

**Medical Developments International Limited.**  
**Appendix 4E**

**Results for Announcement to the Market**

The following information is provided in accordance with ASX Listing Rule 4.3C.2

		<b>Percentage Change</b>		<b>Amount \$'000</b>
Revenue (gross) from ordinary activities	Up	10.6%	to	23,640
Revenue (net) from ordinary activities	Up	7.9%	to	22,535
Profit after tax from operating activities attributable to members	Down	63.5%	to	379
Net Profit after tax attributable to members	Down	63.5%	to	379

**Earnings Per Share**

Basic earnings per share for the year ended 30 June 2020 was 0.58 cents (30 June 2019: 1.61 cents).

**Dividends**

No full year dividend was declared. A fully franked interim dividend of 2 cents per share was declared and paid during the year.

**Net Tangible Assets**

Net tangible asset backing per ordinary share as at 30 June 2020 was negative 5.6 cents (30 June 2019: positive 5.6 cents). The net tangible asset backing calculation includes the right-of-use lease asset at 30 June 2020 of \$2.803m

Brief explanation of the figures above

Refer to the attached Chairman and CEO report.

Annual General Meeting

The Annual General Meeting will be held as follows:

Place:                   Details of virtual AGM to be confirmed  
Date:                    Wednesday, 28 October 2020  
Time:                    10.30am



20 August, 2020

**ANNUAL REPORT**

Pursuant to listing rule 4.3A, please attached Medical Developments International Limited's audited Financial Report for the year ended 30 June 2020 and associated results announcement.

A handwritten signature in black ink, appearing to be "T. J. J.", is written in a cursive style.

Company Secretary

# Chairman's and CEO's Report

## Key Achievements FY20

### Pentrox®

- In-market sales in the UK and Ireland grew 23%
- Australian Pentrox® sales grew 3%, with further growth into the GP & Hospital market curtailed in the last quarter due to COVID-19
- China IND approval
- Russian Marketing Authorisation Application lodged
- Russian Milestone payment received from partner
- New approvals in Thailand, Hungary, Netherlands, Bosnia & Herzegovina
- Pentrox® launch in Italy
- 386 customers in France
- 182 customers across the rest of Europe
- 670 customers in the UK and Ireland
- Approved for use by UK Military and given a NATO number
- Finalisation of the Post Authorisation Safety Study Clinical Report
- Progressing USA IND
- Progressing South Korea approval
- Progressed the Paediatric Study in the UK and Ireland

### Respiratory Medical Devices

- Record year for our respiratory device business that grew sales by 61%
- USA sales grew 98%
- UK and European sales grew 128%
- Australian sales grew 43%

### Other

- New 5-year agreement with CSIRO for Continuous Flow technology
- Continued investment in clinical development programs and trials
- Received R&D Tax Incentive concession of \$431,000
- MVP was admitted to the ASX 300 for the first time in June

## COVID-19 mixed impact on trading

Medical Developments International Limited ("MVP") (ASX: MVP) reported a 63% decrease in Net Profit after Tax to \$0.379m (FY19 \$1.037m) for the twelve months ended 30 June 2020. Revenue increased 11% to a record \$23.6 million (FY19 \$21.4 million) and Earnings Before Interest, Tax, Depreciation and Amortisation decreased 22% to \$2.695m (FY19: \$3.440m).

Respiratory sales were an all-time high in FY20 growing by 61%. This was partly attributed to COVID-19 related purchasing but predominately related to new product launches and new pharmacy channel success in multiple markets. Respiratory sales in Australia grew 43% and sales in North America grew by 88%.

Pentrox® revenue declined for the full year by 8%, after having increased 6% in the first half. With decreased sporting and outdoor activity, as well as reduced population movements,

demand decreased in the last quarter within Emergency Services. Despite this, domestic sales increased by 3%, whilst UK in-market sales increased by 23%. Pentrox® EU sales were the primary contributing factor to the overall decline even though actual in-market sales grew 15%. As announced on 19 August 2020, MVP is taking back ownership of the Pentrox® EU distribution rights and growing this important market will be a primary focus in FY21 with plans already well advanced.

Despite the immediate headwinds experienced by Pentrox® during the COVID-19 pandemic the convenience, utility and safety of the product within Emergency Services has been recognised whilst operating under difficult circumstances and we expect to emerge in a stronger position within these services.

The internal and manufacturing operations of MVP have not been adversely impacted by COVID-19 shutdowns, given the company is recognised as an essential business and has been able to accommodate ongoing production and work from home practices.

# FY20 Full Year Result

Revenue was a record \$23.6 million and gross margins decreased slightly reflective of a higher weighting of generally lower margin medical devices sales in FY20.

## Expenses

Operating Expenses increased 15%. This increase is due to:

- Increased 'pharmacovigilance' cost as a result of expanding geographic sales for Pentrox® and Medical Devices;
- Marketing expenses as a result of growth in Pentrox® and Breath-A-Tech® sales in Australia;
- 'Non cash' depreciation and interest expenses (change of accounting standard – AASB 16 Leases); and
- Increased investment in R&D

## Cash flow

At 30 June 2020, the group had \$15.5million in cash. During the year MVP invested:

- \$5.4 million in clinical trials for Pentrox®;
- \$1.1 million in our manufacturing development program with the CSIRO; and
- \$1.5 million in various manufacturing equipment and leasehold improvements.

# Pentrox®

## United States of America

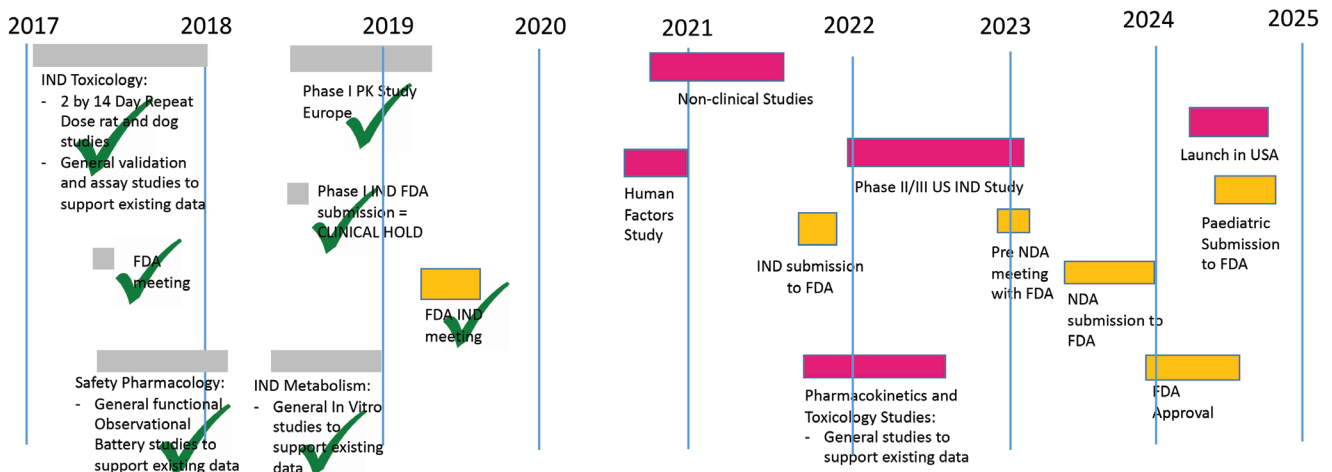
MVP is hoping to receive feedback on the pre-clinical protocol shortly in order to commence this study by Q4 2020.

Whilst awaiting FDA feedback, MVP has continued to compile its clinical package for the FDA which will be submitted in late August 2020 in anticipation of coordinating a Type C meeting with the FDA in late 2020. The completion of the Human Factors study which involves subjects trialling and administering the Pentrox® device, has been delayed as it requires the direct involvement of USA health care professionals and participants which is restricted during times of COVID.

MVP expects to be in a position to address in full all the clinical hold issues during the third quarter of CY21 with a view to filing the IND in CY21.

MVP remains confident we will be able to supply the FDA with the additional information it requires. Our confidence is based on 40+ years of experience, the demonstrated safety profile of Pentrox® over that time, the additional clinical data we have to support our IND including our Post Authorisation Safety study, PK study, our ongoing clinical development program and our recent achievements in getting Pentrox® approved for sale in more than 40 countries around the world. The below chart represents the envisaged USA regulatory timeline:

## Pentrox® in the USA



## Europe

In October 2019, Pentrox<sup>®</sup> was included and recommended as **'first-line of treatment'** in the **European Society of Emergency Medicine ("EUSEM")** guidelines for the 'Management of acute pain in emergency situations'. In addition, the MEDITA clinical study was published in Europe demonstrating Pentrox<sup>®</sup> superiority over Standard of Care and IV morphine for acute trauma pain treatments in patients. These events should prove to be pivotal moments for Pentrox<sup>®</sup> in Europe.

Europe in-market sales were up 15%, where there are 568 customers buying Pentrox<sup>®</sup> in Europe including 386 in France. We believe that number will grow strongly under our direct control as our focus is on achieving reimbursement in key target markets, building product awareness and demand within existing markets and undertaking aggressive and targeted new launches.

A number of significant markets in Europe are yet to launch including Germany, the Netherlands and Spain. We believe that Pentrox<sup>®</sup> will become a mainstream analgesic in the European market.

The regulatory reimbursement environment for pharmaceuticals in Germany remains unpredictable which has delayed the launch of Pentrox<sup>®</sup>.

National Regulatory Applications are expected to be filed with the relevant agencies in Greece, Macedonia, Serbia, Albania, Liechtenstein, Montenegro, Kosovo, San Marino, Vatican City, Andorra and Monaco in due course.

## France

In-market sales grew 15% in FY20 and feedback from this market continues to be very positive. France now has **approval from 121 hospitals with 386 customers** buying and using Pentrox<sup>®</sup>.

## UK and Ireland

In the UK and Ireland, Galen continues to make good progress. In-market sales **grew 23%** in the current period. **145 hospitals have now approved Pentrox<sup>®</sup>** and 670 customers are using the product. These include seven of the eleven Major Trauma Centres in the UK. Whilst Pentrox<sup>®</sup> is being used in all Ambulance Services and major hospitals in Ireland, the roll out into multiple UK ambulance services continues. Evaluations and assessments within the UK ambulance setting continue and significant penetration within the UK ambulance market is expected during FY21. We are buoyed by the positive in-market feedback that we received from the Ambulance Services and Galen, who remain confident Pentrox<sup>®</sup> will be a significant success.

Pentrox<sup>®</sup> has been approved for use by the UK Military and given a NATO number which allows other NATO military organisations access to Pentrox<sup>®</sup>.

## Australia

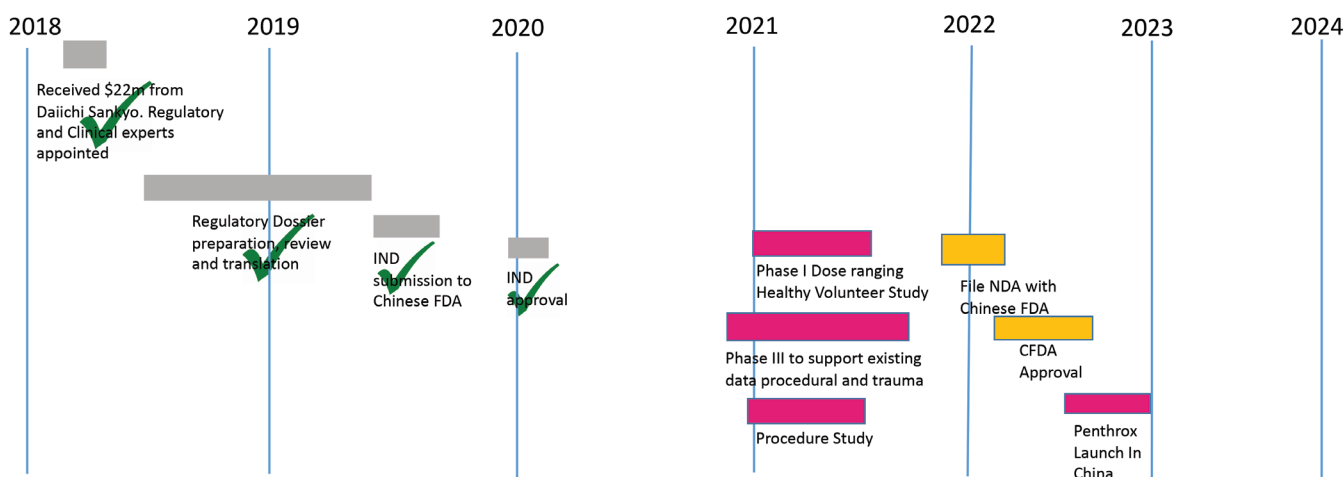
Australian sales **grew 3%** in the current period, whilst in-market sales to non-ambulance channels **grew 25%**. Growth may have been curtailed in the last quarter due to COVID-19 related restrictions that impacted the movements of the wider Australian population, including our distribution partner's General Practitioner and Hospital channels. We remain confident that our partners will drive future sales growth, particularly within the General Practitioner and Hospital channels.

Pentrox<sup>®</sup> is now sold into more than 200 hospitals and medical clinics in Australia.

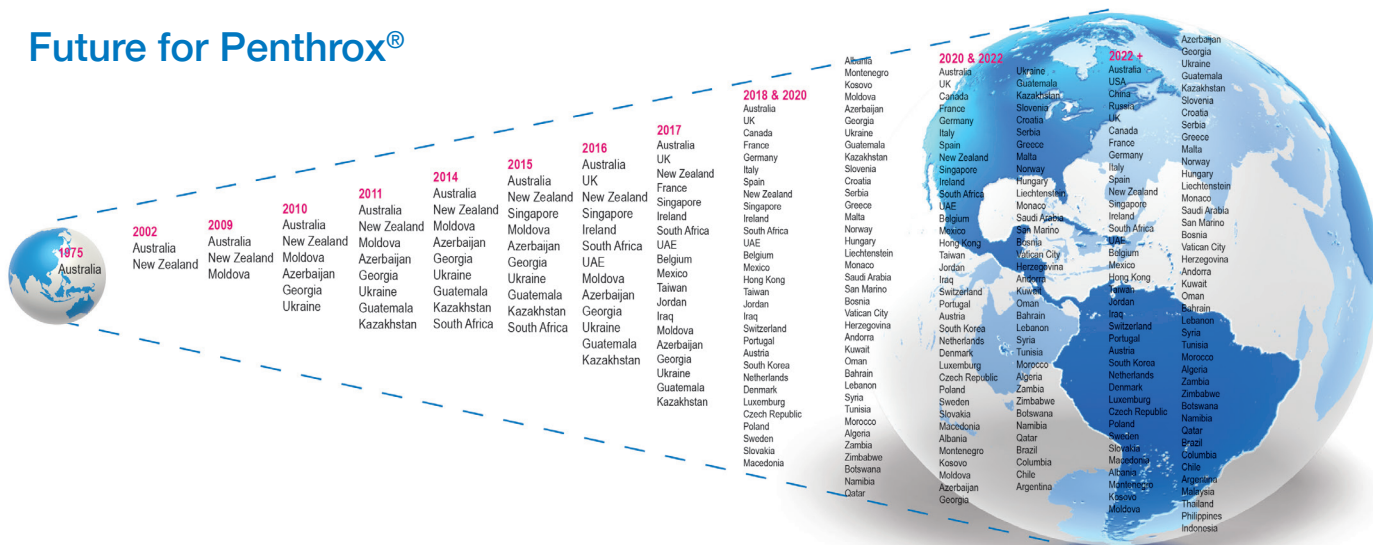
## Rest of World

Chinese Regulatory approval is well underway. The IND was approved during the year and patient recruitment for the human trials is targeted for late 2020. Whilst COVID-19 has delayed the recruitment of patients in China in recent months, MVP has used this time to finalise protocol amendments and continue with trial start up activities. The below chart outlines the envisaged timeline for approval in China:

## Pentrox<sup>®</sup> in China



## Future for Pentrox®



MVP continues to negotiate with interested parties from around the world in terms of registering and selling Pentrox®, whilst concurrently pursuing other important international regulatory submissions and preparations in countries including USA, China, Russia, Iran, Iraq and South Korea. New launches to occur in H1 FY21 include Thailand and Mexico.

## Respiratory

Our respiratory device business achieved sales **growth of 61%**. Sales grew strongly in the United States **up 98%**, Canada **up 58%** and UK & Europe **up 128%**. Our Australian business sales were up 43%, led by our premium brand Breath-A-Tech® **up 35%**.

In the USA market we continue to build on our growing reputation and awareness of the product in that market via our presence in an estimated 20,000 pharmacies. In August 2020, Walmart will launch their 'equate' branded spacer range, manufactured by MVP. This will be Walmart's first private label prescription product under the 'equate' brand and will be available in all Walmart pharmacies (circa 4,600 stores in the USA). We are targeting further pharmacy chains in FY21 and expect to deliver significant sales growth in the USA in the years ahead.

Sales growth in the EU can be attributed to COVID-19 related buying and also a launch via a new EU based distributor PIKDARE into new pharmacy channel markets within France and Portugal and also a number of smaller Middle Eastern countries.

Sales of our premium spacer brand, Breath-A-Tech, **grew 35%** in Australia, on the back of a spike in demand caused by COVID-19, sales related to the launch of our new antistatic spacer and growth in sales of our new cardboard spacer.

## Commercial

### Continuous Flow

In October 2019, MVP signed a new 5 year 'global exclusive' agreement with the CSIRO to further develop our continuous flow manufacturing technologies currently used at our Scoresby production site in Victoria. This initiative has the potential to deliver large commercial benefits over traditional 'batch' API manufacturing methods and in the process revolutionise the way some pharmaceuticals are made. This includes reducing the overall cost of manufacturing APIs by reducing cost of goods, capital expenditure, factory footprint and energy consumption while delivering significant improvements in process and quality.

The program continues to progress well with advancements being made in the commercialisation of Lidocaine (analgesic) & Diclofenac (anti-inflammatory) APIs. Several new targets are under early investigation with promising results being seen in translation from batch to flow manufacture.

## Veterinary

Sales in our Vet business declined 43% in FY20 to \$0.351m.



MVP's ambition is to replicate the domestic success in analgesia and respiratory internationally, whilst capturing a greater share of the full margin on sales. Taking back the EU is a big step to achieving that.

Recent clinical evidence that Pentrox<sup>®</sup> offers superior pain relief to IV morphine and other Standard of Care therapies, together with Pentrox's recommendation as a first line therapy in Europe are significant steps forward in achieving this ambition.

Our Respiratory Device business is growing strongly.

Over the next 12 months we expect to:

- complete the handback of the Pentrox<sup>®</sup> EU distribution rights and aggressively pursue targeted country reimbursements, launches and expansion activity via a direct in-market presence in the EU;
- complete the role out of Pentrox<sup>®</sup> into Mexico, Iran, Jordan and Thailand;
- consolidate on our record year for respiratory and further grow our device sales in Australia, the USA, Europe and elsewhere;

- resubmit our IND for Pentrox<sup>®</sup> in the USA;
- conclude additional distribution partnerships for Pentrox<sup>®</sup> and Respiratory Devices for new countries;
- advance our Continuous Flow intellectual property and our new manufacturing processes; and
- continue our clinical program to extend the indications for use of Pentrox<sup>®</sup> globally.

Over the next few years our global market approvals and 'indication extensions' for Pentrox<sup>®</sup> are expected to deliver strong growth, as will our respiratory device business. We are also making good progress with our continuous flow technology. This opportunity is significant and we are optimistic we will commercialise products from the technology.

We continue to innovate our iconic products whilst developing new products and technologies. Significant progress was made this year in licensed areas with increased market approvals, new geographic sales territories and clinical evidence.

We look forward to reporting our progress and successes.

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#### Further Information:

**DAVID WILLIAMS**  
CHAIRMAN

+61 414 383 593

**MAX JOHNSTON**  
ACTING CEO

+61 412 041 298







## **Full-Year Report**

Financial Year Ended 30 June 2020

(Previous corresponding period: financial year ended 30 June 2019)



Medical Developments International Limited.  
Annual Financial Report

**Annual Financial Report for the Financial Year Ended 30 June 2020**

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## Directors' Report

The directors of Medical Developments International Limited ("MVP") herewith submit the annual financial report of the company for the financial year ended 30 June 2020. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

### Information about the Directors

The names and particulars of the directors of the company during or since the end of the financial year are:

#### **Mr D J Williams, B.Ec (Hons), M.Ec, FAICD**

*Non-Executive Chairman (since 16 September 2003)*

Managing Director of Kidder Williams Ltd, with over 30 years' experience in the investment banking sector. He is also Chairman of PolyNovo Ltd and RMA Global Limited. Mr Williams is Chairman of the MVP Remuneration and Nominations Committee.

#### **Mr R M Johnston**

*Non-Executive Director (since 5 November 2012)*

Mr Johnston is a non-executive director of Polynovo Limited, Cannpal Animal Therapeutics Limited and a former non-executive Director and Chairman of Probiotec Limited and a former non-executive Director of Enero Group Limited. He is also a Director of Prolife Foods Ltd and BARD1 Life Sciences Limited. For 11 years he was President and Chief Executive Officer of Johnson & Johnson Pacific and an Executive Director of Johnson & Johnson. Mr Johnston has also held several prominent industry roles as a past President of ACCORD Australasia Limited, a former Vice Chairman of the Australian Food and Grocery Council and a former member of the board of ASMI. Mr Johnston has had extensive overseas experience during his career in leading businesses in Western and Central-Eastern Europe, Africa as well as Asia-Pacific. Mr Johnston is also a member of the MVP Audit & Risk Committee. Mr Johnston has been acting CEO since the departure of the former CEO on 5 June 2020.

#### **Mr L Hoare, AssocDipAppSc(Orth), GradDipBus, GAICD**

*Non-Executive Director (since 27 September 2013)*

Mr Hoare is the Managing Director of Lohmann & Rauscher Australia/New Zealand (ANZ), a private EU based medical device company. Previously he was Managing Director of Smith & Nephew ANZ, one of the company's largest global subsidiaries outside the USA. Until 2014 he served as President of Smith & Nephew's Asia Pacific Advanced Wound Management (AWM) business for 5 years. He was also a member of the Global Executive Management for the AWM Division. In his 24 years with Smith & Nephew, he also held roles in Marketing, Divisional and General Management. Mr Hoare's career also included a senior role at Bristol-Myers Squibb in surgical products, and Vice-Chair of Australia's peak medical device body, Medical Technology Association of Australia. Mr Hoare joined the MVP Remuneration and Nominations Committee post the departure of Mr McCallum. Mr Hoare is also a Non-Executive Director of PolyNovo Limited (ASX: PNV).

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**Mr P J Powell, B.Com (Hons) ACA, F Fin, MAICD**

*Non-Executive Director (since 17 December 2014)*

Mr Powell, a Chartered Accountant, has an extensive finance background and commenced working in investment banking in 1996 at Hambros Corporate Finance following ten years industry experience in senior finance roles with ASX listed public company OAMPS Limited. Prior to these roles, he worked for ten years within the Assurance Division at Arthur Andersen & Co. From January 2006 to July 2013 he was a Director at Corporate Finance Advisory firm Kidder Williams. Mr Powell is also a Non-executive Director of PolyNovo Limited, RMA Global Limited and BARD1 Life Sciences Limited. Philip is Chairman of MVP's Audit and Risk Committee.

**Ms C Emmanuel, B Sci (Hons), M. ENT, FICPI, MAICD**

*Non-Executive Director (since 26 May 2020)*

Ms Emmanuel is an experienced patent and trademark attorney, and a business development professional having more than 30 years' experience locally and internationally. Ms Emmanuel is a former Executive Manager of Business Development and Commercial at the CSIRO, where she founded and led the management of CSIRO's IP portfolio and managed the growth of the CSIRO equity portfolio for over 5 years. Prior to this role, Ms Emmanuel was in-house IP Counsel for Unilever in the UK and practised as a patent and trademark attorney for Wilson Gunn (UK) and Davies Collison Cave and Griffith Hack in Melbourne. She is also currently Non-executive Director of Polynovo Ltd, on the Council of Patent & Trademarks Attorneys of Australia and on the Life Sciences Council of SPE Australia.

**Directorships of other listed companies**

Directorships of other listed companies held by the directors in the 3 years immediately before the end of the financial year are as follows:

<b>Name:</b>	<b>Company:</b>	<b>Period of Directorship:</b>
David Williams	Polynovo Limited (Chairman)	Since 13 March 2014
	RMA Global Limited (Chairman)	Since November 2014
Max Johnston	Polynovo Limited	Since 13 May 2014
	CannPal Animal Therapeutics Limited	Since 21 April 2017
	BARD1 Life Sciences Limited	Since 17 June 2019
Philip Powell	Polynovo Limited	Since 13 May 2014
	RMA Global Limited	Since 5 April 2018
	BARD1 Life Sciences Limited	Since 17 June 2019
Leon Hoare	Polynovo Limited	Since 27 January 2016
Christine Emmanuel	Polynovo Limited	Since 13 May 2020

**Company Secretary**

Mr Mark Edwards, CA. Mr Edwards is also the Chief Financial Officer of the company.

**Principal Activities**

The company's principal activities during the course of the financial year were the manufacture and distribution of a pharmaceutical drug and medical and veterinary equipment.

Medical Developments International Limited.  
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## Review of Operations

### Penthrox Developments

#### United States of America

MVP is hoping to receive feedback on the pre-clinical protocol shortly in order to commence this study by Q4 2020. Whilst awaiting FDA feedback, MVP has continued to compile its clinical package for the FDA which will be submitted in late August 2020 in anticipation of coordinating a Type C meeting with the FDA in late 2020. The completion of the Human Factors study which involves subjects trialling and administering the Penthrox device, has been delayed as it requires the direct involvement of USA health care professionals and participants which is restricted during times of COVID.

MVP expects to be in a position to address in full, all the clinical hold issues during the third quarter of CY21 with a view to filing the Investigational New Drug (IND) application in CY21.

MVP remains confident we will be able to supply the FDA with the additional information it requires. Our confidence is based on 40+ years of experience, the demonstrated safety profile of Penthrox over that time, the additional clinical data we have to support our IND including our Post Authorisation Safety Study, PK study, our ongoing clinical development program and our recent achievements in getting Penthrox approved for sale in more than 40 countries around the world.

#### Europe

In October 2019, Penthrox was included and recommended as **“first-line of treatment”** in the **European Society of Emergency Medicine (“EUSEM”)** guidelines for the “Management of acute pain in emergency situations”. In addition, the MEDITA clinical study was published in Europe demonstrating Penthrox superiority over Standard of Care and IV morphine for acute trauma pain treatments in patients. These events should prove to be pivotal moments for Penthrox in Europe.

Europe in-market sales were up 15%, where there are 568 customers buying Penthrox in Europe including 386 in France. We believe that number will grow strongly under our direct control as our focus is on achieving reimbursement in key target markets, building product awareness and demand within existing markets and undertaking aggressive and targeted new launches.

A number of significant markets in Europe are yet to launch including Germany, the Netherlands and Spain. We believe that Penthrox will become a mainstream analgesic in the European market.

The regulatory reimbursement environment for pharmaceuticals in Germany remains unpredictable which has delayed the launch of Penthrox.

National Regulatory Applications are expected to be filed with the relevant agencies in Greece, Macedonia, Serbia, Albania, Liechtenstein, Montenegro, Kosovo, San Marino, Vatican City, Andorra and Monaco in due course.

#### France

In-market sales grew 15% in FY20 and feedback from this market continues to be very positive. France now has **approval from 121 hospitals with 386 customers** buying and using Penthrox.

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UK and Ireland

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Pentrox has been approved for use by the UK Military and given a NATO number which allows other NATO military organisations access to Pentrox

Australia

Australian sales **grew 3%** in the current period, whilst in-market sales to non-ambulance channels **grew 25%**. Growth may have been curtailed in the last quarter due to COVID-19 related restrictions that impacted the movements of the wider Australian population, including our distribution partner's General Practitioner and Hospital channels. We remain confident that our partners will drive future sales growth, particularly within the General Practitioner and Hospital channels.

Pentrox is now sold into more than 200 hospitals and medical clinics in Australia.

Pentrox: Rest of World

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Respiratory

Our respiratory device business achieved sales **growth of 61%**. Sales grew strongly in the United States **up 98%**, Canada **up 58%** and UK & Europe **up 128%**. Our Australian business sales were **up 43%**, led by our premium brand Breath-A-Tech **up 35%**

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*Continuous Flow*

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The program continues to progress well with advancements being made in the commercialisation of Lidocaine (analgesic) & Diclofenac (anti-inflammatory) APIs. Several new targets are under early investigation with promising results being seen in translation from batch to flow manufacture.

Vet

Our Vet business declined 43% in FY20.

FY20 Full Year Financial Result

Revenue was a record \$23.6 million whilst gross margin decreased slightly, reflective of a higher weighting of revenue to lower margin medical devices in FY20.

Operating Expenses increased 15%. This increase is due to:

- Increased “pharmacovigilance” cost as a result of expanding geographic sales for Pentrox and Medical Devices;
- Marketing expenses as a result of growth in Pentrox and Breath-A-Tech sales in Australia;
- “Non cash” depreciation and interest expenses (change of accounting standard – AASB 16 Leases - refer to note 1(u) for further detail); and
- Increased investment in R&D.

Cash flow

At 30 June 2020, the group had \$15.5m in cash reserves. During the year MVP invested:

- \$5.4 million in clinical trials and registrations for Pentrox;
- \$1.1 million in our manufacturing development program with the CSIRO; and
- \$1.5 million in various manufacturing equipment and leasehold improvements.

Medical Developments International Limited.  
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COVID-19

The internal and manufacturing operations of MVP have not been adversely impacted by COVID-19 shutdowns, given the company is recognised as an essential business and has been able to accommodate ongoing production and work from home practices. Refer above for impact of COVID-19 on the Groups respective segments.

**Financial Position**

The capital structure of the group remained stable during the period and the Group has no bank debt.

**Changes in State of Affairs**

During the financial year there was no significant change in the state of affairs of the company other than that referred to in the financial statements or notes thereto.

**Subsequent Events**

On 19 August 2020 the company announced that it had reached an in-principle agreement to take back the distribution rights for Pentrox in Europe from Mundipharma. This transition is to take place over a 6-month period from 1 September 2020 to 28 February 2021.

As the Group is a pharmaceutical and medical device business, it has been considered an essential business in Victoria and has not been subject to COVID-19 Stage 4 related business shutdown restrictions and has therefore been able to continue with critical production and selling activities from its Victorian based locations.

There has not been any other matter or circumstance that has arisen that has significantly affected, or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future years.

**Dividends**

No dividend was declared in relation to the full year ended 30 June 2020.

**Indemnification of Officers and Auditors**

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company (as named above) and all executive officers of the company against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer or auditor of the company against a liability incurred as such an officer or auditor.



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### Directors' Meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, nine Board meetings, two Audit and Risk Committee meetings and two Remuneration and Nominations committee meeting were held.

	Board of Directors		Audit & Risk Committee		Remuneration &	
	Held	Attended	Held	Attended	Held	Attended
D.J. Williams	9	9	-	-	2	2
M. Johnston	9	9	2	2	-	-
L. Hoare	9	9	-	-	2	2
P.J. Powell	9	9	2	2	-	-
C. Emmanuel *	1	1	-	-	-	-

\*- Christine Emmanuel joined the Board on 26 May 2020 and was therefore only eligible to attend one meeting in the current year.

### Directors' Shareholdings

The following table sets out each director's relevant interest in shares as at the date of this report.

	Fully paid shares
D.J. Williams	9,650,782
M. Johnston	39,868
L. Hoare	14,129
P.J. Powell	264,565
C. Emmanuel	-

Directors hold no options over shares as at 30 June 2020.

### Audited Remuneration Report

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of Medical Developments International Limited's key management personnel for the financial year ended 30 June 2020. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the consolidated entity. The prescribed details for each person covered by this report are detailed below under the following headings:

- Key management personnel
- Remuneration policy
- Relationship between the remuneration policy and company performance
- Remuneration of key management personnel
- Key terms of employment contracts.

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*Key Management Personnel Details*

The company's key management personnel consist of the following directors and executives:

The directors of the company during or since the end of the financial year were:

- D.J. Williams (Chairman, Non-executive)
- R.M. Johnston (Non-executive)
- L. Hoare (Non-executive)
- P. Powell (Non-executive)
- C. Emmanuel (Non-executive appointed 26 May 2020)

The company executives during or since the end of the financial year were:

- J. Sharman (Chief Executive Officer) (resigned 5 June 2020)
- M. Edwards (Chief Financial Officer/Company Secretary)

Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year.

**Key management personnel equity holdings – fully paid ordinary shares**

2020	Balance at 30 June		Issued during the year via			Net Other Change	Balance at 30 June 2020
	2019		DRP	Disposals	Acquired		
	No.	No.	No.	No.	No.		
D.J. Williams	9,608,754		42,028	-	-	-	9,650,782
M. Johnston	39,694		174	-	-	-	39,868
L. Hoare	14,068		61	-	-	-	14,129
P.J. Powell	263,413		1,152	-	-	-	264,565
C. Emmanuel	-		-	-	-	-	-
J. Sharman*	5,179		23	(5,202)	-	-	-
M. Edwards	-		-	-	-	-	-
	<u>9,931,108</u>		<u>43,438</u>	<u>(5,202)</u>	<u>-</u>	<u>-</u>	<u>9,969,344</u>

\*- John Sharman resigned on 5 June 2020

2019	Balance at 30 June		Issued during the year via			Net Other Change	Balance at 30 June 2019
	2018		DRP	Disposals	Acquired		
	No.	No.	No.	No.	No.		
D.J. Williams	9,459,584		99,924	-	49,246	-	9,608,754
M. Johnston	30,576		368	-	8,750	-	39,694
L. Hoare	10,191		127	-	3,750	-	14,068
P.J. Powell	256,936		2,727	-	3,750	-	263,413
J. Sharman	5,125		54	-	-	-	5,179
M. Edwards	-		-	-	-	-	-
	<u>9,762,412</u>		<u>103,200</u>	<u>-</u>	<u>65,496</u>	<u>-</u>	<u>9,931,108</u>

*Remuneration Policy*

The board continues to set remuneration at a level that will attract directors and executives of high calibre. The two key elements are:

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- Base salary and fees, which are determined by reference to the market rate based on payments at similar sized companies in the industry; and
- Performance incentives, which have two components – short term incentives based on achieving key performance indicators during the year and payable in cash, and long-term incentives payable in equity, the value of which depends on the share price of the company.

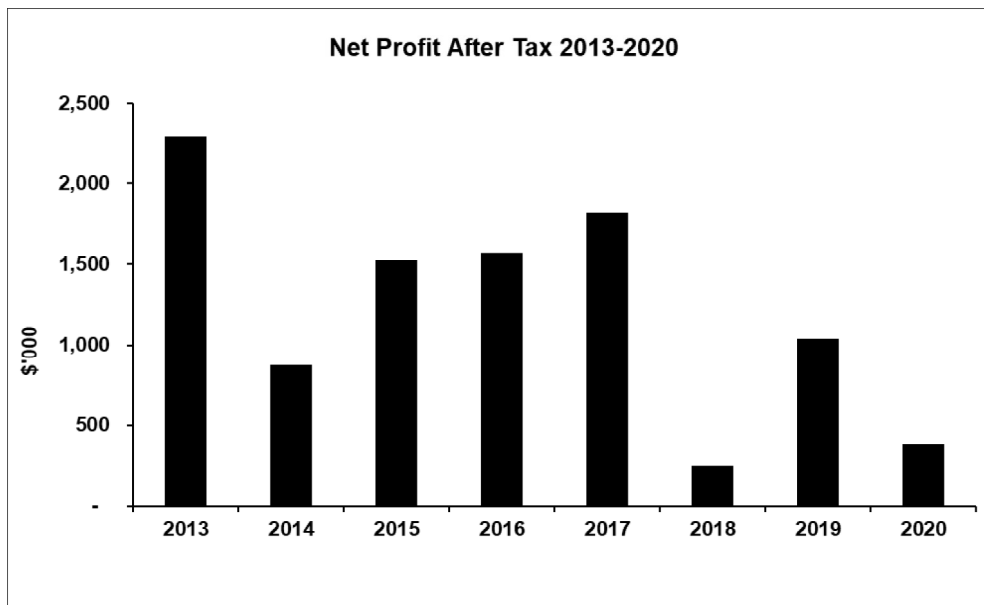
The remuneration and nominations committee, comprised of D.J. Williams and L. Hoare, determines the salary package of the CEO of the company and reviews the compensation of the non-executive directors on an annual basis. Changes are approved by the board as a whole.

*Relationship between the Remuneration Policy and Company Performance*

The Board aims to ensure there is a strong link between company performance and remuneration and believes that the use of performance incentives ensures that company performance is reflected in the quantum of payments made to executives. Performance metrics are selected to ensure that the interests of management are aligned with those of shareholders. For short term incentives, key metrics are Revenue, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation and NPAT (Net Profit after Tax), used to directly link company earnings and cash bonuses and other operational measures and individual specific performance measures, the achievement of which provides the basis for future growth and profitability.

The long-term incentive scheme is centred around the achievement of regulatory related performance measures for key territories.

The table and graph below depict the company's earnings for the current financial year and the previous seven financial years, which demonstrate that the company has been consistently profitable.



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The following table shows the company's share prices for the current financial year and the previous seven financial years.

	2013	2014	2015	2016	2017	2018	2019	2020
Share price - start (\$)	0.79	1.27	1.32	2.68	6.10	4.95	5.80	5.30
Share price - end (\$)	1.27	1.32	2.68	6.10	4.95	5.80	5.30	6.98
Interim Dividend (cps)*	3.00	-	-	2.00	2.00	2.00	2.00	2.00
Final Dividend (cps)*	2.00	-	-	2.00	2.00	2.00	2.00	-
Basic Earnings per Share (cps)	4.10	1.50	2.65	1.61	3.10	0.41	1.61	0.58
Diluted Earnings per Share (cps)	4.10	1.50	2.65	1.60	3.10	0.41	1.60	0.58

\*Franked to 100% at 27.5% corporate income tax rate.

### Dividends

No dividend has been declared for the full year.

### ***Elements of director and executive remuneration***

Remuneration packages contain the following key elements:

1. Primary benefits – salary/fees and cash bonuses
2. Post-employment benefits – superannuation
3. Equity – rights to share options granted under the Long-Term Incentive Plan.

The following table discloses the remuneration of the directors of the company in 2020:

2020	Short-Term Employee Benefits		Post Employment	Long-term Employee Benefits	Share-Based Payments	Total
	Salary & Fees	Bonus	Super-annuation	Long service leave	Options & Rights	
	\$	\$	\$	\$	\$	\$
<i>Directors</i>						
D. J. Williams	86,758	-	8,242	-	-	95,000
M. Johnston	54,795	-	5,205	-	-	60,000
L. Hoare	54,795	-	5,205	-	-	60,000
P.J. Powell	54,795	-	5,205	-	-	60,000
C. Emmanuel	4,566	-	434	-	-	5,000
	255,709	-	24,291	-	-	280,000

The following table discloses the remuneration of the key executives of the company in 2020:

2020	Short-term Employee Benefits		Post Employment	Long-term Employee Benefits	Share-Based Payments	Total	Remuneration Linked to performance
	Salary & Fees	Bonus	Super-annuation	Long service leave	Options & Rights (i)		
	\$	\$	\$	\$	\$	\$	
<i>Executives</i>							
J. Sharman (Chief Executive Officer)	414,889	60,000	31,394	(7,700)	(234,095)	264,488	-66%
M. Edwards (CFO/Company Secretary)	197,108	9,132	19,593	5,654	55,421	286,908	22%
	611,997	69,132	50,987	(2,046)	(178,674)	551,396	

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(i) The value of the options granted to Mr Sharman and Mr Edwards as part of their remuneration was calculated at grant date using a Black Scholes Option Pricing Model. Additional details in relation to the valuation are outlined below and also within note 33 of the Annual Report. John Sharman (former CEO) resigned on 5 June 2020. There were no payouts on termination other than owing salary and leave accruals. As the CEO option plan was forfeited, the previously accrued share-based payments recognised in relation to the plan were reversed and the options subsequently cancelled.

Executive remuneration is principally fixed in nature, with a short-term incentive that is also subject to a discretionary overlay to capture and reward individual performance. In FY20, Mr Sharman and Mr Edwards remuneration comprised a performance related component of \$60,000 and \$9,132 respectively. Director's remuneration did not contain a performance related component.

The following table discloses the remuneration of the directors of the company in 2019:

2019	Short-Term Employee Benefits		Post Employment	Long-term Employee Benefits	Share-Based Payments	Total
	Salary & Fees \$	Bonus \$	Super-annuation \$	Long service leave \$	Options & Rights \$	
<i>Directors</i>						
D. J. Williams	76,104	-	7,230	-	-	83,334
A. D. McCallum	20,548	-	1,952	-	-	22,500
H. F. Oxe	20,548	-	1,952	-	-	22,500
M. Johnston	46,804	-	4,446	-	-	51,250
L. Hoare	46,804	-	4,446	-	-	51,250
P.J. Powell	46,804	-	4,446	-	-	51,250
	257,612	-	24,472	-	-	282,084

The following table discloses the remuneration of the key executives of the company in 2019:

2019	Short-term Employee Benefits		Post Employment	Long-term Employee Benefits	Share-Based Payments	Total	Remuneration Linked to performance
	Salary & Fees \$	Bonus \$	Super-annuation \$	Long service leave \$	Options & Rights (i) \$		
<i>Executives</i>							
J. Sharman (Chief Executive Officer)	366,456	-	33,544	9,892	234,095	643,987	36%
M. Edwards (CFO/Company Secretary)	177,078	4,566	17,256	9,665	44,821	253,386	19%
	543,533	4,566	50,800	19,557	278,916	897,373	

In FY19, Mr Edwards remuneration comprised a short-term performance related component of \$4,566. Director's remuneration did not contain a performance related component.

No key management personnel appointed during the period received a payment as part of his or her consideration for agreeing to hold the position.

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***Elements of remuneration related to performance***

Fees paid to non-executive directors are not directly tied to performance. Salaries paid to the key executives are also not directly tied to performance. The short term and long-term incentive programmes are directly related to performance and regulatory approvals, and the conditions and assessment methods are explained below.

Short-term incentives

The determination and approval of any potential bonuses is at the discretion of the Board. During the 2020 financial year, discretionary bonuses totalling \$69,132 (2019: \$4,566) were determined and approved by the Remuneration and Nominations Committee in relation to key management personnel in respect of their performance in the 2019 financial year.

Long-term incentives

*Executive Option Plans*

Under the Executive Option plan awards were made to executives who have an impact on the Group's performance. LTI awards are delivered in the form of options over shares which vest on the achievement of specific performance measures, being the approval of Pentrox in the USA.

The fair value of share options granted is estimated at the date of grant using a Black Scholes Option Pricing Model, taking into account the terms and conditions upon which the share options were granted including the option price, the life of the option, the share price of the underlying shares on grant date and the expected share price volatility. It also takes into account historical and expected dividends. There are no cash settlement alternatives for the employees and The Group does not have a past practice of cash settlement for these awards.

All outstanding options will be cancelled if the employee leaves or is no longer employed by MVP for any reason. When the Long-Term Incentive Plan "LTIP" has met its vesting criteria and delivers an entitlement to an equity interest, the employee will have 3 months to exercise the relevant options, after which the relevant options will lapse. In each case, 60% of the new shares issued by exercising options will be escrowed for a period of 12 months from issue date. In the case of an unconditional takeover, the escrow conditions will not apply.

Each share option converts into one ordinary share of Medical Developments Limited on exercise. No amounts are paid or payable by the recipient on the receipt of the option nor are they tradeable at any time. The options carry neither rights to dividends or voting rights.

***Executive share option plans***

The following share-based payment arrangements were in existence during the current reporting period:

CEO Option Plan

On 18 July 2018 the company announced it has agreed to a LTIP with Mr. John Sharman, the CEO of Medical Developments International Limited to encourage his long-term commitment to the

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business. This plan was forfeited on 5 June 2020 upon resignation of the former CEO and therefore no vesting occurred, and the options were subsequently cancelled.

**Senior Management Option Plan**

In September 2018 the company announced it has agreed to a LTIP with key Senior Management Team members.

Under the plan the effected Senior Management team members were granted options with a strike price of \$0.01. The options will only vest on the earlier of FDA approval of Pentrox for sale in the USA or the company receives an unconditional takeover offer worth more than \$350m.

A summary of the option plans outstanding as at 30 June 2020 in relation to Key Management Personnel is outlined below:

2020	Balance at 30 June 2019 No.	Granted as remuneration No.	Exercised No.	Lapsed/forfeited No.	Balance at 30 June 2020 No.	Balance vested at 30 June 2020 but not exercised No.	Balance not vested at 30 June 2020 No.	Options vested during the year No.
J. Sharman (CEO)	300,000	-	-	(300,000)	-	-	-	-
M. Edwards (CFO)	100,000	-	-	-	100,000	-	100,000	-
Senior Management	225,000	75,000	-	-	300,000	-	300,000	-

The CEO option plan was forfeited on resignation on 5 June 2020. All outstanding options were cancelled.

Issuing Entity	Personnel	Tranche	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
Medical Developments International Ltd	M. Edwards		100,000	Ordinary	\$0.01	No expiry

**Fair value of share options granted during the year**

There were no new options granted to Key Management Personnel during the year.

The prior year option plan contains non-market performance hurdles, that have been valued using a 'Black-Scholes' Option Pricing Model. Where relevant, the expected useful life used in the model has been adjusted based on management's best estimate for the effects of non-transferability and exercise restrictions. Expected volatility is based on the historical share price volatility over the past 2 years.

Inputs into the option pricing model were as follows:

	CFO
Grant date share price	\$3.90
Exercise price	\$0.01
Option Fair Value	\$3.69
Expected volatility	45%
Expected option life	5 years
Dividend (Bi-annually)	2c
Risk-free interest rate	2.17%



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For valuation purposes a probability of 75% has been applied to the likelihood of achieving FDA approval for Pentrox in the USA.

Contracts for services

Mr Edwards is employed under an open-ended contract with a notice period of four weeks. The contract does not provide for any termination payments beyond payment for the notice period and any accrued annual leave.

**Non-audit services**

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The non-audit services related to the provision of taxation services (\$26,300). The directors do not believe that the nature of these services compromises the general principles relating to auditor's independence, as set out by the Chartered Accountants Australia and New Zealand.

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 7 to the financial statements.

**Corporate Governance Statement**

A copy of the Company's Corporate Governance statement can be found at [www.medicaldev.com/investors-media](http://www.medicaldev.com/investors-media)

**Auditor's independence declaration**

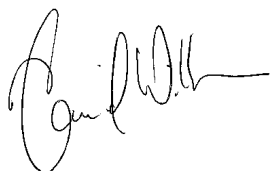
The auditor's independence declaration is included on page 17 of the annual report.

**Rounding off of amounts**

The Company is a Company of the kind referred to in ASIC Corporations (rounding in Financial/Director's Reports) Instrument 2016/191 dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of the directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the directors.



David Williams  
Chairman  
Melbourne, 20 August 2020

The Board of Directors  
Medical Developments International Limited  
4 Caribbean Drive  
Scoresby VIC 3179

20 August 2020

Dear Board Members

### **Medical Developments International Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Medical Developments International Limited.

As lead audit partner for the audit of the financial statements of Medical Developments International Limited for the financial year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) The auditor independence requirements of the Corporations Act 2001 in relation to the audit
- (ii) Any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Travis Simkin  
Partner  
Chartered Accountants

## **Independent Auditor's Report to the members of Medical Developments International Limited**

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

#### *Opinion*

We have audited the financial report of Medical Developments International Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies including a summary of significant accounting policies, and the directors' declaration.

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

- (i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### *Basis for Opinion*

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *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 for the current period. 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.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><b>Recoverability of goodwill</b></p> <p>As at 30 June 2020 the Group held Goodwill of \$9,095 thousand as disclosed in Note 13.</p> <p>Significant judgement is required by management to determine assumptions and estimates involved in preparing a discounted cash flow model ('value in use') for each of the Group's Cash Generating Units ('CGU's), including:</p> <ul style="list-style-type: none"> <li>• Forecast EBITDA and free cash flow for each CGU,</li> <li>• EBITDA growth rates over the forecast period and terminal value of each CGU, and</li> <li>• Discount rates appropriate to the risk profile of each CGU.</li> </ul> <p>Changes to these assumptions can impact the valuation of the recoverable amount determined for each CGU.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of the process undertaken by management to prepare the value in use model for each CGU and an understanding of key controls supporting this process,</li> <li>• In conjunction with our valuation specialists, evaluating and testing the key assumptions used in management's value in use model including: <ul style="list-style-type: none"> <li>- Assessing the appropriateness of forecast revenue, EBITDA and free cash flows,</li> <li>- Assessing the appropriateness of EBITDA growth rates applied over the forecast period and terminal value with reference to management's current business plans,</li> <li>- Assessing the historical accuracy of forecasts of the Group's operating results,</li> <li>- Comparing the expected discount rate for each CGU to the rate calculated by management,</li> <li>- Performing sensitivity analysis on the impairment model to simulate alternative market conditions and outcomes.</li> </ul> </li> </ul> <p>We have also assessed the appropriateness of the disclosures in Note 13 to the financial statements.</p>
<p><b>Capitalisation of intangible assets</b></p> <p>As at 30 June 2020 the Group held intangible assets of \$35,820 thousand as disclosed in Note 14.</p> <p>Capitalisation of intangible assets requires management judgement to determine whether:</p> <ul style="list-style-type: none"> <li>• Expenditure relates to development activity and not research activity,</li> <li>• Expected future economic benefits attributable to the intangible assets will flow to the Group,</li> <li>• The amortisation of intangible assets should commence, with reference to when the asset is available for use and when revenue is generated, and</li> <li>• The useful lives assigned to each individual category are appropriate.</li> </ul>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of the process undertaken by management to determine whether expenditure should be capitalised as intangible assets and to understand key controls supporting the process,</li> <li>• Assessing the appropriateness of management's accounting policy,</li> <li>• Assessing all capitalised intangible assets not yet available for use and a sample of capitalised intangible assets available for use at balance date to determine whether it is probable that expected future economic benefits attributable to those assets will flow to the Group, and</li> <li>• Reviewing the listing of capitalised intangible assets at balance date to verify that: <ul style="list-style-type: none"> <li>- Amortisation has commenced on intangible assets that are available for use, and</li> <li>- The useful lives assigned to each intangible asset are appropriate.</li> </ul> </li> </ul> <p>We have also assessed the appropriateness of the disclosures in Note 14 to the financial statements.</p>

## *Other Information*

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## *Responsibilities of the Directors for the Financial Report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the 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.

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- 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's 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 9 to 16 of the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Medical Development International Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

### *Responsibilities*

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



DELOITTE TOUCHE TOHMATSU



Travis Simkin  
Partner  
Chartered Accountants  
Melbourne, 20 August 2020

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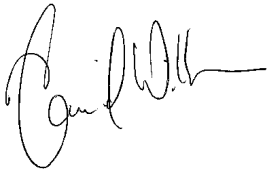
**Directors' Declaration**

The directors declare that:

- a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity;
- c) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1 of the financial statements; and
- d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

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

On behalf of the Directors



David Williams  
Chairman  
Melbourne, 20 August 2020



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**Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Financial Year Ended 30 June 2020**

	Note	2020 \$'000	2019 \$'000
Gross revenue from sale of goods and contracts		23,640	21,382
Less discounts and claims		(1,105)	(506)
Net revenue from sale of goods and contracts	4(a)	22,535	20,876
Cost of sales		(7,543)	(6,692)
<b>Gross profit</b>		14,992	14,184
Other income	4(a)	336	448
Distribution expenses		(1,299)	(1,197)
Marketing expenses		(4,083)	(3,072)
Occupancy expenses		(1,266)	(1,269)
Administration expenses		(4,321)	(4,135)
Regulatory expenses		(2,342)	(1,999)
Finance expenses		(114)	(71)
Other expenses		(1,582)	(1,338)
<b>Profit before income tax expense</b>		321	1,551
Income tax expense	5(a)	58	(513)
<b>Profit for the year</b>		379	1,038
<b>Other Comprehensive Income</b>			
<b>Items that may be reclassified subsequently to profit or loss, net of income tax</b>			
Exchange differences on translating foreign operations	22	(42)	17
<b>Total comprehensive income for the year</b>		337	1,055
<b>Profit for the year attributable to:</b>			
Owners of the parent		379	1,038
<b>Total comprehensive income for the year attributable to:</b>			
Owners of the parent		337	1,055
<b>Earnings per share:</b>			
Basic (cents per share)	24	0.58	1.61
Diluted (cents per share)	24	0.58	1.60

Notes to the financial statements are included on pages 27-66

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**Consolidated Statement of Financial Position as at 30 June 2020**

	Note	30 June 2020 \$'000	30 June 2019 \$'000
<b>Current Assets</b>			
Cash and cash equivalents	30(a)	15,544	25,620
Trade and other receivables	8	4,082	6,384
Inventories	9	5,882	3,049
Current tax receivable	5(c)	33	-
Other	10	416	301
<b>Total Current Assets</b>		25,957	35,354
<b>Non-Current Assets</b>			
Property, plant and equipment	12	11,781	8,558
Deferred tax assets	5(d)	2,106	2,129
Goodwill	13	9,095	9,095
Other intangible assets	14	35,820	29,665
<b>Total Non-Current Assets</b>		58,802	49,447
<b>Total Assets</b>		84,759	84,801
<b>Current Liabilities</b>			
Trade and other payables	15	5,001	3,406
Borrowings	16	91	91
Provisions	17	401	357
Current tax liabilities	5(c)	-	2,020
Other	19	2,394	2,521
Lease liability	20	326	-
<b>Total Current Liabilities</b>		8,213	8,395
<b>Non-Current Liabilities</b>			
Borrowings	16	-	91
Provisions	18	269	302
Other	19	30,000	31,425
Lease liability	20	2,939	-
<b>Total Non-Current Liabilities</b>		33,208	31,818
<b>Total Liabilities</b>		41,421	40,213
<b>Net Assets</b>		43,338	44,588
<b>Equity</b>			
Issued capital	21	40,954	40,410
Reserves	22	1,957	1,508
Retained earnings	23	427	2,670
<b>Total Equity</b>		43,338	44,588

Notes to the financial statements are included on pages 27-66

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## Consolidated Statement of Changes in Equity

### Financial year ended 30 June 2020

	Issued capital \$'000	Retained earnings \$'000	Employee equity settled benefits reserve \$'000	CSIRO Option Reserve \$'000	Foreign currency translation reserve \$'000	Total \$'000
<b>Opening balance</b>	40,410	2,670	711	800	(3)	44,588
Profit for the year	-	379	-	-	-	379
Other comprehensive income for the year, net of income tax	-	-	-	-	(42)	(42)
Total comprehensive income for the year	-	379	-	-	(42)	337
Share based payments	-	-	91	-	-	91
Dividends paid	-	(2,622)	-	-	-	(2,622)
Options issues as part of CSIRO agreement	-	-	-	400	-	400
Dividends reinvested in the form of shares	557	-	-	-	-	557
Equity raising costs	(13)	-	-	-	-	(13)
<b>Closing balance</b>	40,954	427	802	1,200	(45)	43,338

### Financial year ended 30 June 2019

	Issued capital \$'000	Retained earnings \$'000	Employee equity settled benefits reserve \$'000	CSIRO Option Reserve \$'000	Foreign currency translation reserve \$'000	Total \$'000
<b>Opening balance</b>	16,121	4,209	331	400	(20)	21,041
Profit for the year	-	1,038	-	-	-	1,038
Other comprehensive income for the year, net of income tax	-	-	-	-	17	17
Total comprehensive income for the year	-	1,038	-	-	17	1,055
Share based payments	-	-	380	-	-	380
Dividends paid	-	(2,576)	-	-	-	(2,576)
Shares issued - placement	17,000	-	-	-	-	17,000
Shares issued - share purchase plan	7,475	-	-	-	-	7,475
Options issues as part of CSIRO agreement	-	-	-	400	-	400
Dividends reinvested in the form of shares	860	-	-	-	-	860
Equity raising costs	(1,046)	-	-	-	-	(1,046)
<b>Closing balance</b>	40,410	2,670	711	800	(3)	44,588

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**Consolidated Statement of Cash Flows for the Financial Year Ended 30 June 2020**

	Note	2020 \$'000	2019 \$'000
<b><i>Cash flows from operating activities</i></b>			
Receipts from customers		22,822	16,484
Payments to suppliers and employees		(20,896)	(16,595)
Receipts from government grants		158	52
Upfront and milestone payments received		200	20,845
Interest paid - lease		(119)	-
Interest paid		(20)	(71)
Income tax received/(paid)		(1,973)	556
Net cash generated by operating activities	30(b)	172	21,271
<b><i>Cash flows from investing activities</i></b>			
Interest received		429	330
Payments for plant and equipment		(1,492)	(1,487)
Payments for other intangible assets		(7,409)	(8,378)
Net cash used in investing activities		(8,472)	(9,535)
<b><i>Cash flows from financing activities</i></b>			
Dividends paid (net of DRP)	25	(2,065)	(1,717)
Proceeds from the issue of shares/options		400	24,875
Share issue transaction costs		(13)	(1,045)
Repayment of lease liability		(197)	-
Payments for hire purchase finance	16	-	(11)
Repayment of borrowings	16	(91)	(9,059)
Net cash generated by financing activities		(1,966)	13,043
<b><i>Net decrease in cash and cash equivalents</i></b>		(10,266)	24,779
<b><i>Cash and cash equivalents at the beginning of the financial year</i></b>		25,620	794
Effects of exchange rate changes on the balance of cash held in foreign currencies		190	47
<b><i>Cash and cash equivalents at the end of the financial year</i></b>	30(a)	15,544	25,620

Notes to the financial statements are included on pages 27-66

## Notes to the Financial Statements for the Financial Year Ended 30 June 2020

### *1. Significant accounting policies*

#### **Statement of Compliance**

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Group.

For the purposes of preparing the consolidated financial statements, the Group is a for-profit entity. Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the company comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 20 August 2020.

#### **Basis of Preparation**

The consolidated financial statements have been prepared on the basis of historical cost, except for certain financial instruments that are measured at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. All amounts are presented in Australian dollars, unless otherwise noted.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 102 or value in use in AASB 136.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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The Company is a Company of the kind referred to in ASIC Corporations (rounding in Financial/Director's Reports) Instrument 2016/191 dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

**Significant accounting policies**

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

*(a) Borrowings*

Borrowings are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

*(b) Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts.

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*(c) Employee benefits*

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of wages and salaries and annual leave expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of annual leave and long service leave which are not expected to be settled within 12 months are measured using an estimate of the present value of the future cash outflows to be made by the company in respect of services provided by employees up to reporting date.

*(d) Financial assets*

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest rate method less impairment. Interest income is recognised by applying the effective interest rate.

Impairment of financial assets

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at each balance sheet date.

In relation to the impairment of financial assets, AASB 9 requires an expected credit loss model as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The group continues to assess the risk of non-recoverability or expected credit loss on its receivables to be very low. Trade receivables are typically collected within a 30-90-day period and despite the occasional debtor being slow paying, empirical evidence suggests there has been a very low level of credit losses in recent years (losses over the last 4 financial years total less than \$25k). There has been no observed increased credit risk to date associated with COVID-19.

*(e) Financial instruments issued by the company*

Debt and equity instruments

Instruments issued are classified as either debt or as equity in accordance with the substance of the contractual arrangement.

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Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which they relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and would not have been incurred had those instruments not been issued.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

*(f) Foreign currency*

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Australian dollars ('\$'), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise, except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks below for hedging accounting policies; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences



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arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

*(g) Goods and services tax*

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

*(h) Goodwill*

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable net assets acquired, is recognised as an asset and not amortised but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in the Consolidated Statement of Profit or Loss and Other Comprehensive Income and is not subsequently reversed. Refer also to note 1(j).

*(i) Government grants*

Government grants are assistance by the government in the form of transfers of resources to the company in return for past or future compliance with certain conditions relating to the operating activities of the company. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the company other than the requirement to operate in certain regions or industry sectors.

Government grants relating to income are recognised as income over the periods necessary to match them with the related costs. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the company with no future related costs are recognised as income of the period in which it becomes receivable. Wage subsidies such as JobKeeper have been recognised as an offset against the Employee Benefits expense to which it relates.

Government grants relating to assets are treated as deferred income and recognised in the profit and loss over the expected useful lives of the assets concerned.

*(j) Impairment of assets*

At each reporting date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate

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cash flows that are independent from other assets, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income immediately.

Where an impairment loss (other than Goodwill) subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

*(k) Income tax*

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Where the Group qualifies for the research and development tax incentive refund (at 38.5%), this reduces the current tax expense recognised in profit and loss for the period.

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

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Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

*(I) Intangible assets*

Patents, trademarks and licenses

Patents, trademarks and licenses are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives of 10 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Internally-generated intangible assets in respect of development costs are stated at cost less accumulated amortisation and impairment and are amortised on a straight-line basis over their estimated useful life of 5-10 years commencing from the date that revenue results.

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Registration costs

Items of expenditure on registrations are capitalised to the extent that such costs can be measured reliably, future economic benefits are attributable to the expenditure, and it is probable that such future economic benefits will eventuate.

Any capitalised registration costs are amortised over a period of 5 - 10 years in which the corresponding benefits are expected to arise, commencing from commercial sales to any of the countries for which the registration costs contributed to a successful registration.

The unamortised balance of registration costs capitalised in previous periods is reviewed regularly at each reporting date, to ensure the criteria for deferral continue to be met. Where such costs are no longer recoverable, they are written off as an expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Brandnames

Brandnames arising on acquisition of a business are carried at cost as established at the date of acquisition of the business less any applicable impairment charge (if any). They are not amortised but subject to annual tests for impairment. For the purposes of impairment testing, brandnames are allocated to the relevant Group cash generating unit to which they relate.

*(m) Inventories*

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

*(n) Leases*

Refer to note 1(u) for the impact of AASB 16 leases on the current year financial statements and the treatment adopted in relation to the current year financial statements.

Comparative Year treatment - Leases were classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments were recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

*(o) Financial Liabilities*

Trade payables and other accounts payable are classified as financial liabilities and are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services. Financial liabilities are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis.

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The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

*(p) Plant and equipment*

Plant and equipment and leasehold improvements are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of the acquisition. Other than the charge over the groups assets held in relation to the bank bill loan, all other assets are not encumbered by any additional charge or mortgage.

Depreciation

Depreciation is provided on plant and equipment and is calculated on a straight-line basis so as to write off the cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

Leasehold improvements	5 - 10 years
Plant & equipment and Right-Of-Use asset	4 - 12 years

*(q) Provisions*

Provisions are recognised when the Group has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that recovery will be received and the amount of the receivable can be measured reliably.

Dividends

A liability is recognised for dividends when they have been declared, determined or publicly recommended by the directors on or before the reporting date.

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*(r) Revenue recognition*

Sale of goods

Revenue from the sale of goods is recognised when the company has transferred control of the product to the buyer. The key and sole performance milestone relates to the delivery of the product related to the order with no after sales service embedded or attached to the underlying sale. Settlement and volume discounts granted to customers are accounted for as offsets against sales.

Upfront and Milestone income

Revenue from upfront and milestone payments is amortised to the income statement over the underlying contract term. As the performance obligation continues to be the right of the Groups' partners to exclusively sell product in a specific market for a period of time, the consumption of the right and benefit occurs evenly over the contract period.

Interest income

Interest income is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

*(s) Share based payments*

Equity-settled share-based payments granted are measured at fair value at the date of grant. Fair value is measured by use of a Black Scholes valuation model.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the company's estimate of options that will eventually vest with a corresponding increase in equity.

At the end of the reporting period, the Group revises its estimate of the number of equity instruments expected to vest and the impact of any revision on the original estimates is also recognised in the profit and loss.

*(t) Research and development recoveries*

R&D tax credits receivable as compensation for expenses or losses already incurred by the Company with no future related costs are recognised in profit or loss in the period in which they are quantified and become receivable. The company applies the income tax approach for the accounting and presentation of the R&D tax credit. Accordingly, the tax benefit is presented as a reduction of income tax expense in the Statement of Income and other Comprehensive Income.

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*(u) Application of new and revised Accounting Standards*

**Standards and Interpretations in issue not yet adopted**

At the date of authorisation of the financial statements, the Group has not applied the following new and revised Australian Accounts Standards, Interpretations and amendments that have been issued but are not yet effective:

Standard/Amendment/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business	1 January 2020	30 June 2021
AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material	1 January 2020	30 June 2021
AASB 2019-1 Amendments to Australian Accounting Standards – References to the conceptual framework	1 January 2020	30 June 2021
AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of new IFRS Standards Not Yet Issued in Australia	1 January 2020	30 June 2021
AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current	1 January 2022	30 June 2023
AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-20 and Other Amendments	1 January 2022	30 June 2023

The adoption of the above Accounting Standards and Interpretations may affect the accounting for future transactions or arrangements.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

- AASB 16 Leases (discussed below);
- AASB 2018-1 Amendments to Australian Accounts Standards - Annual Improvements 2015-2017 Cycle (no impact on the financial statements); and
- Interpretation 23 Uncertainty Over Income Tax Treatments (no impact).

**AASB 16 Leases:**

In the current year the Group has applied AASB 16 Leases which is effective for annual periods that begin on or after 1 January 2019 therefore the date of initial application of AASB 16 for the Group was 1 July 2019. The Group elected to transition to the new standard using the modified retrospective approach, whereby the lease liability and right of use asset initially recorded on the date of transition are matched. Consequently, no restatement of comparative information was required.

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*Right-of-use assets*

The Group recognised a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. Where an extension is available under the lease contract to the initial lease term and it is probable the Group will exercise that option, that additional period is also taken into account. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use assets are periodically reduced by impairment losses in accordance with AASB 136 *Impairment of Assets*, if any, and adjusted for certain remeasurement of the lease liability. The right of use asset is included with property, plant and equipment in the consolidated statement of financial position.

*Lease liabilities*

The lease liability is initially measured at present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate as the discount rate. The weighted average incremental borrowing rate used to calculate the lease liabilities as of 1 July 2019 was 3.55%.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in substance fixed payments less any lease incentives receivables;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement rate;
- Amounts expected to be payable under a residual value guarantee;
- The exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and
- Payment of penalties for early termination of a lease unless the Group is reasonably certain not to terminate early

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is measured at amortised cost using the effective interest method.

In circumstances where the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Group did not make any such adjustment during the current period.



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Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of office and IT equipment that have a lease term of 12 months or less or for leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Impact on financial statements

The effect on 1 July 2019 of the recognition of the new right-of-use assets and lease liabilities is disclosed below.

	1 July 2019 \$'000
Increase in right-of-use assets	3,074
Decrease in provisions due to reclassification of lease incentives to the right of-use-asset	388
Increase in lease liabilities -current	(316)
Increase in lease liabilities -non-current	(3,146)
<b>Impact on retained earnings</b>	<b>-</b>
Operating lease commitments disclosed as at 30 June 2019	2,183
Extension option included deemed reasonably certain of being exercised	2,066
Discount using incremental borrowing rate at 1 July 2019	(787)
<b>Lease liability recognised as at 1 July 2019</b>	<b>3,462</b>
<b>Lease liabilities</b>	<b>\$'000</b>
Balance at 1 July 2019	3,462
Additions	-
Interest incurred	119
Payments on lease liability	(316)
<b>Balance at 30 June 2020</b>	<b>3,265</b>
Of which are:	
Current lease liabilities	326
Non-current lease liabilities	2,939
<b>Balance at 30 June 2020</b>	<b>3,265</b>

The recognised right-of-use assets relate to the following types of assets:

	Property \$'000	Equipment \$'000	Total \$'000
<b>Right-of-use assets</b>			
<b>Balance at 1 July 2019</b>	<b>3,074</b>	-	<b>3,074</b>
Depreciation charge	(271)	-	(271)
<b>Balance at 30 June 2020</b>	<b>2,803</b>	-	<b>2,803</b>

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The below table highlights the impact on the income statement from the first-time application of AASB 16

	2020 \$'000
<b><i>Impact on profit/(loss) for the year</i></b>	
Decrease in occupancy expenses	283
Increase in depreciation of right-of-use asset	(271)
increase in finance costs	(119)
Increase/(decrease) in profit for the year	(107)

## ***2. Critical accounting judgements and key sources of estimation uncertainty***

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

### Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value.

The carrying amount of goodwill at the balance sheet date was \$9,095,000 (2019: \$9,095,000). Further details are provided in note 13.

### Measurement of lease term

The Group has a 5-year extension available to it in relation to its right-of-use head office site lease asset. It has been deemed that the exercising of this first 5-year extension is likely and was therefore factored into the first time recognition of the right-of-use asset and lease liability.

### Impairment of intangible assets not yet available for use

The Group has material capitalised registration costs in relation to obtaining registration of Pentrox in a number of jurisdictions (primarily the USA and China). Management tests the intangible assets not yet available for use using a fair value less costs to sell basis each year.

### Useful life of capitalised registration costs

Capitalisation of other intangible assets requires judgement by management to determine whether:

- Expenditure relates to development activity and not research activity,
- Expected future economic benefits attributable to the intangible assets will flow to the Group,
- The timing of the commencement of the amortisation of the asset which should commence when revenue has been generated, and
- The useful lives assigned to each individual category are appropriate.

Details of the other intangible assets are provided in Note 14

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Useful life of plant and equipment and right of use assets

Refer note 1(p) for further discussion on useful life assessments relating to plant and equipment.

Deferred tax assets

The carrying amount of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will eventuate to enable recovery of the asset.

Going Concern

The FY20 Financial statements have been prepared on a going concern basis. The going concern assumption continues to apply to Medical Developments International Ltd as at 30 June 2020 as the Group is profitable, generates positive operating cash flows, has considerable cash reserves and continues to be in a positive net asset position, which enables the Group to meet its debts and obligations as and when they fall due. Refer to note 30 for a summary of the Groups' cash position and available facilities.

As the Group is a pharmaceutical and medical device business, it has been considered an essential business in Victoria and has not been subject to COVID-19 related business lockdown restrictions and has therefore been able to continue with critical production and selling activities from its Victorian based locations.

**3. Segment information**

**Products and services within each business segment**

For management purposes, the company is organised into three business units – Pharmaceuticals, Medical Devices and Veterinary products. These units are the basis on which the company reports its primary segment information. The principal products and services of each of these divisions are as follows:

- Pharmaceuticals – the sale of Pentrox<sup>®</sup> primarily within Australia, New Zealand, Europe the UK and some sales in Canada, the Middle East, Asia and South Africa.
- Medical Devices – the sale of medical devices, particularly the Space Chamber and Breath-Alert Peak-Flow meters, primarily within Australia, UK/Europe and North America, with some sales in Asia and New Zealand.
- Veterinary Products – the sale of veterinary products within Australia, Europe, and Asia.

No operating segments have been aggregated in arriving at the reportable segments of the group.

There have also been no sales between reportable segments.

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**Segment revenues and results**

	Pharmaceuticals		Medical Equipment		Veterinary Equipment		Unallocated		Total	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
<b>Revenues:</b>										
External revenue (gross)	13,138	14,322	10,151	6,442	351	618			23,640	21,382
Sales discounts and claims	-	-	(1,105)	(506)	-	-			(1,105)	(506)
<b>Total external revenue (net)</b>	<b>13,138</b>	<b>14,322</b>	<b>9,046</b>	<b>5,936</b>	<b>351</b>	<b>618</b>	-	-	<b>22,535</b>	<b>20,876</b>
<b>Results:</b>										
Segment results	4,007	5,334	1,446	573	117	184			5,570	6,091
Unallocated							(2,875)	(2,650)	(2,875)	(2,650)
<b>Profit before interest, income tax depreciation &amp; amortisation</b>	<b>4,007</b>	<b>5,334</b>	<b>1,446</b>	<b>573</b>	<b>117</b>	<b>184</b>	<b>(2,875)</b>	<b>(2,650)</b>	<b>2,695</b>	<b>3,441</b>
Depreciation & Amortisation	(2,132)	(1,805)	(201)	(249)	(24)	(25)	(240)	(188)	(2,597)	(2,267)
<b>Profit before interest and tax</b>	<b>1,875</b>	<b>3,529</b>	<b>1,245</b>	<b>324</b>	<b>93</b>	<b>159</b>	<b>(3,115)</b>	<b>(2,838)</b>	<b>98</b>	<b>1,174</b>
Net Interest							223	377	223	377
<b>Profit before income tax expense</b>							<b>(2,892)</b>	<b>(2,461)</b>	<b>321</b>	<b>1,551</b>
Income tax credit/(expense)							58	(513)	58	(513)
<b>Net profit for the period from continuing operations</b>							<b>(2,834)</b>	<b>(2,974)</b>	<b>379</b>	<b>1,038</b>
<b>Assets and Liabilities</b>										
Assets	52,832	44,236	11,474	9,973	976	1,108	19,444	29,484	84,726	84,801
Liabilities	-	-	-	-	-	-	41,421	40,213	41,421	40,213
<b>Other Segment Information</b>										
Acquisition of segment assets	8,378	8,994	338	291	33	13	153	567	8,902	9,865

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 1. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Unallocated assets primarily include cash reserves, deferred tax assets and prepayments. Liabilities are not disclosed per segment as it is not possible to track these on a segment basis.

**Geographical information**

The Group operates in two principal geographical areas: Australia (country of domicile); and "International" comprising predominately Europe, North America, Middle East, Asia and South Africa.

The Group's revenue from continuing operations from external customers and information about its non-current assets by location of assets are detailed below:

Geographical Information	Revenue from external customers		Revenue from external customers	
	2020 \$000's	%	2019 \$000's	%
Australia	12,109	51.2%	11,208	52.4%
International	11,531	48.8%	10,174	47.6%
	23,640	100.0%	21,382	100.0%

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The Group's non-current assets by location are detailed below:

Non-Current Segment Assets	Australia \$000's	Overseas \$000's	Total \$000's
Leasehold improvements at cost	113	-	113
Plant and equipment at cost	11,126	542	11,668
Goodwill at gross carrying amount	9,095	-	9,095
Other intangible assets at cost	35,820	-	35,820
Deferred tax asset	2,056	50	2,106
	58,210	592	58,802

**Information about major customers**

The Group's only individual customers who contributed 10% or more to the Group's total 2020 sales revenue was Mundipharma Australia whose 2020 revenue contribution was \$7.985m (2019: \$1.113m).

**4. Items included in profit and loss**

	2020 \$'000	2019 \$'000
<b>(a) Revenue and other income</b>		
Gross revenue from sale of goods - at point in time	21,175	18,964
Sales discounts and claims	(1,105)	(506)
Upfront and milestone income - over time	2,465	2,418
Total Revenue (net)	22,535	20,876
Interest income - bank deposits	336	448
	22,871	21,324
<b>(b) Expense items included in profit and loss</b>		
Profit before income tax has been arrived at after charging the following expenses:		
Depreciation of non-current assets	(1,343)	(1,003)
Amortisation of non-current assets	(1,254)	(1,263)
Research & development costs	(396)	(253)
Share based payments (equity settled)	(91)	(380)
Gain/(loss) on foreign currency transactions	192	382
<b>Finance Expenses:</b>		
Interest on lease liability	(119)	-
Interest on bank loans	-	(46)
Interest on other loans/hire purchase arrangements	5	(25)
	(114)	(71)
<b>Employee benefit expense:</b>		
Employee benefits	(4,581)	(4,559)
Government subsidies	396	-
Superannuation contributions	(679)	(594)

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**5. Income Taxes**

	2020	2019
	\$'000	\$'000
<b>(a) Income tax recognised in profit or loss</b>		
Tax expense comprises:		
Current tax expense/(benefit)	1,924	(2,905)
Deferred tax expense/(benefit) relating to origination and reversal of temporary differences	(1,972)	3,371
Adjustments recognised in the current year in relation to the current tax of prior year	(10)	47
Total tax expense	(58)	513

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

Profit from operations	321	1,551
Income tax calculated at 27.5% (2019: 27.5%)	88	426
Research & development benefit	(163)	(127)
Non deductible expenses	39	130
Adjustments recognised in relation to the current tax of prior year	(10)	47
Effect of different tax rates of subsidiaries operating in other jurisdictions	(12)	37
Income tax expense recognised in the Statement of Profit or Loss and Other Comprehensive Income	(58)	513

The tax rate used in the above reconciliation is the corporate tax rate of 27.5% payable by Australian corporate entities on taxable profits under Australian tax law.

**(b) Income tax recognised directly in equity**

No current and deferred tax amounts have been charged directly to equity during the period (2019: \$nil)

**(c) Current tax assets/liabilities**

Income tax receivable/(payable)	33	(2,020)
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MVP has received upfront payments during the current and prior years and for tax purposes these are deemed as assessable on a cash received basis or when unconditional entitlement arises. This resulted in a significant tax payable in 2019. The group is in a tax loss position in 2020 due to the lower profits of the group and the significantly reduced level of upfront payments received in 2020.

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**5. Income Taxes (continued)**

	2020 \$'000	2019 \$'000
<b>(d) Deferred tax asset (current)</b>		
Temporary differences	10,182	9,849
Tax losses	2,016	67
	<u>12,198</u>	<u>9,916</u>
<b>(e) Deferred tax liabilities</b>		
Temporary differences	(10,092)	(7,787)
	<u>2,106</u>	<u>2,129</u>

Taxable/Deductible temporary differences arise from the following:

2020	Opening balance \$'000	Charged to income \$'000	Closing balance \$'000
<b>Deferred tax assets/(liabilities):</b>			
Accrued expenses	186	(36)	150
Deferred revenue	9,335	(426)	8,909
Lease liability	952	(54)	898
Lease asset	(845)	75	(771)
Other Intangibles	(7,556)	(1,528)	(9,084)
Property, Plant & Equipment	(10)	(6)	(16)
Provisions	221	4	226
Brandnames	(221)	-	(221)
	<u>2,062</u>	<u>(1,972)</u>	<u>90</u>

2019	Opening balance \$'000	Charged to income \$'000	Closing balance \$'000
<b>Deferred tax assets/(liabilities):</b>			
Accrued expenses	117	69	186
Deferred revenue	4,253	5,082	9,335
Other Intangibles	(5,728)	(1,828)	(7,556)
Property, Plant & Equipment	(4)	(6)	(10)
Provisions	274	54	328
Brandnames	(221)	-	(221)
	<u>(1,309)</u>	<u>3,371</u>	<u>2,062</u>

**6. Key management personnel compensation**

The aggregate compensation of the key management personnel of the company and the Group is set out below:

	2020 \$'000	2019 \$'000
Short-term employee benefits	937	806
Post employment benefits	75	75
Long term employee benefits	(2)	16
Share based payments	(179)	279
	<u>832</u>	<u>1,176</u>

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**7. Remuneration of auditors**

	2020 \$	2019 \$
Audit or review of the financial report	104,000	90,000
Taxation compliance services	26,300	26,300
Other assurance services	-	10,675
	130,300	126,975

The auditor of the entity is Deloitte Touche Tohmatsu.

**8. Current receivables**

	2020 \$'000	2019 \$'000
Trade receivables	3,923	6,273
GST recoverable	159	111
	4,082	6,384

The average credit period on sales of goods to domestic customers is 30 days, international customers 60 days. No interest is charged on trade receivables.

Included in the trade receivable balance are debtors with a carrying amount of \$487,300 (2019: \$647,906) which are past due at the reporting date. The Group holds an allowance for expected credit loss of \$100,000 in respect to aged debtors that are subject to collection actions. The Group does not hold any collateral over its trade receivable balances.

Ageing of past due but not impaired

	2020 \$'000	2019 \$'000
60 - 90 days	44	386
> 90 days	343	262
Total	387	648

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.



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**9. Current inventories**

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Raw materials:		
At cost	1,244	1,200
Work in progress:		
At cost	1,430	825
Finished goods:		
At cost	3,358	1,169
Provision for obsolescence	(150)	(145)
	5,882	3,049

The provision for obsolescence at 30 June 2020 represented predominantly obsolete materials.

**10. Other current assets**

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Prepayments	416	301

**11. Subsidiaries**

Details of the Group's subsidiaries at the end of the reporting period are as follows.

Name of Subsidiary	Principle activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			2020	2019
Medical Developments UK Limited	Distribution of pharmaceutical drug and medical and veterinary equipment	United Kingdom	100%	100%
Medical Developments MD&P Limited	Holder of European Pentrox Marketing Authorisation	Ireland	100%	100%
Medical Developments USA Inc.	Distribution of medical devices	United States of America	100%	100%
Medical Flow Technologies Pty Ltd	Non-operating	Australia	100%	N/A

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**12. Property, plant, equipment and right of use asset**

	Leasehold improvements at cost \$'000	Scoresby Right of Use Asset \$'000	Manufacturing Facility \$'000	Plant and equipment at cost \$'000	Total \$'000
<b>Gross carrying amount</b>					
Balance at 30 June 2018	563	-	4,087	6,984	11,634
Additions	22	-	-	1,465	1,487
Balance at 30 June 2019	585	-	4,087	8,449	13,121
Additions	7	3,074	-	1,485	4,566
Balance at 30 June 2020	592	3,074	4,087	9,934	17,687
<b>Accumulated depreciation</b>					
Balance at 30 June 2018	(358)	-	(136)	(3,066)	(3,560)
Depreciation expense	(61)	-	(341)	(601)	(1,003)
Balance at 30 June 2019	(419)	-	(477)	(3,667)	(4,563)
Depreciation expense	(60)	(271)	(341)	(671)	(1,343)
Balance at 30 June 2020	(479)	(271)	(818)	(4,338)	(5,906)
<b>Net book value</b>					
As at 30 June 2019	166	-	3,610	4,782	8,558
As at 30 June 2020	113	2,803	3,269	5,596	11,781

**13. Goodwill**

	2020 \$'000	2019 \$'000
<b>Gross carrying amount</b>		
Balance at beginning of financial year	9,095	9,095
Additions	-	-
Balance at end of financial year	9,095	9,095
<b>Net book value</b>		
Balance at beginning of financial year	9,095	9,095
Balance at end of financial year	9,095	9,095

During the year, the company assessed the recoverable amount of goodwill and determined that there was no impairment (2019: \$nil).

Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to three cash-generating units: pharmaceutical business, medical devices business and veterinary equipment business. The carrying amount of goodwill allocated to cash-generating units is as follows:

	2020 \$'000	2019 \$'000
Pharmaceuticals	3,808	3,808
Medical devices	4,706	4,706
Veterinary equipment	581	581
	9,095	9,095

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**13. Goodwill (continued)**

The recoverable amount of all three cash-generating units is based on a value in use calculation for each unit which uses cash flow projections based on a five-year projection period and terminal value. The Board of Directors approved financial budget for the following year is used to determine the cash flows for year 1.

Recoverable amount testing has been based on EBITDA growth rates for years 2-5 of:

Pharmaceuticals:	20% based on expansion of existing markets (2019: 25%)
Medical Devices:	15% based on expansion of existing markets (2019: 15%)
Veterinary equipment:	2.5% based on expansion of existing markets (2019: 2.5%)

A terminal value after 5 years based on a long-term growth rate of 2.5%, and a post-tax discount rate of 10.3% per annum (2019: 10.15% per annum) have been used to calculate the carrying value of the intangible assets.

As the global outbreak of COVID-19 continues to progress and evolve, it is extremely challenging to predict the full extent and duration of its impact on the Group's business activities. The Group believes that the assumptions adopted in the value in use calculations reflect an appropriate balance between the Group's experience to date, the uncertainty associated with the COVID-19 pandemic and the long-term growth expectations of its respective businesses, as discussed in the Directors Report. Accordingly, the Group has concluded that no impairment is required based on current market and economic conditions and expected future performance.

- The recoverable amount for the Pharmaceuticals business relies on continued growth in the short to medium term, particularly in Europe. We believe sales will continue to grow strongly as we focus on building product awareness and demand within existing markets and undertaking aggressive and targeted new launches. We believe that Pentrox will continue to grow to become a mainstream analgesic in the European market. Refer also to Note 29 Subsequent Events.
- The recoverable amount for the Medial Devices business is expected to be supported by growth opportunities, particularly in the US market. In August 2020, Walmart will launch their 'equate' branded spacer range, manufactured by MVP. This will be Walmart's first private label prescription product under the 'equate' brand and will be available in Walmart pharmacies (circa 4,600 stores in the USA). We are targeting further pharmacy chains in FY21 and expect to deliver significant sales growth in the USA in the years ahead.
- The recoverable amount of the Vet business is reliant upon trading performance stabilising at current levels.

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**14. Other intangible assets**

2020	Development \$'000	Patents & trademarks \$'000	Capitalised registration costs \$'000	Brandnames \$'000	Other \$'000	Total \$'000
<b>Gross carrying amount</b>						
Balance at 30 June 2018	3,083	1,043	20,421	738	867	26,152
Additions	1,455	94	6,829	-	-	8,378
Balance at 30 June 2019	4,538	1,137	27,250	738	867	34,530
Additions	1,547	180	5,672	-	10	7,409
Balance at 30 June 2019	6,085	1,317	32,922	738	877	41,939
<b>Accumulated amortisation</b>						
Balance at 30 June 2018	(497)	(381)	(2,496)	-	(228)	(3,602)
Amortisation expense	(257)	(100)	(820)	-	(86)	(1,263)
Balance at 30 June 2019	(754)	(481)	(3,316)	-	(314)	(4,865)
Amortisation expense	(233)	(100)	(835)	-	(86)	(1,254)
Balance at 30 June 2020	(987)	(581)	(4,151)	-	(400)	(6,119)
<b>Net book value</b>						
As at 30 June 2019	3,784	657	23,934	738	553	29,665
As at 30 June 2020	5,098	736	28,771	738	477	35,820

The amortisation charge for the year of \$1,254,000 (2019: \$1,263,000) has been included in administration expenses. For an explanation of amortisation periods refer Note 1(l).

For the purposes of impairment testing, intangible assets (except for those related to approval of Pentrox in the US and Chinese markets) are allocated to relevant cash generating units as discussed in Note 13. The recoverable amount for intangibles assets related to the approval of Pentrox in the US and Chinese markets has been based on an estimate of fair value less costs to sell, which uses cash flow projections based on a five-year projection period and terminal value.

Key assumptions include:

- Expected costs to be incurred to achieve approval in these markets;
- Expected sales, gross margin and operating costs;
- Discount rate of 25% (2019: 25%)
- Long term growth rate of 3% (2019: 3%)

As highlighted in the Directors Report, MVP remains confident of achieving approval in these markets based on our 40+ years of experience, the demonstrated safety profile of Pentrox over that time, our ongoing clinical development program and our recent achievements in getting Pentrox approved for sale in more than 40 countries around the world.

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**15. Current trade and other payables**

	2020 \$'000	2019 \$'000
Trade payables (i)	3,841	2,030
Accrued expenses	1,102	1,319
Employee benefits payable	55	53
PAYG withholding tax payable	3	4
	5,001	3,406

(i) The average credit period on purchase of goods is 30 days. No interest is charged on trade payables. The company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

**16. Borrowings**

	2020 \$'000	2019 \$'000
<b>Secured - at amortised cost</b>		
Other (i)	91	181
	91	181
Current	91	91
Non-current	-	90
	91	181

*Summary of borrowing arrangements*

- (i) On 29 June 2012, the group entered into an agreement with the Commonwealth Scientific and Industrial Research Organisation (“CSIRO”) to fund the development of a new production process for the pain-relieving ingredient used in Pentrox®. Funding is receivable at the commencement of each of three stages of development and is payable over a three-year term upon the completion of the relevant stage. As at 30 June 2020, Stage 1a, 1b and Stage 2 are complete. Should MVP default on the loan, CSIRO has the option to convert the debt into shares in MVP at fair market value. This funding was interest-free until the first anniversary of the completion of Stages 1a and 2 and is then calculated at the Westpac Bank Lending Rate at the date the relevant note was issued, plus 2%.
- (ii) The Group has an overdraft facility of \$200,000. As at 30 June 2020, this remains unused.

**17. Current provisions**

	2020 \$'000	2019 \$'000
Employee benefits	401	357

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**18. Non-current provisions**

	2020 \$'000	2019 \$'000
Employee benefits	269	302

The company has 65 full time equivalent employees at 30 June 2020 (2019: 58)

**19. Other liabilities**

	2020 \$'000	2019 \$'000
Revenue received in advance	31,640	33,281
Unearned government grant income	754	665
	<u>32,394</u>	<u>33,946</u>
Current	2,394	2,521
Non-current	30,000	31,425
	<u>32,394</u>	<u>33,946</u>

When MVP receives upfront payments in relation to licensing and distribution agreements for Pentrox®, for accounting purposes these non-refundable payments are deferred and amortised into the income statement over the term of the agreement to which the payments relate. As at 30 June 2020 \$31.640m (2019: \$33.281m) remains unamortised.

Unearned government grant income represents funds received through the Commercial Ready Programme from the Federal Government and Futures Industries Manufacturing Program of the Victorian State Government.

**20. Lease liabilities**

	2020 \$'000	2019 \$'000
Lease liability	3,265	-
	<u>3,265</u>	<u>-</u>
Current	326	-
Non-current	2,939	-
	<u>3,265</u>	<u>-</u>

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**21. Issued Capital**

21(a) Fully paid ordinary shares

	2020 No.	2020 \$'000	2019 No.	2019 \$'000
<b>Fully paid ordinary shares</b>				
Balance at beginning of financial year	65,516,746	40,410	59,172,092	16,121
Shares Issued - Dividends Reinvestment Plan	106,745	557	225,951	860
Share issue - Placement	-	-	4,250,000	17,000
Share issue - Share Purchase Plan	-	-	1,868,703	7,475
Capital raising costs	-	(13)	-	(1,046)
Balance at end of financial year	65,623,491	40,954	65,516,746	40,410

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

**22. Reserves**

	2020 \$'000	2019 \$'000
<b>(a) Foreign currency translation reserve</b>		
Balance at beginning of year	(3)	(20)
Exchange differences arising on translating the foreign operations	(42)	17
Balance at end of year	(45)	(3)

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations (UK based) from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve.

	2020 \$'000	2019 \$'000
<b>(b) Employee equity-settled benefits reserve</b>		
Balance at beginning of year	711	331
Share-based payments recognised	91	380
Balance at end of year	802	711

The above equity settled employee benefits reserve related to share options granted by the company to its Senior Management team under its employee share option plan.

	2020 \$'000	2019 \$'000
<b>(c) CSIRO Option Reserve</b>		
Balance at beginning of year	800	400
Option issues for services provided	400	400
Balance at end of year	1,200	800

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The above CSIRO option reserve at 30 June 2020, relates to 243,706 options (2019: 178,756) over ordinary shares of the Company. These options are in relation to the MVP/CSIRO Manufacturing Technologies Project announced on 5 June 2017. Options are exercisable for no consideration when a developed technology has been proven to be commercially viable. The share options granted to the CSIRO carry no rights to dividends and no voting rights.

**23. Retained earnings**

	2020 \$'000	2019 \$'000
Balance at beginning of financial year	2,670	4,209
Dividends paid	(2,622)	(2,576)
Net profit attributable to members	379	1,038
Balance at end of financial year	427	2,670

**24. Earnings per share**

	2020 Cents per share	2019 Cents per share
Basic earnings per share	0.58	1.61
Diluted earnings per share	0.58	1.60

**Basic earnings per share**

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2020 \$'000	2019 \$'000
Earnings	379	1,038

	2020 No.	2019 No.
Weighted average number of ordinary shares	65,586,805	64,615,720



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**Diluted earnings per share**

Earnings used in the basic earnings per share calculation are identical to those used for the diluted earnings per share calculation. Dilutive options outstanding as at 30 June 2020 related to options to employees and also to the CSIRO.

	2020 No.	2019 No.
Weighted average number of ordinary shares used in the calculation of basic EPS	65,586,805	64,615,720
Shares deemed to be issued for no consideration in respect of:		
- Dilutive Options	321,957	344,166
Weighted average number of ordinary shares for diluted EPS	65,908,762	64,959,886

**25. Dividends**

An interim dividend of 2 cents per share was declared and paid in the current year. No final dividend was declared for the full year ended 30 June 2020.

The interim dividend paid during the 30 June 2020 year resulted in the company paying dividends of \$1,170,000 and the balance of \$142,000 issued as shares under the Dividend Reinvestment Plan.

The 2019 full year dividend paid during the 30 June 2020 year resulted in the company paying dividends of \$895,000 and the balance of \$415,000 issued as shares under the Dividend Reinvestment Plan.

	2020		2019	
	cents per share	\$'000	cents per share	\$'000
<b>Recognised amounts</b>				
<i>Fully paid ordinary shares</i>				
Interim dividend - fully franked	2.0	1,312	2.0	1,308
Full year dividend paid during the year - fully franked	2.0	1,310	2.0	1,268
	4.0	2,622	4.0	2,576
<b>Unrecognised amounts</b>				
<i>Fully paid ordinary shares</i>				
Final dividend - fully franked		-	2.0	1,310
		-		1,310
			2020 \$'000	2019 \$'000
Adjusted franking account balance			1,469	490

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**26. Short Term leases**

	2020 \$'000	2019 \$'000
<b>Non cancellable operating lease payments:</b>		
Not longer than 1 year	59	76
Longer than 1 year and not longer than 5 years	25	84
Greater than 5 years	-	-
	84	160

Short term leases not accounted for under AASB 16 primarily relate to low value short-term factory leases and office equipment with lease terms < 1.5 years. The company does not have the option to purchase the leased assets at the expiry of the lease period.

**27. Commitments for expenditure**

**(a) Capital expenditure commitments**

There were no capital expenditure commitments at 30 June 2020.

**28. Related party disclosures**

There were no related party transactions during the 2020 financial year.

Balances and transactions between the Company and its subsidiaries which are related parties of the company have been eliminated on consolidation and are not disclosed in this note.

Please also refer to note 6 for details of Key Management Personnel compensation.

**29. Subsequent events**

On 19 August 2020 the company announced that it had reached an in-principle agreement to take back the distribution rights for Pentrox in Europe from Mundipharma. This transition is to take place over a 6-month period from 1 September 2020 to 28 February 2021.

As the Group is a pharmaceutical and medical device business, it has been considered an essential business in Victoria and has not been subject to COVID-19 Stage 4 related business shutdown restrictions and has therefore been able to continue with critical production and selling activities from its Victorian based locations.

There has not been any other matter or circumstance that has arisen that has significantly affected, or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future years.

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**30. Notes to the Consolidated Statement of Cash Flows**

	2020	2019
	\$'000	\$'000
<b>(a) Reconciliation of cash and cash equivalents</b>		
For the purposes of the Consolidated Statement of Cash Flows, cash includes cash on hand and in banks. Cash at the end of the financial year as shown in the Consolidated Statement of Cash Flows is reconciled to the related item in the Statement of Financial Position as follows:		
Cash and cash equivalents	15,544	25,620
	15,544	25,620
<b>(b) Reconciliation of profit for the period to net cash flows from operating activities</b>		
Profit for the period	350	1,038
Interest received	(429)	(330)
Depreciation and amortisation of non-current assets	2,597	2,266
Net unrealised foreign exchange (gain)/loss	(222)	(53)
Share based payments	91	380
Increase/(decrease) in tax payable	(4,019)	2,116
Decrease/(increase) in deferred tax asset	2,018	(1,047)
<i>Movements in working capital</i>		
Decrease/(increase) in assets:		
Receivables	2,302	(2,097)
Inventories	(2,833)	148
Other assets	(115)	72
Increase/(decrease) in liabilities:		
Payables	1,974	202
Provisions	44	1
Other liabilities	(1,552)	18,480
Non-current provisions	(33)	96
Net cash from operating activities	172	21,271
<b>(c) Financing facilities</b>		
Unsecured bank overdraft facility, reviewed annually and payable at call:		
Amount unused	200	200
	200	200

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**31. Financial Instruments**

**(a) Capital risk management**

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders. The Group does not enter into or trade financial instruments, including derivatives, for speculative purposes.

The capital structure of the Group consists of net debt (borrowings as detailed in note 16) and equity of the Group (comprising issued capital, reserves, retained earnings, and cash and cash equivalents as detailed in notes 21, 22, 23, and 30(a), respectively).

The Group's Audit and Risk Committee reviews the capital structure of the Group on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. The gearing ratio at 30 June 2020 is outlined below:

	2020	2019
	\$'000	\$'000
Debt (i)	91	182
Cash and bank balances	(91)	(182)
Net debt / (cash)	-	-
Equity (ii)	43,309	44,588
Net debt to equity ratio	0%	0%

- (i) Debt is defined as long-term and short-term borrowings as described in note 16.
- (ii) Equity includes all capital and reserves of the group that are managed as capital. Cash has been included to the extent it reduced the outstanding debt to nil.

**(b) Significant accounting policies**

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

**31. Financial Instruments (continued)**

These policies were consistent throughout the current year and the prior year.

**(c) Financial risk management objectives**

The Group's finance function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages financial risks relating to the operations of the Group. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

**(d) Credit risk management**

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure is continually monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Trade receivables consist of a large number of customers. Ongoing credit evaluation is performed on the financial condition of these accounts receivable and advance payments are requested where deemed appropriate.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

Apart from the largest customer of the Group (refer to Note 3), the Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk to any other counterparty did not exceed 10% of gross monetary assets at any time during the year.

**(e) Foreign currency risk management**

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

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**31. Financial Instruments (continued)**

	Liabilities		Assets	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
USD	2,705	903	2,012	5,841
GBP	139	59	1,282	733
NZD	15	25	415	343
EUR	69	-	125	-
CND	2	-	533	6
	2,930	987	4,367	6,923

Amounts of exposure (assets of \$4.3m) are not currently significant and as such forward contracts and currency swap agreements are not used.

**Foreign currency sensitivity analysis**

The Group predominantly trades in Australian dollars (AUD), but has exposure to the US dollar (USD) and Great Britain Pound (GBP) based on a portion of its overseas sales and purchases.

The following table details the Group's sensitivity to a 10% increase and decrease in the Australian Dollar against the USD and GBP. 10% is the sensitivity rate used when assessing foreign currency risk internally by key management and represents management's assessment of the possible change in foreign currency rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in profit or loss where the Australian Dollar strengthens against the respective currency. For a weakening of the Australian Dollar against the respective currency there would be an equal and opposite impact on the profit.

	USD Impact	
	2020	2019
	\$'000	\$'000
Profit or Loss	69	(494)

	GBP Impact	
	2020	2019
	\$'000	\$'000
Profit or Loss	(114)	(67)

This is attributable to the exposure outstanding on USD and GBP receivables and payables at year end in the Group. The exposure to movement in NZD, EUR, and CAD is not deemed to be significant.

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**31. Financial Instruments (continued)**

**(f) Fair value of financial instruments**

The Directors consider that the carrying amount of financial assets and liabilities recorded at amortised cost in the financial statements approximates their respective net fair values, determined in accordance with the accounting policies disclosed in note 1 to the financial statements.

The Group does not recognise any financial instruments that are measured subsequent to initial recognition at fair value.

**(g) Interest rate risk management**

The Group is exposed to interest rate risk as it holds cash at floating interest rates. The following table details the Group's global exposure to interest rate risk as at 30 June 2020 and 30 June 2019.

2020	Average interest rate %	Variable interest rate maturity			Non-interest bearing \$'000	Total \$'000
		Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000		
<i>Financial assets</i>						
Cash	1.58%	15,544	-	-	-	15,544
Receivables	-	-	-	-	4,082	4,082
		15,544	-	-	4,082	19,626
<i>Financial liabilities</i>						
Payables	-	-	-	-	5,001	5,001
Lease liability	3.55%	215	1,056	1,994	-	3,265
Borrowings	3.89%	91	-	-	-	91
		306	1,056	1,994	5,001	8,357

2019	Average interest rate %	Variable interest rate maturity			Non-interest bearing \$'000	Total \$'000
		Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000		
<i>Financial assets</i>						
Cash	1.99%	25,620	-	-	-	25,620
Receivables	-	-	-	-	6,384	6,384
		25,620	-	-	6,384	32,004
<i>Financial liabilities</i>						
Payables	-	-	-	-	3,406	3,406
Borrowings	4.72%	91	91	-	-	182
		91	91	-	3,406	3,588

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**31. Financial Instruments (continued)**

The following table details the Group's sensitivity to a 50-basis point increase or decrease in interest rates.

	2020	2019
	\$'000	\$'000
Profit or Loss	77	127

**(h) Liquidity risk management**

The Group manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity risk table

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes the principal cash flows.

	Weighted average effective interest rate %	Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	Total \$'000
<b>2020</b>					
Payables	-	5,001	-	-	5,001
Lease Liability	3.55%	326	1,415	2,191	3,932
Borrowings	3.89%	91	-	-	91
		<u>5,418</u>	<u>1,415</u>	<u>2,191</u>	<u>9,024</u>
<b>2019</b>					
Payables	-	3,406	-	-	3,406
Borrowings	4.72%	91	91	-	182
		<u>3,497</u>	<u>91</u>	<u>-</u>	<u>3,588</u>



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**32. Parent Entity Information**

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to note 1 for a summary of the significant accounting policies relating to the Group.

**Financial Position**

	<b>30 June 2020 \$'000</b>	<b>30 June 2019 \$'000</b>
<b>Assets</b>		
Current Assets	26,230	35,848
Non-Current Assets	58,749	49,375
Total Assets	<u>84,979</u>	<u>85,223</u>
<b>Liabilities</b>		
Current Liabilities	8,142	5,965
Non-Current Liabilities	33,208	34,338
Total Liabilities	<u>41,350</u>	<u>40,303</u>
<b>Equity</b>		
Issued capital	40,954	40,410
Reserves	2,002	1,511
Retained earnings	673	2,999
Total Equity	<u>43,629</u>	<u>44,920</u>

**Financial Performance**

	<b>2020 \$'000</b>	<b>2019 \$'000</b>
Profit for the year	296	1,231
Dividends paid	(2,622)	(2,576)
Other comprehensive income	-	-
Total comprehensive income	<u>(2,326)</u>	<u>(1,345)</u>

The commitments of the parent are the same as those of the overall consolidated group.

### **33. Employee Share Option Plans**

#### **Executive Option Plans**

Under the Executive Option plan awards were made to executives who have an impact on the Group's performance. Long Term Incentive awards are delivered in the form of options over shares which vest on the achievement of specific performance measures.

The fair value of share options granted is estimated at the date of grant using a Black Scholes option pricing model, taking into account the terms and conditions upon which the share options were granted including the option price, the life of the option, the share price of the underlying shares on grant date and the expected share price volatility. It also takes into account historical and expected dividends. There are no cash settlement alternatives for the employees and The Group does not have a past practice of cash settlement for these awards.

All outstanding options will be cancelled if the employee leaves or is no longer employed by MVP for any reason. When the Long-Term Incentive Plan "LTIP" has met its vesting criteria and delivers an entitlement to an equity interest, the employee will have 3 months to exercise the relevant options, after which the relevant options will lapse.

Each share option converts into one ordinarily share of Medical Developments Limited on exercise. No amounts are paid or payable by the recipient on the receipt of the option nor are they tradeable at any time. The options carry neither rights to dividends or voting rights.

#### **33.1 Executive share option plans**

The following share-based payment arrangements were in existence during the current reporting period:

##### **CEO Option Plan**

On 18 July 2018 the company announced it has agreed to a LTIP with Mr. John Sharman, the CEO of Medical Developments International Limited to encourage his long-term commitment to the business. This plan was forfeited on 5 June 2020 upon resignation of the former CEO.

##### **Senior Management Option Plan – Tranche 1**

In September 2018 the company announced it has agreed to a LTIP with key Senior Management Team members.

Under the plan the effected Senior Management team members were granted 375,000 options with a strike price of \$0.01. The options will only vest on the earlier of FDA approval of Pentrox for sale in the USA or the company receives an unconditional takeover offer worth more than \$350m. 100,000 of options within this issue contain a further vesting trigger being, the delivery of a new API from the CSIRO manufacturing technologies project that creates revenue of at least \$1m p.a. In each case, 60% of the new shares issued by exercising options will be escrowed for a period of 12 months from issue date. In the case of an unconditional takeover, the escrow conditions will not apply.

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Senior Management Option Plan – Tranche 2

An additional Senior Management Option Plan was granted and announced during the year effective from 1 July 2019.

Under the plan the effected Senior Management team member was granted 75,000 options with a strike price of \$0.01. The options will vest based upon certain milestones as follows:

- 25,000 vest when the FDA approves the opening of the USA IND for Pentrox;
- 25,000 vest on 2 July 2022; and
- the balance vest in the event of NDA approval in the USA or an unconditional takeover offer for greater than \$350m.

For tranche 2, where any of the vesting criteria have been met and the options exercised, the first 50% of the shares will be available to sell immediately without restriction. The remaining 50% of the shares will be subject to an escrow period of 2 years. In the case of an unconditional takeover, the escrow conditions will not apply.

Summary of Unvested options

2020	Balance at 30 June 2019 No.	Granted as remuneration No.	Exercised No.	Lapsed/forfeited No.	Balance at 30 June 2020 No.	Balance vested at 30 June 2020 but not exercised No.	Balance not vested at 30 June 2020 No.	Options vested during the year No.
J. Sharman (CEO)	300,000	-	-	(300,000)	-	-	-	-
M. Edwards (CFO)	100,000	-	-	-	100,000	-	100,000	-
Senior Management	225,000	75,000	-	-	300,000	-	300,000	-

Issuing Entity	Personnel	Tranche	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
Medical Developments International Ltd	M. Edwards		100,000	Ordinary	\$0.01	No expiry
Medical Developments International Ltd	Senior Management	1 & 2	300,000	Ordinary	\$0.01	No expiry
			400,000			

2019	Balance at 30 June 2019 No.	Granted as remuneration No.	Exercised No.	Lapsed/forfeited No.	Balance at 30 June 2019 No.	Balance vested at 30 June 2019 but not exercised No.	Balance not vested at 30 June 2019 No.	Options vested during the year No.
J. Sharman (CEO)	300,000	300,000	-	-	300,000	-	300,000	-
M. Edwards (CFO)	100,000	100,000	-	-	100,000	-	100,000	-
Senior Management	275,000	275,000	-	(50,000)	225,000	-	225,000	-

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**33.2 Fair value of share options granted during the year**

As the options contain non-market performance hurdles, they have been valued using a 'Black-Scholes' Option Pricing Model. Where relevant, the expected useful life used in the model has been adjusted based on management's best estimate for the effects of non-transferability and exercise restrictions. Expected volatility is based on the historical share price volatility over the past 2 years.

Inputs into the option pricing model were as follows:

	CFO	Senior Management (tranche 1)	Senior Management (tranche 2)
Grant date share price	\$3.90	\$3.90	\$5.30
Exercise price	\$0.01	\$0.01	\$0.01
Option Fair Value	\$3.69	\$3.69	\$5.13 - \$5.24
Expected volatility	45%	45%	45%
Expected option life	5 years	5 years	1.5 - 4.2 years
Dividend (Bi-annually)	2c	2c	2c
Risk-free interest rate	2.17%	2.17%	0.98%

For valuation purposes a probability of 75% has been applied to the likelihood of achieving FDA approval for Pentrox in the USA.

**33.3 Share Based Payments Expense**

	2020 \$'000	2019 \$'000
Current year expense	325	380
Reversal for forfeited options	(234)	-
Share-based payments	91	380

**34. Additional company information**

Medical Developments International Limited is a listed public company, incorporated and domiciled in Australia.

Company Secretary

Mr. Mark Edwards

Registered office and principal place of business

4 Caribbean Drive  
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Tel: (03) 9547 1888

Share registry

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