two holders of Options	50,000 – expire, if not exercised, on 24 December 2022

Convertible Notes (ASX:VBSAE) issued as at 17 September 2022

Details of Convertible Noteholders	8,940,000 Convertible Notes with a $0.50 Conversion Price
Merrill Lynch (Aust) Nominees Pty Ltd <Regal Emerging Companies Fund II A/C>	3,600,000 – 6% interest rate per annum capitalised and paid on Maturity Date, being 27 September 2022
19 holders of Convertible Notes	5,340,000 – 6% interest rate per annum capitalised and paid on Maturity Date, being 27 September 2022

The balance of 8,940,000 Convertible Notes were converted into shares on 28 September 2022 following the receipt of the balance of Conversion Notices on 27 September 2022.

On-Market Buy-Back

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

Corporate Directory

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SECTION 13

Vectus Biosystems Limited

ACN: 117 526 137
ABN: 54 117 526 137

Directors

Dr Ronald Shnier	Non-Executive Chairman
Mr Maurie Stang	Non-Executive Deputy Chairman
Dr Karen Duggan	Executive Director and Chief Executive Officer
Mr Peter Bush	Non-Executive Director
Dr Susan Pond	Non-Executive Director

Company Secretary

Mr Robert Waring

Registered and Principal Office

3 – 11 Primrose Avenue
Rosebery NSW 2018 Australia

Telephone: +61 2 9381 1000
Facsimile: +61 2 9662 1720
Email: info@vectusbiosystems.com.au
Website: www.vectusbiosystems.com.au

Research Division

Level 3, 11 Julius Avenue
North Ryde, NSW 2113 Australia

Telephone: +61 2 8876 8200

Share Registry

Boardroom Pty Limited

Level 12, Grosvenor Place, 225 George Street, Sydney
NSW 2000 GPO Box 3993, Sydney NSW 2001

Telephone: +61 2 9290 9600
Facsimile: +61 2 9279 0664
Email: enquiries@boardroomlimited.com.au

Website: www.boardroomlimited.com.au

Auditor

UHY Haines Norton Sydney
Level 11, 1 York Street, Sydney NSW 2000

GPO Box 4137, Sydney NSW 2001

Telephone: + 61 2 9256 6600
Website: www.uhyhnsydney.com.au

Stock Exchange Listing

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

VECTUS
BIOSYSTEMS