

2023

ANNUAL REPORT

Vectus Biosystems Limited
and Controlled Entities

ACN 117 526 137





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CHAIRMAN'S REPORT

It is my pleasure to present the Company's Annual Report for the year ended 30 June 2023, a year where Vectus achieved a significant number of milestones, commencing with the September 2022 finalisation of the Phase Ia human safety clinical trial in collaboration with the Nucleus Network in Melbourne and Syneos Health. The Company's lead cardiovascular candidate, VB0004, is supported by a broad portfolio of issued patents. Vectus' strategy is to develop and perform early validation of its drug candidates to the point where they become commercially attractive to potential pharmaceutical partners.

In the past two years the Company 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. In September 2022 Vectus 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 reviewed data from all five planned S.A.D. cohorts as well as all three planned M.A.D. cohorts. The Phase Ia trial established an impressive safety profile for VB0004, with a maximum tolerated single dose of 300mg and no significant adverse events seen in the 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 the Company's antifibrotic / antihypertensive drug, and is particularly pleasing as Vectus 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.

The Company's drug library covers over 1,000 compounds and Vectus has selected additional emerging leads to more specifically address liver fibrosis (VB4-A32) and lung fibrosis (VB4-A79). The Company's drug candidates have the potential to attract first-in-class status and therefore the potential for higher levels of re-imburement 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 that cause damage in the cardiovascular system. 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.

COMMERCIALISATION

Since the successful completion of the Phase Ia human trial, the Company is increasing its dialogue with some of the world's leading pharmaceutical companies and regional mid-sized firms. Vectus' strategy is to develop and perform early validation of its drug candidates to the point where they will become commercially attractive to potential pharmaceutical partners. The Company's objective is then 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. Today there is a rapidly evolving 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 has been instrumental in the development of the Company's lead compounds and library, and further significant advancements have been made over the last 12 months. The technology comprises reagents and software that quantitate polymerase chain reactions (qPCR). Vectus continues discussions in relation to the introduction of its consumables and software into the qPCR market. This novel and well-patented platform is 100% owned by the Company.

INTELLECTUAL PROPERTY PORTFOLIO

Vectus' 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 11 to 14 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 due to COVID-19. Thank you for the efforts and guidance from the Board members in working towards success and growth for the Company. Vectus' shareholders have been active in their support during this exciting phase of the Company's 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.



Dr Ronald Shnier
Non-Executive Chairman

REVIEW OF OPERATIONS

Vectus Biosystems Limited (Vectus or the Company) is pleased to report on its results for the year ended 30 June 2023.

OVERVIEW

Vectus has developed and successfully patented a range of novel compounds for the treatment of fibrosis across the key organs in the cardiovascular system. These include four of the most significant diseases in the fibrotic franchise, namely heart, kidney, liver and lung diseases. In recent years Vectus has completed a range of successful 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 which also reduces high blood pressure. The Company has completed its Phase Ia human studies, which were conducted in Australia, which is recognised as one of the most rigorous regulatory environments globally.

In the 2022-23 financial year Vectus continued to successfully progress its clinical, pre-clinical and research activities. The trial site for Phase Ia was the 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. 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 also announced that the third and final segment 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.

Vectus now has VB0004 in a Phase Ib Clinical Human Trial. It has appointed Scientia Clinical Research as an additional trial site in Sydney to the Nucleus Network site in Melbourne. Two patients with mild to moderate hypertension and low cardiovascular risk have completed the 28-day study period of the Phase Ib clinical trial

for VB0004, the seven-day wash out period and the follow-up visit at day 35. No significant adverse events were reported, which provides further evidence of the impressive safety profile of VB0004. The Company has retained the services of HealthMatch, a clinical trials recruitment firm, to assist in the ongoing recruitment of subjects for its Phase Ib clinical trial.

VB0004 represents a first-in-class drug aimed at not only impacting disease progression, but indeed reversing existing disease which potentially represents a significant medical and commercial breakthrough. Fibrosis is the process that causes organ failure in damaged or diseased hearts, lungs and kidneys. Vectus is also continuing its research into the possible opportunity to target the fibrotic damage resulting, in some cases, from COVID-19.

OTHER COMPOUNDS

The Company has performed detailed investigation of the mechanisms involved in the development of hepatic fibrosis in the rat models of fibrosis. The data obtained demonstrate multiple and significant parallels with human disease. The detailed mechanism of action information has led to understanding how VB4-A32 has the potential to reverse hepatic fibrotic damage via several novel mechanisms. Work continues on pulmonary fibrosis and VB4-A79, the molecule that Vectus has found reverses fibrosis in the bleomycin-treated rat (the most commonly used animal model of pulmonary fibrosis). Now that the Phase Ia clinical trial has confirmed the pre-clinical safety profile of VB0004 in humans, the Company is in a position to accelerate progress with its other compounds, such as VB4-A32, to GMP synthesis and Investigational New Drug toxicology studies in preparation for human Phase I clinical trials.

In the laboratory, work has continued on the emerging leads VB4-A32 (hepatic fibrosis), VB4-A79 (pulmonary fibrosis) and VB4-P5 (renal fibrosis), as well on the most suitable analogues from Vectus' library for dementia and cancer treatments.

INTELLECTUAL PROPERTY PORTFOLIO

The Company 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.

During the recent financial year a number of additional patents were granted. The patent covering the VB4-A32 and related compounds for the treatment of liver disease was granted in Canada and India. The patent for the D group of compounds and their application in the management of pulmonary fibrosis was granted in India. The patent for VB0002, VB0003 and VB0005, and related compounds has now been granted in both Japan and the People's Republic of China. Lastly, the patent that covers the method of synthesis for VB0004 has been granted in Brazil. The patent for the D group of compounds and their application in the management of pulmonary fibrosis was granted in both Canada and China. The patent for the P group of compounds with indications for liver and renal fibrotic disease was also granted in China.

ACCUGEN

Vectus has developed technology aimed at improving the speed and accuracy of measuring the amount of DNA and RNA in samples tested in laboratories. The technology, called Accugen, is owned by the Company's wholly-owned subsidiary, Accugen Pty Limited. The technology offers a time, cost and accuracy benefit compared to currently-available systems. Vectus' current stage of investment in Accugen is a commercialisation programme that may include direct sales, distribution partnerships and licencing opportunities. During the 2022-23 financial year the Company continued its work to enhance its technology, consisting of AccuCal™ and RealCount™ software. Activities in Vectus' commercialisation have broadened the potential market for the Accugen product to include using these two software products for applications related to food safety and diagnostic testing, 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.

New and more sensitive assays have been developed. They allow detection of pork contamination in other meat, an important test for both Halal and Kosher food supplies. These assays will rely on an updated version of the RealCount™ software, which is being developed.

PHARMACEUTICAL COMPANY ENGAGEMENT

The Company participated in both the NSW Government delegation to Bio 2023 and the Austrade BIO23 Advance Australia Delegation held in Boston in the USA in June 2023. The Austrade delegation provided opportunities to meet with various potential partners in the biotech space from both the Boston area and the north east of the USA more generally. The NSW Government delegation provided Vectus with the opportunity to participate in the partnering sessions of BIO23. As a consequence, the Company was able to meet with European, US, Japanese and Chinese pharmaceutical firms, as well as veterinary pharmaceutical companies to pursue possible partnering discussions.

Now that the Phase Ia human trials have been finalised, Vectus has accelerated 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 multiple levels of the industry indicates the potential for significant transactions now that completion of a successful Phase Ia human trial for VB0004 has been achieved by the Company.

FINANCE

Vectus' expenditure in the 2022-23 financial year was predominantly incurred on the human Phase Ia and Ib Clinical Trials, and advancing the library of the Company's other drugs. The yield from the good manufacturing practice (GMP) production of VB0004 has been further validation of the attractive cost per dose of Vectus' orally administered compound. The Company's strategy is to develop and perform early validation of its drug candidates to the point where they become commercially attractive to potential pharmaceutical partners.

The Group, being Vectus and Accugen, incurred a loss for the year after income tax of \$3,448,860 in the year ended 30 June 2023 (2022: \$3,993,775). Operating expenses were \$4,803,395 in the 2022-23 financial year compared to \$5,293,856 in the 2021-22 financial year.

During the year Vectus raised \$4,600,571 from a share placement, a share purchase plan (SPP) and from the exercise of options. On 2 December 2022 the Company announced that it had issued 4,566,337 new fully paid ordinary shares to a range of sophisticated investors under the share placement announced on 23 November 2022. The issue was completed at a price of \$0.80 per share and raised \$3,653,070 before costs. On 28 December 2022 Vectus announced that it had issued 871,875 new fully paid ordinary shares to its shareholders under an SPP, the terms of which were set out in the SPP Booklet released to ASX on 2 December 2022. The issue was completed at a price of \$0.80 per share and raised \$697,500 before costs. On 28 December 2022 the Company issued 500,000 new fully paid ordinary shares on the exercise of 500,000 options at an exercise price of \$0.50 per option, which raised \$250,000.

Vectus received \$1,208,000 as a research and development (R&D) refund from the Australian Taxation Office (ATO) in March 2023 for expenditure for the year to 30 June 2022. The Company forecasts the receipt of \$1,240,000 in the December 2023 quarter as its R&D refund from the ATO for R&D expenditure for the year ended 30 June 2023 and is accruing receivables on R&D expenditure for the 2023-24 financial year.

SUMMARY

Vectus today has a broad portfolio of granted IP and a drug library of over 1,000 small compound drug candidates. During the year the Company achieved positive outcomes in the S.A.D. and M.A.D. segments of the human Phase Ia clinical trials and is progressing with the Phase Ib trials. The Company believes that VB0004 and the additional emerging leads have the potential to address large-scale, unmet medical needs, and drive improved healthcare in some of the most significant pharmaceutical franchises today. Importantly, the Company has demonstrated that VB0004 has been successfully manufactured at a low cost, and efficiently at multiple GMP sites to date. The Company is exploring additional potential indications for VB0004 and other candidates in our library, which may further expand the commercial opportunity for these patented and propriety orally-dosed therapeutics. Vectus remains in active dialogue with potential trade partners, with the potential for a series of international licencing opportunities.



DIRECTORS' REPORT

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 2023.

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

Susan Pond

Peter Bush - *Director until 23 November 2022*

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

The consolidated loss after tax of the Group for the 2023 financial year amounted to \$3,448,860 (2022: loss \$3,993,775).

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

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

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

PRINCIPAL ACTIVITIES

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

- Medical Research and Development

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 7 September 2022, the Company issued a total of 763,529 shares as follows:

680,000 shares were issued to two convertible noteholders following conversion of 680,000 convertible notes at a price of \$0.50 per note. Interest at 6% per annum was paid to these note holders by issue of 83,529 shares calculated at \$0.77 per share (Refer Financial Statements Note 13).

On 28 September 2022, the Company issued a total of 10,218,207 shares as follows:

8,940,000 shares were issued to two convertible noteholders following conversion of 8,940,000 convertible notes at a price of \$0.50 per note. Interest at 6% per annum was paid to these note holders by issue of 1,278,207 shares calculated at \$0.668 per share (Refer Financial Statements Note 13).

On 2 December 2022, Company issued 4,566,337 shares to a number of sophisticated investors under the placement announced on 23 November 2022. The issue was completed at a price of \$0.80 per share, and raised \$3,653,070 before costs. The net proceeds of the placement will be used to accelerate the phase 1b clinical trial of VB0004, which targets the prevention and reversal of fibrosis in the heart and kidneys. Proceeds will also be used to advance Vectus' other emerging lead compounds and for working capital.

On 28 December 2022, Company allotted 871,875 shares under its Share Purchase Plan (SPP) to 44 participating shareholders. The details of SPP was announced to ASX on 23 November and 2 December 2022. The issue was completed at a price of \$0.80 per share and raised \$697,502. The proceeds will be used to accelerate the phase 1b clinical trial of VB0004, which targets the prevention and reversal of fibrosis in the heart and kidneys. Proceeds will also be used to advance Vectus' other emerging lead compounds and for working capital.

On 28 December 2022, Company allotted 500,000 shares upon exercise of 500,000 options with an exercise price of \$0.50 to a consultant. The options were issued on 27 July 2020 and the funds of \$250,000 from the exercise were received prior to the expiry date of 24 December 2022.

Other than those stated above, there have been no significant changes in the state of affairs of the consolidated entity during the year ended 30 June 2023.

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 liable, except where there is a lack of good faith.

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

INDEMNITY AND INSURANCE OF AUDITOR

The Company has 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: A member of the Board of Nanosonics Limited (ASX:NAN) from 14 November 2000 until 18 November 2022, Non-Executive Chairman from when NAN listed on 15 May 2007 until 1 July 2022, and Deputy Chairman of NAN from 1 July 2022 until 18 November 2022. Non-Executive Chairman of Aeris Environmental Ltd (ASX:AEI) since 24 July 2002.

Appointed to the Board: 12 December 2005

Dr Karen Duggan

Executive Director and Chief Executive Officer

Dr Karen Duggan is a founder of the Company. She was formally director of the Hypertension Service – South Western Sydney Area Health Service (SWSAHS), and is the immediate past chair of the National Blood Pressure and Vascular Disease Advisory Committee. Dr Duggan was also a member of the Cardiovascular Health Advisory Committee of the National Heart Foundation of Australia, 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

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 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; Director until 23 November 2022

Mr Robert Waring**Company Secretary**

Mr Robert Waring (BEc, CA, FCIS, FFin, FAICD) has over 40 years' worth of 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 on 9 July 2015.

MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors (the Board) and of each Board committee held during the year ended 30 June 2023, and the number of meetings attended by each Director / Committee member were:

	Board of Directors Meetings	Audit and Risk Management Committee Meetings	Remuneration and Nomination Committee Meetings	Corporate Governance Committee Meetings	R&D and Innovation Committee Meetings
Number of meetings held	11	3	3	1	-
Number of meetings attended					
Ronald Shnier	9	N/A	2	N/A	-
Maurie Stang	11	3	3	N/A	N/A
Karen Duggan	11	N/A	N/A	1	-
Peter Bush*	3	1	N/A	1	N/A
Susan Pond	11	3	3	1	-

*On 23 November 2022 Peter Bush ceased to be a Director of the Board, the Chair of the Audit and Risk Management Committee, and a member of the Corporate Governance Committee.

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

Susan Pond (Chair)
Maurie Stang

Remuneration and Nomination Committee

Maurie Stang (Chair)
Ronald Shnier
Susan Pond

Corporate Governance Committee

Susan Pond (Chair)
Karen Duggan

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.

SHARE REGISTRY

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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 23.

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	345,791	-
Maurie Stang	4,889,452	316,000
Karen Duggan	3,278,500	-
Susan Pond	40,250	-
Peter Bush - <i>Director until 23 November 2022, therefore number of shares held as at 23 November 2022 is disclosed</i>	105,200	-

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

Susan Pond

Peter Bush - Director until 23 November 2022

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:

2023	Number held 30 June 2022	Acquired during year	Sold during year	Number held 30 June 2023
Ronald Shnier	308,291	37,500	-	345,791
Maurie Stang	2,591,000	2,298,452	-	4,889,452
Karen Duggan	3,278,500	-	-	3,278,500
Peter Bush*	105,200	-	-	105,200
Susan Pond	21,500	18,750	-	40,250
	6,304,491	2,354,702	-	8,659,193

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

*Director until 23 November 2022, transactions included only to that date. 105,200 shares were held by Peter Bush as at the date he ceased to be a Director (23 November 2022).

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	\$ 2023	\$ 2022
Corporate and administration services	111,167	128,269
Current payables	70	15,688
Regional Corporate Services Pty Ltd		
Corporate and administration services	87,089	-
Current payables	5,378	-

Maurie Stang is a director and shareholder of Regional Healthcare Group Pty Ltd and Regional Corporate Services Pty Ltd.

Aeris Environmental Ltd	\$ 2023	\$ 2022
Accounting services received	-	24,552
Current payables	-	12,916

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

Aeris Environmental Ltd	\$ 2023	\$ 2022
Accounting services received	14,360	-
Current payables	2,442	-

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

Loan from Maurie Stang, Non-Executive Deputy Chairman		
Loan borrowing	-	-
Loan repaid	442,291	-
Interest paid on loan	17,546	35,383
Outstanding balance	-	442,291

Details of directors' and executive officers' remuneration for the year ended 30 June 2023:

	Short-term benefits		Equity based benefits		Total	Performance related
	Salary and Directors' fees	Post employment benefits	Shares	Options or Rights		
	\$	\$	\$	\$		
Non-Executive Directors						
Ronald Shnier	58,824	6,176	-	-	65,000	0.0%
Maurie Stang***	49,774	5,226	-	-	55,000	0.0%
Peter Bush**	16,290	1,710	-	-	18,000	0.0%
Susan Pond	40,724	4,276	-	-	45,000	0.0%
Total Non-Executive Directors	165,612	17,388	-	-	183,000	
Executive Directors						
Karen Duggan	231,485	24,263	-	-	255,748	6.0%
Total Executive Directors	231,485	24,263	-	-	255,748	
Total	397,097	41,651	-	-	438,748	

There were no long term benefits paid to directors and executive officers during 2023 financial year.

***316,000 options issued towards remuneration for services as a Non-Executive Director and Deputy Chairman for 6.33 years ended on 31 December 2021.

2,298,452 shares acquired by Maurie Stang during the financial year through conversion of convertible notes and other purchases, do not form part of his remuneration and hence not included in the above table.

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

	Short-term benefits		Equity based benefits		Total	Performance related
	Salary and Directors' fees	Post employment benefits	Shares	Options or Rights		
	\$	\$	\$	\$		
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	-	-	229,932	0.0%
Total Executive Directors	209,046	20,885	-	-	229,932	
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

**Director until 23 November 2022

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 (until 31 December 2022) From 1 January 2023, base remuneration was increased by \$7,620 to \$219,274. This is reviewed annually. During the 2023 financial year \$15,874 was paid as short term incentives.
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: <ul style="list-style-type: none">• 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: <ul style="list-style-type: none">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; orii. interfere with the relationship between the Company and its customers, employees or suppliers; oriii. 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.

	2023	2022	2021	2020	2019
	\$	\$	\$ (Re-stated)	\$	\$
Loss for the year	(3,448,860)	(3,993,775)	(3,861,244)	(2,996,071)	(1,596,280)
Basic loss per share (cents per share)	(7.19)	(11.97)	(13.71)	(12.73)	(6.83)
Dividend payments	-	-	-	-	-
(Decrease) / increase in share price (%)	(55.0%)	(27.0%)	87.5%	111.8%	(60.0%)
Total KMP remuneration as percentage of loss for the year (%)	(13%)	(12%)	(1%)	(14%)	(33%)

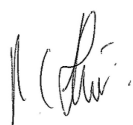
PERFORMANCE RIGHTS OR OPTIONS

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	
	2023	2022
Options granted to Maurie Stang, Non-Executive Director	316,000	-

No shares were issued to key management personnel as the result of the exercise of options or rights.

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



Dr Ronald Shnier
Non-Executive Chairman

30 August 2023

AUDITOR'S INDEPENDENCE DECLARATION



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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 2023,
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.

Mark Nicholaeff
Partner
Sydney
30 August 2023

UHY Haines Norton
Chartered Accountants

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2023 \$	2022 \$
Revenue and other income	3	1,354,535	1,300,081
Administration and corporate expenses		(930,687)	(734,694)
Finance costs	4	(205,522)	(693,485)
Depreciation and amortisation expense	4	(47,209)	(20,189)
Employee benefits expense and directors' remuneration	4	(1,463,005)	(1,135,930)
Occupancy expenses		(177,721)	(173,764)
Research & development	4	(1,957,587)	(2,535,652)
Travel expenses		(21,664)	(142)
Loss before income tax benefit from continuing operations		(3,448,860)	(3,993,775)
Income tax benefit	5	-	-
NET LOSS FOR THE YEAR		(3,448,860)	(3,993,775)
TOTAL COMPREHENSIVE LOSS FOR YEAR, NET OF TAX		(3,448,860)	(3,993,775)
Loss for the year attributable to:			
Owners of Vectus Biosystems Limited		(3,448,860)	(3,993,775)
Total comprehensive loss for the year attributable to:			
Owners of Vectus Biosystems Limited		(3,448,860)	(3,993,775)
Loss per share	25		
Basic loss per share (cents per share) from continuing operations		(7.19)	(11.97)
Diluted loss per share (cents per share) from continuing operations		(7.19)	(11.97)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	2023 \$	2022 \$
Current Assets			
Cash and cash equivalents	6	2,950,956	1,281,341
Other current assets	7	1,505,934	2,447,404
TOTAL CURRENT ASSETS		4,456,890	3,728,745
Non-Current Assets			
Property, plant and equipment	8	173,106	207,508
TOTAL NON-CURRENT ASSETS		173,106	207,508
TOTAL ASSETS		4,629,996	3,936,253
Current Liabilities			
Trade and other payables	9	253,608	149,012
Other current liabilities	10A	403,207	943,598
Borrowings	12	-	5,889,724
Provisions	11A	419,264	416,006
TOTAL CURRENT LIABILITIES		1,076,079	7,398,340
Non-Current Liabilities			
Provisions	11B	2,985	1,642
Other non-current liabilities	10B	27,428	70,266
TOTAL NON-CURRENT LIABILITIES		30,413	71,908
TOTAL LIABILITIES		1,106,492	7,470,248
NET ASSET / (LIABILITIES)		3,523,504	(3,533,995)
EQUITY			
Issued Capital	13	38,352,080	27,302,638
Convertible Notes - Equity		-	887,485
Reserves	24	803,145	458,743
Retained Earnings/(Accumulated Losses)	14	(35,631,721)	(32,182,861)
TOTAL EQUITY / (DEFICIT)		3,523,504	(3,533,995)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2023 \$	2022 \$
Cash flows from operating activities			
R&D tax offset rebate received		2,144,765	-
Payments to suppliers and employees		(4,527,702)	(4,344,323)
Interest received		54,459	163
Interest paid		(24,264)	(97,071)
Net cash used in operating activities	22(b)	(2,352,742)	(4,441,231)
Cash flows from investing activities			
Investment in property, plant and equipment		(17,127)	(21,001)
Net cash used in investing activities		(17,127)	(21,001)
Cash flows from financing activities			
Lease payments		(55,846)	(34,551)
Issue of shares		4,600,571	-
Cost of Issue of shares		(62,950)	-
Repayment of loans		(442,291)	-
Net cash provided by / (used in) financing activities	22(c)	4,039,484	(34,551)
Net increase in cash and cash equivalents		1,669,615	(4,496,783)
Cash and cash equivalents at the beginning of the financial year		1,281,341	5,778,124
Cash and cash equivalents at the end of the financial year	22(a)	2,950,956	1,281,341

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Equity	Convertible Notes	Retained Earnings	Reserves	Total attributable to equity holders of the entity
		\$	\$	\$	\$	\$
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	12	-	(125,637)	-	-	(125,637)
Transactions with owners						
Shares issued during the year	13	2,467,643	-	-	-	2,467,643
Movements in share-based payment reserve	24	-	-	-	3,971	3,971
Balance at 30 June 2022		27,302,638	887,485	(32,182,861)	458,743	(3,533,995)
Balance at 1 July 2022		27,302,638	887,485	(32,182,861)	458,743	(3,533,995)
Comprehensive Income						
Loss for the year		-	-	(3,448,860)	-	(3,448,860)
Total comprehensive loss for the year		-	-	(3,448,860)	-	(3,448,860)
Convertible Notes - Redemption	12	-	(887,485)	-	-	(887,485)
Transactions with owners						
Shares issued during the year	13	11,119,006	-	-	-	11,119,006
Share issue costs	13	(69,564)	-	-	-	(69,564)
Movements in share-based payment reserve	24	-	-	-	344,402	344,402
Balance at 30 June 2023		38,352,080	-	(35,631,721)	803,145	3,523,504

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CORPORATE INFORMATION

The financial report of Vectus Biosystems Limited (the Group) for the year ended 30 June 2023 was authorised for issue in accordance with a resolution of the Directors on 30 August 2023. The directors have the power to amend and reissue the financial statements.

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 after tax of \$3,448,860 for the financial year ended 30 June 2023 (2022: Operating loss after tax of \$3,993,775) and the net equity has improved from a deficit of \$3,533,995 as at 30 June 2022 to a surplus of \$3,523,504 as at 30 June 2023. The operating cash burn rate for the financial year ended 30 June 2023 was \$2,352,742 (2022: \$4,441,231). The cash balance as at 30 June 2023 was \$2,950,956. The above matters may 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 the 2023 financial year when an amount of \$4.6 million was raised. 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 \$5 million in October 2023. 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.

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.

New and revised Standards and amendments thereof and Interpretations effective for the current year include:

AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments

AASB 2021-7 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections (insofar as the Standard relates to editorial corrections that are effective for the current year)

The application of the amendments did not have a material impact on the Group's consolidated financial statements, as the amendments either do not affect the Group's existing accounting policies, or apply to situations, transactions and events that the Group does not undertake.

ACCOUNTING POLICIES

A. Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (Vectus Biosystems Limited) and the subsidiary (including any structured entities). Subsidiary is the entity the parent controls. The parent controls an entity when it is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 18.

The assets, liabilities and results of the subsidiary are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of 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%

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

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

J. Right of 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 and removing the underlying asset, and restoring the site or asset.

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

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

K. Financial Instruments

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 more 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 12.

N. Current and non-current classification

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

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

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

O. Intangible Assets

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

Research and development

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

Patents and trademarks

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

P. Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

Q. Government Grants

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

R. Comparative Figures

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

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

S. Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

2. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Employee benefits provision

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

Share-based payment transactions

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

3. OTHER INCOME

	2023	2022
	\$	\$
Other Income		
R&D tax offset rebate	1,288,190	1,300,000
Finance revenue	55,513	81
Other revenue	10,832	-
TOTAL	1,354,535	1,300,081

4. LOSS FROM ORDINARY ACTIVITIES

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

	2023	2022
	\$	\$
Depreciation and Amortisation Expense		
Depreciation of property, plant and equipment	47,209	20,189

	2023	2022
	\$	\$
Employment benefits and directors' remuneration		
Base salary and fees	1,322,883	1,020,229
Superannuation and statutory oncosts	127,733	89,077
Share based payment expense	2,065	8,637
Other employee expenses	5,722	7,500
Transfers from employee entitlements provisions	4,602	10,487
TOTAL	1,463,005	1,135,930
Finance Costs		
Borrowing cost - convertible notes	178,254	652,223
Interest on Directors' loan	17,546	35,383
Other finance costs	9,722	5,879
TOTAL	205,522	693,485
Research & Development expense		
Research and Development expense	1,559,704	2,107,836
Patent costs	397,883	427,816
TOTAL	1,957,587	2,535,652

5. INCOME TAX

A. Income tax expense

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

	2023 (\$)	2022 (\$)
Loss for year before income tax benefit	(3,448,860)	(3,993,775)
Income tax benefit calculated at 30%	(1,034,658)	(1,198,132)
Temporary differences and tax losses not recognised	506,197	808,132
Permanent differences		
R&D grant included in P&L not assessable	(386,457)	390,000
2023 R&D expenses not deductible	776,664	-
Capitalised new patents	33,974	-
Share based payments	104,280	-
Income tax benefit	-	-

B. Deferred tax balances not recognised

Calculated at 30% not brought to account as assets:

	2023	2022
	\$	\$
Deferred tax assets relating to tax losses		
Revenue tax losses available for offset against future tax income	5,640,126	4,890,298
Net deferred tax asset not recognised in respect of tax losses	5,640,126	4,890,298
Deferred tax assets relating to temporary differences		
Provision for employee entitlements	126,675	125,294
Accruals	104,412	266,345
Share Issue Costs	-	30,443
Prepayments	(21,298)	-
TOTAL	209,789	422,082
Net deferred tax asset not recognised in respect of temporary differences	209,789	422,082

Relevance of tax consolidation to the consolidated entity

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

6. CASH AND CASH EQUIVALENTS

	2023	2022
	\$	\$
Cash on Hand	860	860
Cash at Bank and Term Deposits	2,950,096	1,280,481
TOTAL	2,950,956	1,281,341

7. OTHER CURRENT ASSETS

	2023	2022
	\$	\$
Prepayments	70,995	128,666
R&D Grant Receivable	1,380,843	2,236,405
Inventory	978	395
Goods and Services Tax and other receivables	53,118	81,938
TOTAL	1,505,934	2,447,404

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

8. PROPERTY, PLANT AND EQUIPMENT

	2023	2022
	\$	\$
Plant and Equipment	808,744	808,744
Less: Accumulated depreciation	(652,790)	(615,783)
	155,954	192,961
Furniture & Fittings	-	15,139
Less: Accumulated depreciation	-	(15,139)
	-	-
Office Equipment	88,020	75,213
Less: Accumulated depreciation	(70,868)	(60,666)
	17,152	14,547
TOTAL	173,106	207,508

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 2022	192,961	-	14,547	207,508
Additions	-	-	12,807	12,807
Depreciation	(37,007)	-	(10,202)	(47,209)
Balance at 30 June 2023	155,954	-	17,152	173,106
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

9. CURRENT TRADE AND OTHER PAYABLES

	2023	2022
	\$	\$
Trade creditors	219,570	120,350
PAYG withholding payable	34,038	28,662
TOTAL	253,608	149,012

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

10. OTHER CURRENT AND NON-CURRENT LIABILITIES

	2023	2022
	\$	\$
A. Other current liabilities		
Accrued expenses*	360,428	887,818
Lease liability	42,779	55,780
TOTAL	403,207	943,598
B. Other non-current Liabilities		
Lease liability	27,428	70,266
TOTAL	27,428	70,266
*Accrued expenses include:		
Accrued Directors' fees (settled by issue of options, refer to remuneration report within the Director's Report)	-	348,333
Accrued R&D and Patent expenses	275,102	406,985
Other accruals	85,326	132,500
TOTAL	360,428	887,818

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 8).

The balance outstanding on finance lease is accounted as lease liability (current and non-current) in note 10A and 10B.

The financial statements shows the following amounts relating to leases:

	2023	2022
	\$	\$
Depreciation	35,849	13,574
Interest expense (included in finance cost)	6,725	3,107
Value of asset included in property, plant and equipment	152,872	173,050
Total cash flows for finance leases	62,564	36,953
Expense relating to short-term operating leases (included in occupancy expenses)	177,721	173,764

11. PROVISIONS

	2023	2022
	\$	\$
A. Current		
Provision for Annual Leave	358,165	332,799
Provision for Long Service Leave	61,099	83,207
TOTAL	419,264	416,006
B. Non-Current		
Provision for Long Service Leave	2,985	1,642
TOTAL	2,985	1,642

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

12. BORROWINGS

	2023	2022
	\$	\$
Loans from Directors	-	442,291
Refer to 'Transactions with Directors and Director related entities' in Directors' Report		
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
TOTAL	-	5,889,724

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: All 9,620,000 notes that were outstanding at the beginning of 2023 were converted during the year. (Refer to note 13 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:

	2023	2022
	\$	\$
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	2,380,764	2,202,509
Redeemed	(8,021,609)	(2,395,921)
	-	5,447,433
Convertible Notes - Equity		
Equity component recognised	1,013,122	1,013,122
Redemption adjustments	(1,013,122)	(125,637)
	-	887,485

13. ISSUED CAPITAL

	2023 Number of Shares	2022 Number of Shares	2023 \$	2022 \$
Ordinary shares - fully paid (no par value)	53,189,519	36,263,658	38,352,080	27,302,638

MOVEMENTS IN ORDINARY SHARE CAPITAL OF VECTUS BIOSYSTEMS LIMITED

	2023 Number of Shares	2022 Number of Shares	2023 \$	2022 \$
Balance at beginning of the year	36,263,658	31,655,394	27,302,638	24,834,995
Shares issued during the year				
Shares issued against redemption of convertible notes*	10,981,736	4,602,431	6,513,172	2,462,977
Other share issues**	5,944,125	5,833	4,605,834	4,666
	53,189,519	36,263,658	38,421,644	27,302,638
Transaction costs relating to share issues	-	-	(69,564)	-
Balance at end of year	53,189,519	36,263,658	38,352,080	27,302,638

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.

*Shares issued against redemption of convertible notes includes:

On 7 September 2022, the Company issued a total of 763,529 shares as follows:

- 680,000 shares were issued to two convertible noteholders following conversion of 680,000 convertible notes at a price of \$0.50 per note.
- Interest at 6% per annum was paid to these note holders by issue of 83,529 shares calculated at \$0.77 per share.

On 28 September 2022, the Company issued a total of 10,218,207 shares as follows:

- 8,940,000 shares were issued to two convertible noteholders following conversion of 8,940,000 convertible notes at a price of \$0.50 per note.
- Interest at 6% per annum was paid to these note holders by issue of 1,278,207 shares calculated at \$0.668 per share.

The remaining balance of \$785,013 was as a result of transfer of initial equity balances from the convertible notes valuation to share capital, net of redemption adjustments on conversion of the convertible notes.

**Other share issues includes:

On 2 December 2022, Company issued 4,566,337 shares to a number of sophisticated investors under the placement announced on 23 November 2022. The issue was completed at a price of \$0.80 per share, and raised \$3,653,070 before costs. The net proceeds of the placement will be used to accelerate the phase 1b clinical trial of VB0004, which targets the prevention and reversal of fibrosis in the heart and kidneys. Proceeds will also be used to advance Vectus' other emerging lead compounds and for working capital.

On 28 December 2022, Company allotted 871,875 shares under its Share Purchase Plan (SPP) to 44 participating shareholders. The details of SPP was announced to ASX on 23 November and 2 December 2022. The issue was completed at a price of \$0.80 per share and raised \$697,502. The proceeds will be used to accelerate the phase 1b clinical trial of VB0004, which targets the prevention and reversal of fibrosis in the heart and kidneys. Proceeds will also be used to advance Vectus' other emerging lead compounds and for working capital.

On 28 December 2022, Company allotted 500,000 shares upon exercise of 500,000 options with an exercise price of \$0.50 to a consultant. The options were issued on 27 July 2020 and the funds of \$250,000 from the exercise were received prior to the expiry date of 24 December 2022. Remaining 5,913 shares were issued to employees under Employees Share Options Plan during the financial year.

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 2022 Annual Report.

14. ACCUMULATED LOSSES

	2023	2022
	\$	\$
Accumulated loss at the beginning of the financial year	(32,182,861)	(28,189,086)
Loss after income tax expense for the year	(3,448,860)	(3,993,775)
Accumulated loss at the end of the financial year	(35,631,721)	(32,182,861)

15. RELATED PARTY DISCLOSURES

A. Subsidiary

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

B. Key management personnel

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

C. Transactions with related parties

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

16. KEY MANAGEMENT PERSONNEL (KMP)

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

Ronald Shnier

Maurie Stang

Karen Duggan

Susan Pond

Peter Bush - Director until 23 November 2022

b. The aggregate compensation made to KMP of the consolidated entity is set out below:

	2023	2022
	\$	\$
Short-term employee benefits	397,097	432,679
Post-employment benefits	41,651	43,085
Share-based payments	-	-
TOTAL	438,748	475,764

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

17. COMMITMENTS

	2023	2022
	\$	\$
A. Lease commitments - finance		
Committed at the reporting date and not recognised as liabilities, payable:		
Within one year	42,838	55,780
One to five years	27,368	70,266
TOTAL	70,206	126,047

	2023	2022
	\$	\$
B. Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable for the laboratory facility at North Ryde:		
Within one year	14,810	14,810
One to five years	-	-
TOTAL	14,810	14,810

	2023	2022
	\$	\$
C. Operating commitments		
Committed at the reporting date but not recognised as liabilities, payable:		
<i>Research and development expenses</i>		
Within one year	2,513,238	1,909,544
One to five years	-	-
TOTAL	2,513,238	1,909,544

D. Capital expenditure commitments

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

18. INTEREST IN SUBSIDIARY

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

Name	Principal place of business/ Country of Incorporation	Ownership Interest	
		2023	2022
		%	%
Accugen Pty Limited	Australia	100%	100%

19. SUBSEQUENT EVENTS

There have been no matters or circumstances, which have arisen since 30 June 2023 that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2023, of the Group; or
- the results of those operations; or
- the state of affairs, in the financial years subsequent to 30 June 2023, of the Group.

20. REMUNERATION OF AUDITORS

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

	2023	2022
	\$	\$
Audit Services - UHY Haines Norton		
Audit and review of financial statements	56,400	43,400

21. PARENT ENTITY INFORMATION

	2023	2022
	\$	\$
Loss after income tax	(3,433,528)	(4,149,752)
Total comprehensive loss	(3,433,528)	(4,149,752)
Total current assets	5,615,805	4,873,341
Total assets	5,784,110	5,074,890
Total current liabilities	1,074,634	1,508,668
Total liabilities	1,105,047	7,468,658
Equity		
Issued capital (net of share issue cost)	38,352,080	27,302,638
Convertible notes	-	887,485
Reserves	803,144	458,742
Retained earnings/accumulated losses	(34,476,161)	(31,042,633)
TOTAL EQUITY	4,679,063	(2,393,768)

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

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

Operating commitments and Contingent liabilities

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

Capital Commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2023 and 30 June 2022.

Significant accounting policies

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

22. NOTES TO CASH FLOW STATEMENTS

A. Reconciliation of cash

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

	2023	2022
	\$	\$
Cash at bank and on hand	2,950,956	1,281,341

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

	2023	2022
	\$	\$
Operating loss after income tax	(3,448,860)	(3,993,775)
Non cash/non-operating items included in profit and loss		
Depreciation and amortisation	47,209	20,189
Convertible Notes interest	178,254	593,642
Share based payments	2,065	8,637
Other adjustments	53,552	(98,792)
Changes in assets and liabilities		
Decrease / (Increase) in other current assets	941,470	(1,319,900)
Increase / (Decrease) in trade and other payables	104,596	(201,187)
(Decrease) / Increase in other creditors and accruals	(235,629)	539,468
Increase in employee entitlement provision	4,601	10,487
NET CASH USED IN OPERATING ACTIVITIES	(2,352,742)	(4,441,231)

C. Changes in liabilities arising from financing activities

	Lease Liability	Loan Borrowings	Convertible Notes
Balance at 1 July 2022	126,046	442,291	5,447,433
Interest	6,725	17,546	178,255
Payments	(62,564)	(459,837)	-
Redemption	-	-	(5,625,688)
Borrowings	-	-	-
Balance at 30 June 2023	70,207	-	-
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





23. OPERATING SEGMENTS

The consolidated group had no reportable segments during the year.

24. RESERVES

	2023	2022
	\$	\$
Share based payments reserve		
Balance at beginning of financial year	458,743	454,772
Share based payments during the year allocated to:		
Employees and consultant (recognised as expense, refer note 4)	2,065	8,637
Directors (settlement of accrued expenses, refer note 10A)	347,600	-
Utilised for share issue	(5,263)	(4,666)
BALANCE AT END OF FINANCIAL YEAR	803,145	458,743

	2023	2022
Particulars of options or rights granted over unissued shares		
Weighted average remaining contractual life	3.41 years	0.67 years
Range of exercise prices	NIL	NIL to \$0.50
Options or rights on issue		
Employees and consultants	3,480	527,099
Key Management Personnel (KMP)	316,000	-
TOTAL	319,480	527,099
Options or rights granted during the year (Details noted below*)		
Employees and consultants	6,774	10,689
Key Management Personnel (KMP)	316,000	-
TOTAL	322,774	10,689
Shares issued as a result of exercise of options or rights (Details noted below**)		
Employees and consultants	505,913	5,833
Key Management Personnel (KMP)	-	-
TOTAL	505,913	5,833
Options or rights expired or forfeited during the year		
Employees and consultants	24,480	1,666
Key Management Personnel (KMP)	-	-
TOTAL	24,480	1,666

*Details of options or rights granted during the year

	2023	2023	2022
	Granted to KMP	Granted to Employees	Granted to Employees
Number of options	316,000	6,774	10,689
Exercise price	NIL	NIL	NIL
Expiry date	23/11/2026	15/3/2027	23/2/2027
Grant date	14/12/2022	26/4/2023	7/6/2022
Dividend	NIL	NIL	NIL
Market price at grant date	N/A	\$0.52	\$1.38
Valuation price	\$1.10	\$0.52	\$1.38

Valuation of 316,000 options granted to KMP was the basis of 90-day VWAP for the shares traded prior to the completion of Notice of 2023 AGM.

Valuation of options granted to employees was on the basis of market price at grant date.

**Details of shares issued as a result of exercise of options or rights

	2023	2023	2023	2022
	Issued to Consultant	Issued to Employees	Issued to Employees	Issued to Employees
Number of options	500,000	2,500	3,413	5,833
Exercise price	\$0.50	NIL	NIL	NIL
Exercise date	28/12/2022	12/7/2022	16/9/2022	5/10/2021
Market price at exercise date	\$0.77	\$0.94	\$0.75	\$1.50
Original valuation price	\$0.37	\$0.74	\$1.00	\$0.74

25. LOSS PER SHARE

	2023	2022
	\$	\$
Basic loss per share (cents per share)	(7.19)	(11.97)
Diluted loss per share (cents per share)	(7.19)	(11.97)
Loss used to calculate basic loss per share	(3,448,860)	(3,993,775)
Loss used to calculate diluted loss per share	(3,448,860)	(3,993,775)
Weighted average number of ordinary shares used to calculate basic loss per share	47,952,355	33,375,823
Weighted average number of ordinary shares used to calculate diluted loss per share*	47,952,355	33,375,823
Options and rights eligible for conversion into ordinary shares in future		
Options	319,480	527,099
Convertible notes	-	9,620,000
TOTAL	319,480	10,147,099

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

26. FINANCIAL INSTRUMENTS DISCLOSURES

A. Capital

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

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

B. Financial instrument risk exposure and management

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

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

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

C. Principal financial instruments

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

- Cash at bank;
- 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:

	2023	2022
	\$	\$
Cash in banks and term deposits	2,950,096	1,280,481

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 2023	Cash flows	< 1 year	1 - 3 years	Total	Carrying amount
	\$	\$	\$	\$	\$
Financial assets					
Cash and cash equivalents	2,950,956	2,950,956	-	2,950,956	2,950,956
TOTAL	2,950,956	2,950,956	-	2,950,956	2,950,956
Financial liabilities					
Trade Creditors	253,608	253,608	-	253,608	253,608
Accruals	360,428	360,428	-	360,428	360,428
Lease liabilities	77,228	38,614	38,614	77,228	70,207
TOTAL	691,264	652,650	38,614	691,264	684,243
NET MATURITY	2,259,692	2,298,306	(38,614)	2,259,692	2,266,713

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
Loans	477,674	477,674	-	477,674	442,291
Lease liabilities	138,651	61,423	77,228	138,651	126,046
Convertible notes	5,728,787	5,728,787	-	5,728,787	5,447,433
TOTAL	7,381,942	7,304,714	77,228	7,381,942	7,052,600
NET MATURITY	(6,100,601)	(6,023,373)	(77,228)	(6,100,601)	(5,771,259)

iii. Interest rate risk

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

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

	Weighted Average Rates	Floating Rates	Fixed Rates	Non-interest Bearing	Total
	%	\$	\$	\$	\$
2023					
Financial Assets					
Cash and cash equivalents	2.0%	2,950,956	-	-	2,950,956
TOTAL		2,950,956	-	-	2,950,956
Financial liabilities					
Trade Creditors	0.0%	-	-	253,608	253,608
Other payables and accruals	0.0%	-	-	360,428	360,428
Lease liabilities	5.3%	-	77,228	-	77,228
TOTAL		-	77,228	614,036	691,264
NET FINANCIAL ASSETS (LIABILITIES)		2,950,956	(77,228)	(614,036)	2,259,692

	Weighted Average Rates %	Floating Rates \$	Fixed Rates \$	Non-Interest Bearing \$	Total \$
2022					
Financial Assets					
Cash and cash equivalents	1.0%	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)

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	Carrying amount	+0.5% interest Profit & Loss	-0.5% interest Profit & Loss
2023	\$	\$	\$
Cash at bank	2,950,956	14,755	(14,755)
Term deposits	-	-	-
		14,755	(14,755)
Tax charge of 30%		(4,426)	4,426
Post tax profit increase / (decrease)		10,328	(10,328)

Sensitivity analysis	Carrying amount	+0.5% interest Profit & Loss	-0.5% interest Profit & Loss
2022	\$	\$	\$
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)

27. CONTINGENT LIABILITIES

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

DIRECTORS' DECLARATION

In the opinion of the Directors:

1. the attached financial statements and notes that are set out on pages 24 to 61 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 2023 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



Dr Ronald Shnier
Non-Executive Chairman

30 August 2023



INDEPENDENT AUDITOR'S REPORT



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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 2023, which comprises the consolidated statement of financial position as at 30 June 2023, 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 2023 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 that 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
<p>The Group has had a history of making losses. The net loss after tax for 2023 was \$3.45 million (2022: \$3.99 million). Therefore, there is a risk that the Group may not have the ability to continue as a going concern.</p> <p>At 30 June 2023, the Group had \$2.95 million (2022: \$1.28 million) of cash in the bank. The net cash outflow from operating activities in 2023 was \$2.35 million (2022: \$4.44 million), in which the cash inflows from R&D tax incentive received in 2023 was \$2.14 million (2022: \$nil).</p> <p>A key audit matter is the Group’s ability to continue as a going concern.</p>	<p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> ▪ Assessed the cash flow projections for 15 months from the end of the financial year ended 30 June 2023. ▪ 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

As disclosed in the financial report, the Group has expensed all research and development expenditures (FY2023: \$1.96 million, FY2022: \$2.54 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 Company.

AASB 138: Intangible Assets prescribes that research and development expenditure on an asset or product be capitalised as an intangible asset when specific criteria (relating to commercial viability) are met.

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.

How our audit addressed the risk

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 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 developed, nature of contracts with key suppliers and the stage of related sales prospects.

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 2023, 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 16 - 22 of the directors' report for the year ended 30 June 2023.

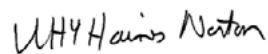
In our opinion, the Remuneration Report of Vectus Biosystems Limited, for the year ended 30 June 2023, complies with section 300A of the *Corporations Act 2001*.

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.



Mark Nicholaeff
Partner
Sydney
30 August 2023



UHY Haines Norton
Chartered Accountants

AUSTRALIAN SECURITIES EXCHANGE (ASX) ADDITIONAL INFORMATION

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

SECURITY HOLDER INFORMATION

DISTRIBUTION OF SHAREHOLDERS

Analysis of the fully paid ordinary shares by holding as at 16 August 2023:

Spread of Holdings	Number of Holders	Ordinary shares	% of Total Issued Capital
1 – 1,000	85	46,464	0.09
1,001 – 5,000	180	410,457	0.77
5,001 – 10,000	62	478,135	0.90
10,001 – 100,000	200	7,454,348	14.01
100,001 – and over	74	44,800,115	84.23
TOTALS	601	53,189,519	100.00

On 16 August 2023 there were 95 shareholders holding less than a marketable parcel of \$500 worth of shares at a share price of \$0.40.



STATEMENT OF SHAREHOLDINGS AS AT 16 AUGUST 2023

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

#	Shareholder	Number of Shares	% Holding
1	Kefford Holdings Pty Ltd <The Kefford Family A/C>	4,770,000	8.968
2	HSBC Custody Nominees (Australia) Limited	3,341,648	6.283
3	Ajjika Technology Pty Limited <The Ajjika A/C>	3,200,000	6.016
4	Bernard Stang	2,676,500	5.032
5	Energy Trading Systems Pty Ltd <The MPF A/C>	2,562,500	4.818
6	Maurie Stang	2,285,952	4.298
7	Gleneagle Securities Nominees Pty Limited	1,611,596	3.030
8	Bennelong Resources Pty Ltd <John Egan Super Fund A/C>	1,500,000	2.820
9	Spinite Pty Ltd	1,435,773	2.699
10	Grizzly Holdings Pty Limited	1,407,035	2.645
11	Citicorp Nominees Pty Limited	1,362,470	2.562
12	Truebell Capital Pty Ltd <Truebell Investment Fund>	1,269,526	2.387
13	Esklaw Pty Ltd <Tom Forrester Family A/C>	1,000,000	1.880
14	Buttonwood Nominees Pty Ltd	795,190	1.495
15	T S Rai 2 Pty Ltd <Websta Super Fund A/C>	700,000	1.316
16	Gleneagle Securities (Aust) Pty Ltd	638,675	1.201
17	TDF Properties Pty Ltd <The TDF Property A/C>	599,339	1.127
18	Benlee Company Pty Ltd <The Benlee A/C>	594,398	1.118
19	Gleneagle Securities (Aust) Pty Ltd <House Prop A/C>	570,000	1.072
20	Satwant Kaur Rai	550,000	1.034
	Total of Top 20 Holdings	32,870,602	61.801
	Other Holdings	20,318,917	38.199
	Total Ordinary Shares	53,189,519	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 have no voting rights until the options are exercised 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
Kefford Holdings Pty Ltd <The Kefford Family A/C>	5,178,668
Regal Funds Management Pty Ltd	4,457,782
Mr Maurie Stang	4,858,952
Dr Karen Duggan	3,278,500
Mr Bernard Stang	2,560,500

Options (ASX:VBSAI and VBSAH) issued under Employee Incentive Plan as at 16 August 2023.

Details of Option Holders	Zero Exercise Price Options (progressive vesting dates)
Vectus employee	3,480 – expire, if not exercised, on 15 March 2027 (VBSAI)
Vectus Director Mr Maurie Stang	316,000 – expire, if not exercised, on 23 November 2026 (VBSAH)

ON-MARKET BUY-BACK

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

CORPORATE DIRECTORY

VECTUS BIOSYSTEMS LIMITED

ACN: 117 526 137

ABN: 54 117 526 137

DIRECTORS

Dr Ronald Shnier

Non-Executive Chairman

Mr Maurie Stang

Non-Executive Deputy Chairman

Dr Karen Duggan

Executive Director and Chief Executive Officer

Dr Susan Pond

Non-Executive Director

COMPANY SECRETARY

Mr Robert Waring

REGISTERED AND PRINCIPAL OFFICE

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SHARE REGISTRY

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AUDITOR

UHY Haines Norton Sydney

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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

