Financial Report for year-ended 30 June 2016

Factor Therapeutics Limited
(previously Tissue Therapies Limited)
ABN 45 101 955 088

Contents

Your Directors present their report on Factor Therapeutics Limited[1] ("the Company") and Controlled Entities, ("the Group") for the year ended 30 June 2016.

Directors

The names and details of Directors in office during the year and their qualifications up to the date of this report are outlined below:

Cherrell Hirst AO, FTSE MBBS BEdSt DUniv FAICD

Chairman, non-Executive Director

Cherrell Hirst AO has had a distinguished clinical career in the detection and diagnosis of breast cancer; and significant experience as a director of commercial, government and not-for-profit organisations. She is the Chairman of ImpediMed Limited, a Director of Medibank Private Limited, the Gold Coast Hospital and Health Service, and RSL Care RDNS Limited. Dr Hirst is also the Chairman of Advisory Board of Institute of Molecular Biosciences at the University of Queensland.

Dr Hirst chairs the People and Remuneration Committee and the Nomination Committee; and serves on the Audit and Risk Management Committee.

As at the date of this report, Dr Hirst hold 3,323,810 Ordinary Shares and 300,000 Options in Factor Therapeutics.

Listed company directorships held in the last 3 years:

- Factor Therapeutics Limited (appointed as non-Executive Director on 30 June 2009 and as Chairman on 7 April 2015 to present);
- ImpediMed Limited (August 2005 to present);
- Medibank Private Limited (appointed December 2009); and
- Telesso Technologies Limited (October 2012 to October 2013).

Tim Hughes, BSc(Hons) BA (Hons) MNatRes

Non-Executive Director

Tim Hughes has over thirty years of experience in investment banking, funds management and as an institutional investor. He previously spent thirteen years as a senior executive at Rothschilds where he was a board director and executive committee member. Mr Hughes has a strong track record in business development and strategic thinking and brings financial focus to the Board. Currently Mr Hughes is a Director of Value Capital Management Pty Limited and South Endeavour Pty Limited.

Mr Hughes chairs the Audit and Risk Management Committee (appointed on 25 November 2015); serves on the People and Remuneration Committee and the Nomination Committee.

As at the date of this report, Mr Hughes hold 300,000 Options in Factor Therapeutics.

Listed company directorships held in the last 3 years:

- Factor Therapeutics Limited (1 November 2014 to present); and
- Alchemia Limited (July 2013 to July 2015).

Christian Behrenbruch, FIEAust BEng(Hons) DPhil(Oxon) MBA JD GAICD

Executive Director

Christian Behrenbruch has over 15 years of C-level leadership experience in the medtech, biotechnology and healthcare IT space, and has significant experience as a director of commercial and non-profit organisations. His former CEO/Director-level appointments include Mirada Solutions (now Siemens Plc), Fibron Technologies and ImaginAb, Inc. He is a former director of Momentum Biosciences LLC, Siemens Molecular Imaging Ltd, Radius Health Ltd (now Adaptix), Cell Therapies P/L (Peter MacCallum Cancer Centre) and the Oncidium Foundation. He is currently Managing Director of Irukandji Research Pty Ltd, a

[1] Previously Tissue Therapies Limited

Director of Red Hill Pharmaceuticals Pty Ltd[2], Chairman of Monash Engineering and IT Foundation Board and holds academic appointments at RMIT University (Adjunct Professor) and Monash University (Professorial Fellow).

Dr Behrenbruch serves on the People and Remuneration Committee and the Nomination Committee.

As at the date of this report, Dr Behrenbruch and related entities hold 2,857,142 Ordinary Shares and 4,000,000 Options in Factor Therapeutics.

Listed company directorship held in the last 3 years:
- Factor Therapeutics Limited (12 October 2015 to present).

Mel Bridges, BAppSc, PhD, FAICD
Non-Executive Director (resigned 25 November 2015)

Mel Bridges has over thirty years of experience in the life sciences, technology and healthcare industries. He is currently the Chairman of Anatara Lifesciences Ltd, and Director of ALS Limited (formerly Campbell Brothers Limited) and Oventus Medical Limited.

Dr Bridges was the previous chair of the Audit and Risk Management Committee until 25 November 2015 and served on the People and Remuneration Committee and the Nomination Committee.

As at the date of retirement, Dr Bridges held 427,033 Ordinary Shares in Factor Therapeutics.

Listed company directorships held in the last 3 years:
- Factor Therapeutics Limited (12 March 2009 to 25 November 2015);
- Anatara Lifesciences Limited (July 2010 to present);
- Oventus Medical Limited (July 2016 to present);
- Benitec BioPharma Limited (October 2007 to June 2014); and
- ImpediMed Limited (September 1999 to November 2013).

Iain Ross, BSc(Hons) Biochemistry
Non-Executive Director (resigned 17 September 2015)

Iain Ross has over thirty years of experience in the pharmaceutical and biotechnology sector. He held senior commercial positions with companies in the UK and internationally, including Sandoz AG, Fisons Plc, Hoffman-La Roche AG and Celltech Group Plc.

Mr Ross served on the Audit and Risk Management Committee, People and Remuneration Committee and Nomination Committee.

As at the date of retirement, Mr Ross held 66,000 Ordinary Shares in Factor Therapeutics.

Listed company directorships held in the last 3 years:
- Factor Therapeutics Limited (25 May 2012 to 17 September 2015);
- Anatara Lifesciences Limited (appointed February 2014);
- Novogen Limited (March 2014 to November 2014 and re-appointed July 2015).

[2] Unrelated to RedHill Biopharma: NASDAQ RDHL

Company Secretary

The following person held the position of company secretary at the end of the financial year:

Saskia Jo CPA GIA

Saskia Jo was appointed to the position of Company Secretary on 12 August 2015. Ms Jo is a member of the Governance Institute of Australia and Certified Practicing Accountant. She has over ten years of commercial experience in finance and compliance. She has been with the company since 2011.

Drummond McKenzie FCA FGIA

Drummond McKenzie resigned as Company Secretary on 12 August 2015. Mr McKenzie served as Company Secretary for Factor Therapeutics from 2004 until retirement in 2015. He has significant experience in senior financial management in a range of industries, including mining, financial services, health and the accounting profession.

Principal activities

During the year the principal activities of the Group consisted of the development and commercialisation of the Company's proprietary intellectual property in wound care. The company has undertaken a US-centric development program that marks a significant strategic, regulatory and financial direction change from the prior operating year.

There were no significant changes in the nature of the Group's principal activities during the year.

Operating results

The loss of the Group after tax amounted to $11,612,031 (2015: loss $11,218,514).

Dividends

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

Review of operations

Factor Therapeutics lead program, VF-001[3] is an advanced biologic product for wound care that harnesses a targeted growth factor approach to accelerate the healing process. This is a platform technology with multiple clinical applications and currently being developed to treat chronic wounds that can persist for months or even years. During the year, the Company achieved assignment of all intellectual property from QUT, transitioned product development from a European regulatory focus to a US FDA-focused process, conducted a Type A meeting with FDA, completed a A$15 million financing and prepared materials in readiness for a planned Phase II program. This Phase II program is designed to deliver clinically and statistically significant proof of efficacy in the initial treatment indication of venous leg ulcers, and robustly demonstrate the value of the company's lead asset to potential partners.

Upon completion of the financing a number of clinical activities were immediately launched to assertively pursue IND approval:

- Completed process transfer from Europe to the United States for manufacture of the clinical lots for the Phase II program. Clinical manufacturing was successfully completed by end-July 2016 and at the time of this operations summary is in final release testing prior to release.
- Based on a thorough data review of prior clinical experience, the clinical strategy for the VF-001 program was revised to target moderately severe ulcers[4]. These are serious and persistent ulcers that are predominantly treated in the community setting, and represent the patient segment where the product has demonstrated greatest potential clinical utility. By excluding patients with ulcers that are unlikely to heal during the study duration, the Company believes it has a clinical strategy that will maximise the potential of VF-001 while positioning the product in a patient population that has relatively little commercial competition.

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[3] Formerly marketed as VitroGro® ECM. The company has elected to abandon the use of this product branding strategy as it is not compatible with best practice for US FDA regulatory documentation.

[4] By clinical definition

- The Company utilizes third parties for development and commercialisation of its products. Parexel (NASDAQ : PRXL), a global contract research organisation (CRO) has been contracted to complete the clinical protocol for the Phase II program. This was accomplished with significant contribution from the company's newly established Medical Advisory Board (MAB). Outsourcing this critical path item ensured the Company could execute the task in a timely manner without delaying the IND response.
- To ensure clinical operations may commence as early as possible after the FDA hold removal, a number of high quality clinical trial sites have been identified and qualified for the Phase II trial. Effective selection of sites is expected to improve the Company's ability to achieve the necessary enrolment rates to complete the study in accordance with articulated timelines.
- Augmented human capital development by recruiting a Medical Advisory Board (MAB) with noted thought leaders in the field of wound care. As the Company's products remain in clinical development and given the inherent clinical trial risk of development of its products, the establishment of the MAB will enhance the ability of the Company to achieve goals for efficacy and safety during Phase II (**ASX: FTT** Formation of Medical Advisory Board, 3 August 2016).
- Reworked the company's branding and visual strategy to articulate and reinforce the company's commitment to advanced wound-healing technology and its potential beyond chronic wound care.

In support of the corporate turn-around the Company also completed a number of restructuring activities:

- Overhauled advisory and service provider relationships by formerly engaging top-tier regulatory advisers. Bioprocess Technology Consultants (BPTC) will lead the CMC strategy and Parexel provide additional regulatory support based in MA, USA.
- Moved to small-scale VF-001 drug product manufacturing to Berkshire Sterile Manufacturing, with logistics provided by Almac Group. Re-establishing the manufacturing process was complex and disruptive to operations, however the Company's management team and vendors were able to successfully establish VF-001 in the US. This milestone was also accomplished with active involvement from BPTC experts including valuable input from a former FDA quality inspector.
- In view of the specialised nature of the Company's business, the Company is highly dependent upon qualified technical and managerial personnel. During the year, core members of the team departed and following completion of financing the company has also begun to re-invest in human capital with key management hires in the areas of quality and project management in order to deliver the transformation strategy. The Company was able to complete the recruitment process for these personnel in a timely manner in order to maintain the R&D programs critical path.
- The Company established a US subsidiary, Factor Therapeutics USA, LLC to establish a contracting and HR platform in the US.
- Following strategic review of the company's extensive intellectual property portfolio, a potential product pipeline has been identified to create additional value and market opportunities for under-served wound healing and dermatological conditions. There has been active business development around the lead program (VF-001) as well as pipeline expansion activity such as the ocular wound care program.
- Assignment of all intellectual property by Queensland University of Technology (QUT) was accomplished to deliver greater commercial certainty around the Company's assets. This was also followed by a renegotiation of the sponsored research arrangement with QUT on more cost-effective terms based on contracting for specific projects.
- The Company continued to make solid progress with the management and expansion of its intellectual property portfolio, including implementing strategies to evergreen the lead program and pipeline expansion.
- R&D expenditure was modest ($159,589) with activities primarily focused on support for the US IND. A minimal level of human resources was allocated to planning and evaluation of future indication and pipeline expansion. In view of the planned US-based Phase II trial, an advanced finding for overseas expenditure on the trial was obtained from AusIndustry for the purpose of R&D tax rebate in the forward year.
- As a substantial proportion of the Company's operations occur outside Australia, the Company is exposed to exchange rates for foreign currencies. The risks primarily relate to the US dollar and Euro. In order to minimise the risk, during the year Factor completed acquisition of all its contracted expenditure of its US dollar and Euro requirements for the forward activities, especially the planned Phase II trial.
- The Company is actively engaged in augmenting its leadership functions, including an ongoing executive search for a CEO and additional non-executive directors.

The reported operating loss is $11,612,031 (2015: $11,218,514). This loss includes a one-time non-cash impairment of $7,485,691 recorded at half-year against the work-in-progress of component inventory. This impairment reflects the disposal of inventory that was unable to be used for US clinical trials and would expire before it would likely be able to be used for clinical trials or sold in Europe. Manufacturing development expenses for the VF-001 program were $747,023 and the clinical trial manufacturing expenses were $743,438. Total employment costs were $1,181,058, which included minor termination costs as well as additional hires for the Board and management team. These costs represent a significant and focused paring back of the company's expenditure profile. Net assets increased by $2,194,934 to $15,520,148 and at 30 June 2016 the Group had cash resources of $14,375,591.

Significant Changes in State of Affairs

As announced to the ASX on 18 March 2016, the Group announced a capital raising of approximately $15 million, before issue costs, by way of a placement (**Placement**) to raise $9.7 million, along with a fully-underwritten 2-for-5 entitlement offer (**Entitlement Offer**) to raise $5.3 million, at an issue price of $0.035 per New Share. The Placement to institutional and sophisticated investors was conducted in two tranches:

a) an initial placement of 75,719,708 Ordinary Shares (**First Tranche Shares**) at $0.035 per share to raise $2,650,190, was completed on 23 March 2016 (**First Tranche**); and
b) a subsequent placement of an additional 194,290,000 Ordinary Shares (**Second Tranche Shares**) at $0.035 per share to raise $6,800,150, was completed on 4 May 2016 (**Second Tranche**).

On 26 April 2016, the Group issued 91,291,619 Ordinary Shares under Entitlement Offer at $0.035 per share to raise $3,195,207, and on 29 April 2016, a further 60,148,337 Ordinary Shares under the shortfall of the Entitlement Offer at $0.035 per share to raise $2,105,192 before issue costs.

There were no other significant changes in the state of affairs of the Group during the financial year.

Matters Subsequent to the End of the Financial Year

On 1 July 2016, the company issued a total of 7,000,000 options under the Company's Equity Option Plan as follows (**ASX:FTT** Appendix 3B, 1 July 2016):

- Following approval gained at the shareholder meeting on 29th June 2016, the company issued 1,000,000 options to Dr Christian Behrenbruch in accordance with his employment contract which included this option grant subject to his leading a successful capital raise of $15m prior to 30 June 2016; and
- 6,000,000 retention options were awarded to retain key management personnel, including the executive director, with their much needed relevant expertise and knowledge of Factor technology. Details of these retention options are as per the below table.

Table 1: July 2016 Retention Options

	Grant Date	Expiry Date	Exercise price	Number of options
C Behrenbruch*	1 July 2016	30 June 2021	$0.11	2,000,000
N Johnson	1 July 2016	30 June 2021	$0.11	2,000,000
G Shooter	1 July 2016	30 June 2021	$0.11	1,250,000
S Jo	1 July 2016	30 June 2021	$0.11	750,000
				6,000,000

*These options issued to Dr Behrenbruch were approved at the shareholder meeting of 29 June 2016.

On 26 July 2016, following shareholder approval at the general meeting held on 29 June 2016, the company issued 5,714,284 ordinary shares under placement, 2,857,142 ordinary shares to Dr Cherrell Hirst, Chairman; and 2,857,142 ordinary shares to Elk River Holdings Pty Ltd. Elk River Holdings Pty Ltd is a related party of the company by virtue of Dr Christian Behrenbruch, Executive Director of the company, being a director of Elk River Holdings Pty Ltd. The issue price is $0.035 per ordinary share. (**ASX: FTT** Appendix 3B, 26 July 2016).

On 3 August 2016, the company issued a further 1,400,000 options to medical advisory board members, partially in lieu of payment of advisory fees. The exercise price of these options is $0.035 and they expire on 4 July 2020. These options will vest annually in two tranches on 4 July 2017 and 4 July 2018. (**ASX: FTT** Appendix 3B, 3 August 2016).

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

Future Developments, Prospects and Business Strategies

The company has four major execution elements to its business strategy over the next 24 months:

1) Execution of a Phase II multi-centre trial in the US. This trial marks the pivot of the company from an EU-centric development program to a US FDA-centric program. Successful execution of this trial has the potential to accomplish three main outcomes:
   - Demonstration of clinical efficacy in a commercially meaningful patient population. This in turn may provide the company with sufficient decision-making information to determine the feasibility of a Phase III trial. The multi-centre nature of the anticipated Phase II trial (anticipated to be 26 sites) will position the company well to execute a Phase III trial if warranted.
   - Establishment of a data package that is of sufficient robustness and completeness to properly engage in partnering-related discussions.
   - The design of the Phase II trial is intended to comply with the data gathering requirements outlined by the European Medicines Agency (EMA) as part of the Company's withdrawal from the CE Marking process in 2015. In conjunction with modest non-clinical activity, the data from the US Phase II trial could be included in a CE Mark resubmission to EMA.
2) Indication expansion for the lead clinical program (VF-001). Although the current clinical activity is focused on Venous Leg Ulcer (VLUs) as an initial indication, there is scope for VF-001 to deliver clinical utility in other segments, such as Diabetic Foot Ulcers (DFUs). The company has a clinical and regulatory plan to expand the indication for VF-001 in a cost-effective way that will minimise the financial and resource impact on the core Phase II program.
3) Pipeline expansion for the Company's core technology. The Company has a significant intellectual property portfolio that Company intends to continue to expand through modest in-house R&D investment, third-party collaborations and in-licensing. The Company believes that the strength of its technology platform is conducive to the vision of a diversified biopharmaceutical company with a specialty focus on advanced wound care. Although the most significant value inflection for the Company lies in the Phase II VLU program for VF-001, the Company is pursuing several business development opportunities that may be captured to realise the value of the Company's significant investment in its intellectual property.
4) Human capital development and retention strategy. The past 12 months saw a significant restructuring of the Company's leadership team. Key functions such as regulatory affairs and manufacturing project management were largely outsourced in order to attain a higher degree of efficiency, quality and jurisdictional relevance. The Company intends to continue to be judicious about headcount expansion in the next 24 months, with a general preference for the use of high quality contractors and service providers, where required. The Company remains committed to recruiting a new CEO (noting that Mr. Johnson's tenure is effectively an interim role, with day-day support from Dr Behrenbruch) and this is an active process. The Company has also conducted a skillset assessment and identified specific needs and opportunities to improve the performance and independence of the Board.

Workforce Diversity

The Board recognizes that workforce diversity is fundamental to the sustainability of our business. The Diversity Policy ensures a strong culture of diversity is established where each employee is respected for whom they are and valued for their skills and experience.

Table 2: Workforce Diversity

	% of Women	
	30 June 2016	30 June 2015
The Group		
Board[1]	33%	25%
Management	20%	33%
Total	33%	30%

Options

At the date of the report, options over the un-issued shares of the Group are as follows:

Table 3: Options Schedule as at the report date

Issue date	Date of Expiry	Exercise price	Number under option
14 September 2015	14 September 2019	$0.08	630,000[i]
4 December 2015	4 December 2020	$0.11	1,600,000[ii]
1 July 2016	30 June 2021	$0.11	1,000,000[iii]
1 July 2016	30 June 2021	$0.11	6,000,000[iv]
3 August 2016	4 July 2020	$0.035	1,400,000[v]
			10,630,000

i. Options issued to key personnel under the company's Equity Option Plan. The vesting of these options was based on the achievement against a set of KPIs and will vest over a three-year period, being one third each year on the anniversary of the issue date.

ii. Options issued to directors following shareholder approval at the Annual General meeting on 25 November 2015 in lieu of directors fees and for Dr Christian Behrenbruch for executive performance per following terms and conditions:

- Issue of 300,000 options to Dr Cherrell Hirst, non-Executive Director and Chairman, in lieu of directors fees. The options issued will vest quarterly over a year period, i.e. vesting one quarter of the options every 3 months.
- Issue of 300,000 options to Mr Tim Hughes, non-Executive Director, in lieu of directors fees. The options issued will vest quarterly over a year period, i.e. vesting one quarter of the options every 3 months.
- Issue of 1,000,000 options to Dr Christian Behrenbruch, Executive Director, in lieu of directors fees and executive performance. The options vested immediately following shareholder approval.

iii. Options issued to Dr Christian Behrenbruch following shareholder approval at the General meeting on 29 June 2016. The options vested immediately following shareholder approval.

iv. These 6,000,000 retention options were awarded to retain key management personnel, including the executive director, with their much needed relevant expertise and knowledge of Factor technology. Please refer to "Matters Subsequent to the End of the Financial Year" on page 7 for further detail on these retention options.

v. Options issued to medical advisory board members, partially in lieu of payment of advisory fees. Please refer to "Matters Subsequent to the End of the Financial Year" on page 7 for further detail on these options.

No ordinary shares were issued on the exercise of options during the year ended 30 June 2016.

During the year, there were 670,000 options forfeited.

Under the Company Employee Equity Option Plan, option holders do not have any rights to participate in any issues of ordinary shares or other interests in the Company or any other entity.

Remuneration Report (Audited)

The Board is pleased to present the Remuneration Report for Factor Therapeutics Limited for the year ended 30 June 2016. This report outlines key aspects of our remuneration policy and framework, and remuneration awarded this year, in accordance with the requirements of the *Corporations Act 2001* and its regulations. This information has been audited as required by section 308(3C) of the *Corporations Act 2001*.

Factor Therapeutics remuneration framework and its practices are designed to align remuneration outcomes with shareholder interests and to attract and retain persons with appropriate and relevant capability. This remuneration report details the remuneration arrangements for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any Director, whether executive or otherwise.

For the purposes of this report, the term "Director" refers to Non-executive Directors (NEDs) only. "KMP" refers to Executive Directors and other key management personnel.

The Company's Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors, the Chief Executive Officer (CEO) and others involved in the operation of the Group.

The Board assesses the appropriateness of the nature and amount of remuneration of the Directors and senior managers on a periodic basis by reference to relevant market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

People and Remuneration Committee

The People and Remuneration Committee consists of a majority of independent non-Executive Directors. The committee reviews and determines our remuneration policy and structure annually to ensure it remains aligned to business needs and meets our remuneration principles. In particular, the Committee and Board aim to ensure that remuneration practices are:

- competitive and reasonable, enabling the company to attract and retain key talent;
- aligned to the company's strategic and business objectives and the creation of shareholder value;
- transparent and easily understood; and
- consistent with shareholders' view and expectations.

Members of the Committee during the financial year have been the following:

- Cherrell Hirst (Chair);
- Tim Hughes;
- Christian Behrenbruch (appointed 12 October 2015);
- Mel Bridges (resigned 25 November 2015); and
- Iain Ross (resigned 17 September 2015).

Non-executive Director Remuneration

In accordance with the company's constitution and ASX Listing Rules, the aggregate remuneration of non-Executive Directors is determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 28 November 2011 when shareholders approved an aggregate annual remuneration pool of $400,000. The total non-Executive Director remuneration of Factor Therapeutics Limited for the year ended 30 June 2016 utilised $169,289 (2015: $325,192) of this authorised amount. The Board is not seeking an increase at the 2016 Annual General Meeting.

The amount of aggregate remuneration sought to be approved by shareholders and the fees paid to Directors are reviewed annually. Each Director receives an annual fee for being a Director of the Company, which reflects their obligations and responsibilities and takes into account the overall situation of the company and its cash position. Directors fees include statutory superannuation. There are no retirement benefits. The remuneration of non-Executive Directors consists only of directors fees; currently no additional fees are paid for chairmanship or membership of board committees.

At the 2015 Annual General Meeting, following shareholder approval, the Group issued options to non-executive directors in lieu of 50% of directors fees, in order to maximise the use of its cash resources, effective 1 December 2015 for a 12 month period. The dollar value of the options as measured by Black Scholes methodology or face value was significantly less than the quantum of fees foregone. At the end of the 12 month vesting period the directors fees for non-executive directors will revert to the prior arrangement.

Executive Director and other Key Management Personnel Remuneration

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group so as to:

- attract and retain appropriately capable and talented individuals to the company;
- reward KMPs for the Group and individual performance;
- align the interest of KMPs with those shareholders; and
- build a strong cohesive leadership team which can deliver execution excellence against the strategy.

Remuneration of executives consists of base remuneration and variable (at-risk) pay. The base remuneration for KMP is fixed, with at-risk incentives being paid on an assessment by the People and Remuneration Committee and approval by the Board. Current KMP remuneration packages consist of the following:

- fixed remuneration – base salary and superannuation; and
- variable remuneration – short-term incentives (STI) and long-term incentives (LTI).

Fixed remuneration

Fixed remuneration is determined with reference to an executive's knowledge, skills and experience and the nature of responsibility of the particular role. It consists of base salary and statutory superannuation. It is reviewed annually by the People and Remuneration Committee and until 2016 was benchmarked against relevant comparable companies. Given the current overall position of the company, total remuneration of the executive team was not benchmarked against Australian or global competitors in July 2015 but as the company reaches greater levels of stability in its milestone achievements, it will return to routine benchmarking, however at present, bi-annual reviews of base remuneration are currently in place so as to ensure that fixed remuneration is at an appropriate level to attract and retain key personnel. See Table 4 on page 12 for the fixed remuneration payment for the FY15/16.

Variable remuneration: Short-term Incentives

The Board offers short-term incentives (STI) based on Group performance and demonstrated individual performance. Annual performance KPIs are set by the Board on the recommendation of the People and Remuneration Committee based on the annual operational plan. Company KPIs are defined and in addition there is at least one individual KPI for each senior executive member based on their specific role and responsibilities. For year ended 30 June 2016, the maximum STI achievable is 30% of fixed remuneration for the CEO and 15% for other senior executives and actual payment is based on achievement against the KPIs. The performance hurdles set in August 2015 included key operational milestones around preparation for the Phase II clinical trial and expenditure control. See Table 4 on page 12 for STI payment for the FY15/16.

The percentage achievable for executives other than the CEO will increase to 20% of fixed remuneration in FY2017.

Variable remuneration: Long-term Incentives

The Board offers long-term incentives (LTI) to incentivise, reward and retain KMPs and other employees and to align them with shareholder's interests. The terms of the options granted are determined by the Board. Generally, the Board offers grants based on performance against the company's long-term strategic objectives however in August 2015 equity grants were made to employees based on performance against the hurdles set in 2015 (see above). Grants were made as detailed below in Table 3. Vesting is over 3 years from the grant date – one third annually for three years subject to continuing employment.

In July 2016 in recognition of the need to retain key personnel with their much needed relevant expertise and knowledge of Factor technology, LTI option grants were made based solely on retention. Terms and conditions of option grants are consistent with the Company's EOP which was approved by shareholders in 25 November 2015 and which is available on the Company website at www.factor-therapeutics.com.

For these retention option grants (which replaced any performance-based LTI grant for those relevant individuals usually awarded at the beginning of the financial year), and only for these options grants, employees will need to continue to be employed with Factor for the options to vest but once vesting is completed, the period to exercise has been extended beyond the usual 30-day period even if the employee ceases to be employed by Factor. This is consistent with the EOP as the Board has discretion to allow extension of exercise periods at or post cessation of employment in appropriate circumstances. Please refer to "Matters Subsequent to the End of the Financial Year" on page 7 for further detail on these retention options.

Executive Director

Christian Behrenbruch was appointed Executive Director on 12 October 2015 with a fixed remuneration of $150,000 per annum on an expectation of two day's work/ week and was inclusive of superannuation. In order to maximise the use of the company's cash resources, consistent with the philosophical approach for all directors, and following shareholder approval at the 2015 Annual General Meeting, 1,000,000 options were issued to Dr Behrenbruch in lieu of 50% of his executive fees. These options were issued on 4 December 2015 and vested immediately. The exercise price of the options is $0.11 and the expiry date is 5 years from the issue date, i.e. 4 December 2020. At the shareholder meeting of 29th June 2016, a further 1,000,000 options with the same conditions were approved by shareholders for Dr Behrenbruch in accordance with his employment contract. In addition the retention options referred to in "Matters subsequent to the end of the financial year" on page 7 were approved prior to 30 June 2016 and issued on 1 July 2016.

Nigel Johnson – Chief Executive Officer

Nigel Johnson's fixed remuneration at 30 June 2016 was $219,315 per annum, inclusive of superannuation. Mr Johnson was eligible for an STI cash payment of 30% of his fixed pay subject to the achievement of STI hurdles set in August 2015 based on the annual operational plan. In accordance with this process he will receive a cash payment of $46,056 that being 70% of the maximum STI payable. Mr Johnson was awarded a grant of 350,000 options at $0.08 issued on 14 September 2015 – that being 70% of the maximum based on his performance against the hurdles set for the FY15/16. The remaining 150,000 options have forfeited and the granted options will vest over a 3 year period – one third each year for 3 years, subject to continuing employment. In addition the retention options referred to in "Matters subsequent to the end of the financial year" on page 7 were approved prior to 30 June 2016 and issued on 1 July 2016.

Saskia Jo – Company Secretary / Director of Finance

Saskia Jo's fixed remuneration at 30 June 2016 was $120,000 per annum, inclusive of superannuation. Ms Jo was eligible for an STI cash payment of 15% of her fixed pay subject to the achievement of STI hurdles set in August 2015 based on the annual operational plan. In accordance with this process she will receive a cash payment of $12,600 that being 70% of the maximum

STI payable. Ms Jo was awarded a grant of 140,000 options at $0.08 issued on 14 September 2015 – that being 70% of the maximum, based on her performance against the hurdles set for the FY15/16. The remaining 60,000 options have forfeited and the granted options will vest over a 3 year period – one third each year for 3 years, subject to continuing employment. In addition the retention options referred to in "Matters Subsequent to the End of the Financial Year" on page 7 were approved prior to 30 June 2016 and issued on 1 July 2016.

Details of Actual Remuneration

Details of the nature and amount of each element of the emoluments to Directors and other key management personnel of Factor Therapeutics Limited are set out as follows.

Table 4: Remuneration for the year ended 30 June 2016

							Performance Related	
	Salaries & Fees	Superannuation	Other	STI Awards (Cash)	LTI Awards (Options)	Total	STI	LTI
30 June 2016	$	$	$	$	$	$	%	%
Non-Executive Directors								
C Hirst (Chairman)[i]	58,650	5,572	7,537	n/a	n/a	71,759	n/a	n/a
T Hughes[ii]	42,338	4,022	7,537	n/a	n/a	53,897	n/a	n/a
M Bridges[iii]	27,271	-	-	n/a	n/a	27,271	n/a	n/a
I Ross[iv]	16,362	-	-	n/a	n/a	16,362	n/a	n/a
	144,621	**9,594**	**15,074**	n/a	n/a	**169,289**		
Executive Directors								
C Behrenbruch[v]	54,032	-	28,000	n/a	-	82,032	n/a	n/a
	54,032	**-**	**28,000**	n/a	**-**	**82,032**		
Other KMPs								
N Johnson	200,288	19,027	-	46,056	4,799	270,170	17.0%	1.8%
S Jo[vi]	95,448	9,067	-	12,600	1,920	119,035	10.6%	1.6%
D McKenzie[vii]	13,577	1,290	27,221	-	-	42,088	-	-
	309,313	**29,384**	**27,221**	**58,656**	**6,719**	**431,293**		
Total	**507,966**	**38,978**	**70,295**	**58,656**	**6,719**	**682,614**		

i. The amount under "Other" reflects the options expense in lieu of 50% of directors fees valued using Black Scholes methodology
ii. The amount under "Other" reflects the options expense in lieu of 50% of directors fees valued using Black Scholes methodology
iii. Mr Bridges resigned on 25 November 2015.
iv. Mr Ross resigned on 17 September 2015.
v. Mr Behrenbruch was appointed on 12 October 2015. The amount under "Other" reflects the options expense in lieu of executive director fees, valued using Black-Scholes methodology
vi. Ms Jo was appointed as Company Secretary on 12 August 2015. The remuneration above is only for the period since her appointment as Company Secretary up to 30 June 2016.
vii. Mr McKenzie resigned on 12 August 2015. The amount under "Other" of $27,221 represents $18,866 for in lieu of notice and $8,355 for unused annual leave.

Table 5: Remuneration for the year ended 30 June 2015

							Performance Related	
	Salaries & Fees	Superannuation	Other	STI Awards (Cash)	LTI Awards (Options)	Total	STI	LTI
30 June 2015	$	$	$	$	$	$	%	%
Non-Executive Directors								
C Hirst (Chairman)[i]	63,609	6,043	-	-	-	69,652	n/a	n/a
M Bridges	65,449	-	-	-	-	65,449	n/a	n/a
I Ross	65,449	-	-	-	-	65,449	n/a	n/a
T Hughes[ii]	39,847	3,786	-	-	-	43,633	n/a	n/a
R Clarke[iii]	73,981	7,028	-	-	-	81,009	n/a	n/a
	308,335	**16,857**	**-**	**-**	**-**	**325,192**		
Executive Directors								
S Mercer[iv]	274,137	26,043	255,588	-	-	555,768	-	-
	274,137	**26,043**	**255,588**	**-**	**-**	**555,768**		
Other KMPs								
N Johnson[v]	46,734	4,440	-	-	-	51,174	-	-
D McKenzie	175,490	16,672	-	-	-	192,162	-	-
	222,224	**21,112**	**-**	**-**	**-**	**243,336**		
Total	**804,696**	**64,012**	**255,588**	**-**	**-**	**1,124,296**		

i. Dr Hirst was appointed as Chairman on 7 April 2015.
ii. Mr Hughes was appointed on 1 November 2014.
iii. Mr Clarke was the previous Chairman, resigned on 31 May 2015.
iv. Dr Mercer resigned on 7 April 2015. The amount in "Other" of $255,588 represents $57,440 for employment termination payment and $198,148 for annual and long service leave.
v. Mr Johnson was appointed as CEO on 7 April 2015. The remuneration above is only for the period since his appointment as CEO up to 30 June 2015.

Options Holdings of Directors and key management personnel for the year ended 30 June 2016

The table below shows a reconciliation of options held by each director and KMP from the beginning to the end of FY2016.

Table 6: Options Holdings Register for Directors and KMP as at 30 June 2016

	Balance at the start of the year	Granted during period	Vested			Forfeited			Balance at the end of the year	
	Unvested		Number	%	Exercised	Number	%	Expired/ lapsed	Vested and exercisable	Unvested
Dr C Hirst	-	300,000	150,000	50	-	-	-	-	150,000	150,000
Mr T Hughes	-	300,000	150,000	50	-	-	-	-	150,000	150,000
Dr C Behrenbruch[i]	-	1,000,000	1,000,000	100	-	-	-	-	1,000,000	-
Dr M Bridges[ii]	-	-	-	-	-	-	-	-	-	-
Mr I Ross[iii]	-	-	-	-	-	-	-	-	-	-
Mr N Johnson	-	500,000	-	-	-	150,000	30	-	-	350,000
Ms S Jo[iv]	-	200,000	-	-	-	60,000	30	-	-	140,000
Mr D McKenzie[v]	-	-	-	-	-	-	-	-	-	-
Total	**-**	**2,300,000**	**1,300,000**		**-**	**210,000**		**-**	**1,300,000**	**790,000**

i Dr Behrenbruch was appointed as Executive Director on 12 October 2015
ii Dr Bridges resigned on 25 November 2015
iii Mr Ross resigned on 17 September 2015
iv Ms Jo was appointed as Company Secretary on 12 August 2015
v Mr McKenzie resigned on 12 August 2015

Please refer to Note 18 to the Financial Statements for additional details of options issued during the year.

Shareholdings of Directors and Key Management Personnel for the year ended 30 June 2016

Table 7: Shareholdings Register for Directors and KMP as at 30 June 2016

	Balance at the start of the year	Shares issued from Options exercised	Net Acquired/(Disposed)	Balance at the end of the year
Dr C Hirst	333,334	-	133,334*	466,668
Mr T Hughes	-	-	-	-
C Behrenbruch[i]	-	-	-	-
Dr M Bridges[ii]	427,033	-	-	427,033
Mr I Ross[iii]	66,000	-	-	66,000
Mr N Johnson	-	-	-	-
Ms S Jo[iv]	37,000	-	-	37,000
Mr D McKenzie[v]	562,964	-	-	562,964
Total	**1,426,331**	-	**133,334**	**1,559,665**

i Dr Behrenbruch was appointed as Executive Director on 12 October 2015
ii Dr Bridges resigned on 25 November 2015. The closing balance of the shareholding is as of Dr Bridges ceasing to be director.
iii Mr Ross resigned on 17 September 2015. The closing balance of the shareholding is as of Mr Ross ceasing to be director.
iv Ms Jo was appointed as Company Secretary on 12 August 2015.
v Mr McKenzie resigned on 12 August 2015. The closing balance of the shareholding is as of Mr McKenzie's resignation from the Company.

* acquired through Non-Renounceable Entitlement Offer in April 2016

End of Remuneration Report

Directors' and Officers' Indemnification

The Company has indemnified Directors and Officers to the maximum extent permitted by law, against any liability incurred by them as, or by virtue of their holding office as and acting in the capacity of, an officer of the Company.

Insurance premiums have been paid during the year in respect of a contract insuring Directors and Officers against legal costs incurred in defending proceedings against them. Details of the nature of liabilities covered or the amount of premiums paid are not disclosed as such disclosure is prohibited in the terms of the contract.

Directors' Meetings

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2016, and the number of meetings attended by each Director were:

Table 8: Directors' Meetings

	Directors' Meetings		Audit and Risk Management Committee		People and Remuneration Committee		Nomination Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
C Hirst	22	21	4	4	2	2	1	1
T Hughes	22	20	4	2	2	2	1	1
C Behrenbruch[i]	16	16	n/a	n/a	2	2	1	1
M Bridges[ii]	10	7	2	2	-	-	-	-
I Ross[iii]	5	5	2	2	-	-	-	-

i Dr Behrenbruch was appointed as Executive Director on 12 October 2015
ii Dr Bridges resigned on 25 November 2015
iii Mr Ross resigned on 17 September 2015

Environmental Regulation

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Proceedings on Behalf of the Company

No proceedings have been brought, or intervened in, on behalf of the company with leave of the Court under s237 of the *Corporations Act 2001.*

Auditor

PKF Hacketts Audit continued to be the Company's auditor.

There is no former partner or director of PKF Hacketts Audit who is or was at any time during the year an officer of the Company.

Non-audit Services

The Board of Directors, in accordance with advice from the Audit and Risk Management Committee, is satisfied that the provision of the non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Audit and Risk Management Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees for non-audit services were paid / payable to the external auditors or related entities of the external auditors during the year ended 30 June 2016:

Non-audit services	**30 June 2016 $**	**30 June 2015 $**
Review of regulatory returns and due diligence services	4,000	13,530

Auditor's Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is attached to this Directors' Report.

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

Cherrell Hirst
Chairman
Brisbane, 16 August 2016

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF
FACTOR THERAPEUTICS LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2016, there have been:

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

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

PKF Hacketts

PKF HACKETTS AUDIT

Shaun Lindemann
Partner

Brisbane, 16 August 2016

PKF Hacketts Audit
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FACTOR THERAPEUTICS LIMITED AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	Note	CONSOLIDATED 30 June 2016 $	30 June 2015 $
Continuing operations			
Other income	2	545,868	526,177
		545,868	526,177
Research and development expenses		(159,589)	(599,822)
Manufacturing development costs		(747,023)	-
Clinical trials expenses		(743,438)	(291,171)
Regulatory expenses		(355,267)	(1,638,501)
Impairment of inventory		(7,485,691)	(4,091,831)
Amortisation of non-current inventory		(67,900)	(67,901)
Intellectual property		(280,934)	(318,793)
Transport and logistics		(188,013)	(123,964)
Occupancy expenses		(197,422)	(262,544)
Marketing and business development		-	(295,193)
Sales and distribution		-	(53,329)
Employment expenses		(1,181,058)	(2,018,601)
Consultants		(31,603)	(807,682)
Administration expenses		(459,064)	(805,598)
Option expenses		(53,711)	-
Depreciation		(42,664)	(80,650)
Finance costs		(9,988)	(16,433)
Gains/(Losses) on foreign exchange		36,489	(70,112)
Other expenses		(190,051)	(189,937)
Loss before income tax	3	(11,611,059)	(11,205,885)
Income tax expense	4(a)	(972)	(12,629)
Net loss from continuing operations		(11,612,031)	(11,218,514)
Other comprehensive income			
Items that may be reclassified to profit or loss			
- Exchange differences on translation of foreign operations		(15,915)	(35,882)
Other comprehensive income for the year, net of tax		(15,915)	(35,882)
Total comprehensive income for the year		(11,627,946)	(11,254,396)
Net loss attributable to members of the Company		(11,612,031)	(11,218,514)
Total comprehensive income attributable to members of the Company		(11,627,946)	(11,254,396)
		Cents	**Cents**
Earnings per share for loss attributable to the ordinary equity holders of the Company:			
Basic earnings per share	25	(3.04)	(4.03)
Diluted earnings per share	25	(3.04)	(4.03)

The accompanying notes form part of these financial statements

FACTOR THERAPEUTICS LIMITED AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

		CONSOLIDATED	
	Note	30 June 2016	30 June 2015
		$	$
CURRENT ASSETS			
Cash and cash equivalents	5	14,375,591	5,578,730
Trade and other receivables	6	201,473	120,426
Incentive – R&D claim	2	362,855	355,122
Inventories	7(a)	33,903	648,611
Other assets	8(a)	146,919	111,327
TOTAL CURRENT ASSETS		15,120,741	6,814,216
NON-CURRENT ASSETS			
Inventories	7(b)	681,953	7,882,188
Property, plant and equipment	9	86,755	165,864
Intangible assets	10	557,250	342,250
Other assets	8(b)	-	1,525
TOTAL NON-CURRENT ASSETS		1,325,958	8,391,827
TOTAL ASSETS		16,446,699	15,206,043
CURRENT LIABILITIES			
Trade and other payables	11	709,531	1,618,590
Current tax liabilities	4(d)	-	11,804
Provisions	12	141,986	145,435
Other liabilities	13(a)	29,964	29,964
TOTAL CURRENT LIABILITIES		881,481	1,805,793
NON-CURRENT LIABILITIES			
Other liabilities	13(b)	45,070	75,036
TOTAL NON-CURRENT LIABILITIES		45,070	75,036
TOTAL LIABILITIES		923,551	1,880,829
NET ASSETS		15,520,148	13,325,214
EQUITY			
Contributed equity	14(a)	79,797,977	66,028,808
Reserves	15	(18,089)	(55,885)
Accumulated losses		(64,259,740)	(52,647,709)
TOTAL EQUITY		15,520,148	13,325,214

The accompanying notes form part of these financial statements.

FACTOR THERAPEUTICS LIMITED AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

CONSOLIDATED		**Reserves**			
	Share Capital $	**Option Reserve $**	**Foreign Exchange Translation Reserve $**	**Accumulated Losses $**	**Total $**
Balance at 1 July 2014	58,308,941	435,169	(20,003)	(41,864,364)	16,859,743
Comprehensive income:					
- Loss for the year	-	-	-	(11,218,514)	(11,218,514)
- Other comprehensive income for the year	-	-	(35,882)	-	(35,882)
Total comprehensive income for the year	-	-	(35,882)	(11,218,514)	(11,254,396)
Transactions with owners in their capacity as owners, and other transfers:					
- Contributions of equity	8,390,660	-	-	-	8,390,660
- Transaction costs	(670,793)	-	-	-	(670,793)
- Option reserve transferred	-	(435,169)	-	435,169	-
Total transactions with owners and other transfers	7,719,867	(435,169)	-	435,169	7,719,867
Balance at 30 June 2015	66,028,808	-	(55,885)	(52,647,709)	13,325,214
Comprehensive income:					
- Loss for the year	-	-	-	(11,612,031)	(11,612,031)
- Other comprehensive income for the year	-	-	(15,915)	-	(15,915)
Total comprehensive income for the year	-	-	(15,915)	(11,612,031)	(11,627,946)
Transactions with owners in their capacity as owners, and other transfers:					
- Contributions of equity	14,750,739	-	-	-	14,750,739
- Transaction costs	(981,570)	-	-	-	(981,570)
- Employee share options	-	53,711	-	-	53,711
- Option reserve transferred	-	-	-	-	-
Total transactions with owners and other transfers	13,769,169	53,711	-	-	13,822,880
Balance at 30 June 2016	79,797,977	53,711	(71,800)	(64,259,740)	15,520,148

The accompanying notes form part of these financial statements.

FACTOR THERAPEUTICS LIMITED AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Note	CONSOLIDATED	
		30 June 2016	**30 June 2015**
		$	**$**
CASH FLOW FROM OPERATING ACTIVITIES			
Payments for research, clinical trials and regulatory matters		(1,402,299)	(1,823,374)
Payments to suppliers and employees		(3,860,356)	(7,827,003)
Interest received		124,618	230,286
Finance costs paid		(9,988)	(16,433)
Income tax (paid) and R&D incentive received		413,007	391,564
Net cash provided by/(used in) operating activities	24(b)	(4,735,018)	(9,044,960)
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for intangible assets		(215,000)	-
Payments for property, plant and equipment		(6,375)	(5,442)
Net cash provided by/(used in) investing activities		(221,375)	(5,442)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		14,750,739	8,258,420
Costs of share issue		(981,570)	(670,793)
Net cash provided by/(used in) financing activities		13,769,169	7,587,627
Net increase / (decrease) in cash held		8,812,776	(1,462,775)
Cash and cash equivalents at beginning of year		5,578,730	7,077,387
Effects of exchange rate fluctuations on cash and cash equivalents		(15,915)	(35,882)
Cash and cash equivalents at end of year	24(a)	14,375,591	5,578,730

The accompanying notes form part of these financial statements.

These consolidated financial statements and notes represent those of Factor Therapeutics Limited (previously Tissue Therapies Limited) (the “Company”) and Controlled Entities (the “Group”). The Company was incorporated and is domiciled in Australia.

The separate financial statements of the parent entity, Factor Therapeutics Limited, have not been presented within this financial report as permitted by the *Corporations Act 2001*.

The financial report was authorised for issue on 16 August 2016 by the Board of Directors.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Significant accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

Except for cash flow information, the financial report has been prepared on an accruals basis, based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

a. Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent Factor Therapeutics Limited, and all of the subsidiaries. Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 28.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as “non-controlling interests”. The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary’s net assets on liquidation at either fair value or at the non-controlling interests’ proportionate share of the subsidiary’s net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

b. Income Tax

The income tax expense/(income) for the year comprises current income tax expense (income) and deferred tax expense (income). Current income tax expense/(income) charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense/(income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Income Tax (Continued)

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

c. Research and Development expenditure

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

The Group has adopted the profit and loss approach to accounting for research and development tax offsets under the revised regime, pursuant to *AASB 120 Accounting for Government Grant and Disclosure of Government Assistance*. Under this approach the grant or incentive is recorded as part of profit and loss under the heading of 'Other Income'.

d. Intangibles

Licenses, Patents and Intellectual Property

Licenses and patents are recognised at cost of acquisition. They have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Licenses and patents are amortised over their useful life, which has been assessed as ten years from the date the intangible asset is in its intended use.

e. Employee benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits with consideration given to employees' wages increases and the probability that the employees may satisfy vesting requirements. Those cash flows are discounted using market yields on corporate bonds with terms to maturity that match the expected timing of cash flows attributable to employee benefits.

Equity settled Compensation

The Company operates equity-settled share-based payment employee share and option schemes (refer Note 18). The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments, and bank overdrafts.

g. Revenue recognition

Revenues are recognised at fair value of the consideration received net of any applicable taxes.

Interest revenue is recognised as it accrues taking into account the interest rates applicable to the financial assets.

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

All revenue is stated net of the amount of goods and services tax.

h. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included in other receivables or payables in the Statement of Financial Position.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

i. Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(m) for details of impairment).

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Profit or Loss and Comprehensive Income during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the Group commencing from the time the asset is held ready for use. The expected useful life for plant and equipment is 3 to 10 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Property, plant and equipment (Continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of profit or loss and other comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

j. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Non-current inventories

The VF-001 (previously communicated as VitroGro®) production cells and reference protein are integral to the ongoing production of VF-001 and a future economic benefit will be realised as the assets are controlled and owned by the Group. The amounts have been capitalised, as their use in manufacturing is ongoing. Minor quantities of these assets will be consumed with each additional batch of manufacturing and they are expected to have a useful life in excess of five years. Both of these assets are amortised at 20% per annum on a straight-line basis through to 31 December 2016 (refer Note 7(b)).

The cost of the concentrated VF-001 protein to be used in the production of VF-001 final product (not expected to be used within the 12 months), and the related manufacturing development and quality management costs are classified as non-current work-in-progress.

k. Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. The amounts are unsecured and usually paid within 30 days of recognition.

l. Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

m. Impairment of assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income. Impairment testing is performed annually for intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

n. Comparative figures

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o. Financial Instruments

Initial and Recognition Measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

Classification and Subsequent Measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the *effective interest method*.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

(i) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(ii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(iii) Financial liabilities

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset has been impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o. Financial Instruments (Continued)

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

Derecognition

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

p. Foreign Currency Transactions and Balances

Functional and Presentation Currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, which is the parent entity's functional currency.

Transactions and Balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

Group Companies

The financial results and position of foreign operations, whose functional currency is different from the Group's presentation currency, are translated as follows:

- assets and liabilities are translated at exchange rates prevailing at the end of the reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. The cumulative amount of these differences are recognised in profit or loss in the period in which the operation is disposed of.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

q. Critical Accounting Estimates and Judgments

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key Estimates — Impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. No impairment has been recognised in respect of intangible assets for the year ended 30 June 2016.

Key Judgements – Inventory

The Group assessed the valuation of protein inventory on hand at 30 June 2016. Based on the outcome of research and development activities to date and anticipated future events and use of protein on hand, the Group has amortised VF-001 (previously communicated as VitroGro®) production cells and reference protein by $67,900 (2015: $67,901). The production cells and reference protein are expected to have a useful life of at least 5 years and are amortised at 20% per annum on a straight-line basis through to 31 December 2016. This is shown in the Statement of Profit or Loss and Other Comprehensive Income for the current year.

Key Judgements – Tax losses available

Included in note 4(c) are tax losses not brought to account, which have resulted from current and prior periods. The ability of the Company to utilise these losses in future periods will depend on the satisfaction of the relevant tests applied by the Australian Taxation Office to the losses available.

r. Significant Uncertainty regarding the Recoverability of VF-001 Inventory and Impairment considerations due to the change in Regulatory Strategy

As at 30 June 2015, the Group recorded VF-001 (previously communicated as VitroGro® ECM) inventory at a total value of $8,530,799, net of impairment adjustments to that point. Previous impairment adjustments were made due to delays and subsequent withdrawals from the EMA process.

On 28 July 2015, the Group announced a change in strategy whereby product development of VF-001 would be pursued as a pharmaceutical with emphasis on the United States market.

The Board remain of the view that the existing product development and manufacturing experience will remain useful for Phase III and beyond. Moreover, the current inventory of VF-001 continues to have internal utility and is expected to be consumed during future development for NDA. However, given the clinical development has been rolled back to Phase II as a result of the significant change in circumstances outlined above, the Board have conservatively elected to write-off all VF-001 inventory held as at 1 July 2015.

Inventory carried at balance date reflects the concentrated VF-001 protein, production cells and reference protein, syringes and stoppers carried at cost.

Costs incurred on clinical development from 1 July 2015 in line with the revised strategy of the Group have been determined to be research and feasibility costs in nature, and accordingly have been expensed as incurred in accordance with the provisions of AASB 138 'Intangible Assets'.

In accordance with the Group's accounting policy regarding 'Research and Development Expenditure', development costs will only be capitalised when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

s. New and Amended Accounting Policies Adopted by the Group

The Group has not applied any accounting standards or amendments for the first time for the annual reporting period commencing 1 July 2015.

	CONSOLIDATED	
	30 June 2016 $	30 June 2015 $

NOTE 2: OTHER INCOME

	30 June 2016 $	30 June 2015 $
Interest received	111,320	171,055
Incentive – R&D claim	434,548	355,122
Total other income	545,868	526,177

	30 June 2016 $	30 June 2015 $
Movement of incentive – R&D claim:		
R&D claim understated – FY2015	277,488	-
R&D claim receivable – FY2016	157,060	355,122
Incentive – R&D claim	434,548	355,122
Opening balance of R&D claim incentives receivable	355,122	404,979
R&D claim received	(426,815)	(404,979)
Closing balance of R&D claim incentives receivable	362,855	355,122

NOTE 3: EXPENSES

Loss before tax includes the following specific expenses:

	30 June 2016 $	30 June 2015 $
Amortisation of non-current inventory	67,900	67,901
Realised (gains)/losses on foreign exchange	45,224	354,504
Unrealised (gains)/losses on foreign exchange	(81,713)	(284,392)
Rental expense on operating leases – minimum lease payments	201,305	205,807

NOTE 4: INCOME TAX

	CONSOLIDATED	
	30 June 2016	30 June 2015
	$	$
a) The components of income tax expense comprises		
Current tax	(972)	(12,629)
Total income tax expense	(972)	(12,629)
b) The prima facie tax benefit on loss from ordinary activities before income tax is reconciled to the income tax benefit as follows		
Prima facie tax benefit on loss from ordinary activities before income tax at 30% (2015: 30%)	3,613,682	3,361,766
Tax effect of:		
R&D expenditure taken as a cash offset	(104,707)	(244,911)
Other	(21,231)	(258,234)
Tax losses not recognised or deferred tax assets	(3,488,716)	(2,871,250)
Income tax expense	(972)	(12,629)
The applicable weighted average effective tax rates are as follows:	0.008%	0.11%
c) Deferred Tax Asset		
Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur:		
Temporary differences	4,138,958	951,152
Tax losses – operating losses	15,075,496	13,720,998
	19,214,454	14,672,150
d) Current Tax Liabilities		
Opening balance	11,804	12,055
Tax paid	(12,065)	(13,025)
Understated in prior years	261	970
Income tax expense	-	11,804
Closing balance of current tax liabilities	-	11,804

	CONSOLIDATED	
	30 June 2016 $	30 June 2015 $

NOTE 5: CASH AND CASH EQUIVALENTS

Cash at bank	7,011,472	668,953
Short term bank deposits - at call *	7,364,119	4,909,777
	14,375,591	5,578,730

* The deposits were in interest bearing floating rate accounts. Interest rates varied between 0.0% and 3.55% (2015: 0.0% to 3.83%).

NOTE 6: TRADE AND OTHER RECEIVABLES

Current

GST/VAT receivable	129,241	74,133
Other receivables	72,232	46,293
Total trade and other receivables	201,473	120,426

NOTE 7: INVENTORIES

a) Current

VF-001 – at cost	-	102,392
Syringes and stoppers	33,903	135,614
	33,903	238,006
VF-001 – Work-in-progress – at cost	-	3,094,833
Less: Provision for impairment	-	(2,684,228)
	-	410,605
Total Inventories - Current	33,903	648,611

Movement of Provision for Impairment		
Opening balance	(2,684,228)	-
Write-off/(provision) during the year	2,684,228	(2,684,228)
Closing balance	-	(2,684,228)

	CONSOLIDATED	
	30 June 2016	30 June 2015
	$	$

NOTE 7: INVENTORIES (Continued)

b) Non-current

VF-001 – Work-in-progress – at cost	681,953	7,882,188

VF-001 (previously communicated as VitroGro® ECM) work-in-progress includes concentrated VF-001 protein, production cells, and reference protein.

Due to the circumstances outlined in Note 1(r), total impairment expense in relation to inventory (current and non-current) of $7,485,691 (2015: $4,091,831) was recognized in the Statement of Profit and Loss.

NOTE 8: OTHER ASSETS

a) Other current assets

Prepayments	146,919	111,327

b) Other non-current assets

Other assets	-	1,525

	CONSOLIDATED 30 June 2016 $	CONSOLIDATED 30 June 2015 $
NOTE 9: PROPERTY, PLANT AND EQUIPMENT		
Plant and equipment – at cost	-	93,117
Less: Accumulated depreciation	-	(51,933)
	-	41,184
Furniture and fixtures – at cost	51,216	88,138
Less: Accumulated depreciation	(48,601)	(80,802)
	2,615	7,336
Computer hardware and software – at cost	85,494	95,837
Less: Accumulated depreciation	(76,388)	(83,493)
	9,106	12,344
Fit out – at cost	209,747	209,747
Less: Accumulated depreciation	(134,713)	(104,747)
	75,034	105,000
Total property, plant and equipment	86,755	165,864

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below.

CONSOLIDATED	Plant and equipment $	Furniture and fixtures $	Computer hardware and software $	Fit out $	Total $
Carrying amount at 1 July 2014	51,454	16,189	38,466	134,963	241,072
Additions	-	1,489	3,953	-	5,442
Depreciation expense	(10,270)	(10,342)	(30,075)	(29,963)	(80,650)
Carrying amount at 30 June 2015	41,184	7,336	12,344	105,000	165,864
Additions	-	-	6,375	-	6,375
Disposals	(40,812)	(165)	(1,843)	-	(42,820)
Depreciation expense	(372)	(4,556)	(7,770)	(29,966)	(42,664)
Carrying amount at 30 June 2016	-	2,615	9,106	75,034	86,755

	CONSOLIDATED	
	30 June 2016	30 June 2015
	$	$

NOTE 10: INTANGIBLE ASSETS

Opening balance	342,250	342,250
Additions(1)	215,000	-
Licenses, patents and intellectual property - at cost	557,250	342,250

(1) The increase in recorded intangible assets relates to the execution of a Deed of Assignment of Intellectual Property with the Queensland University of Technology (QUT) during the financial year.

Licences, patents and intellectual property are assessed to have finite useful lives. Amortisation shall begin when the asset is available for use, that is, when the Group commences commercial operations. There are no amortisation charges for licenses and patents for the current or prior financial periods.

NOTE 11: TRADE AND OTHER PAYABLES

Current

Unsecured liabilities:		
Trade payables	489,094	1,225,183
Other payables and accruals	220,437	393,407
	709,531	1,618,590

NOTE 12: PROVISIONS

Current

Provision for annual leave	97,032	104,313
Provision for long service leave	44,954	41,122
	141,986	145,435

NOTE 13: OTHER LIABILITIES

a) Current liabilities

Deferred lease incentives	29,964	29,964

b) Non-current liabilities

Deferred lease incentives	45,070	75,036

	CONSOLIDATED	
	30 June 2016	30 June 2015
	$	$

NOTE 14: ISSUED CAPITAL

a) Share capital

724,328,499 (2015: 302,878,835) fully paid ordinary shares	79,797,977	66,028,808

b) Fully paid ordinary shares

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

c) Movements in ordinary share capital

Date	Details	No. Shares	Issue price	$
	Balance at 1 July 2014	263,113,571		58,308,941
23/10/14	Ordinary shares issued to consultant for consultancy services	187,092	31c	57,929
23/10/14	Ordinary shares issued to consultant for consultancy services	57,614	33c	19,031
12/02/15	Ordinary shares issued under Placement	19,047,642	21c	4,000,005
10/03/15	Ordinary shares issued under Non-Renounceable Entitlement Offer	17,558,417	21c	3,687,268
10/03/15	Ordinary shares issued under Placement	2,719,749	21c	571,147
21/04/15	Ordinary shares issued to consultant for consultancy services	194,750	28c	55,280
	Transaction costs arising from share issues			(670,793)
	Balance at 30 June 2015	302,878,835		66,028,808
23/03/16	Ordinary shares issued under Placement Tranche 1	75,719,708	3.5c	2,650,190
26/04/16	Ordinary shares issued under Non-Renounceable Entitlement Offer	91,291,619	3.5c	3,195,207
29/4/16	Ordinary shares issued under shortfall of Non-Renounceable Entitlement Offer	60,148,337	3.5c	2,105,192
04/05/16	Ordinary shares issued under Placement Tranche 2	194,290,000	3.5c	6,800,150
	Transaction costs arising from share issues			(981,570)
	Balance at 30 June 2016	724,328,499		79,797,977

NOTE 14: ISSUED CAPITAL (Continued)

d) Options

For information relating to options issued, exercised and lapsed during the financial year and the options outstanding at year-end refer to Note 18: Share-based Payments.

e) Capital Management

Management controls the capital of the Group in order to maintain an appropriate debt to equity ratio, and ensure that the Group can fund its operations and continue as a going concern. The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

	CONSOLIDATED	
	30 June 2016	30 June 2015
	$	$

NOTE 15: RESERVES

Option reserve	53,711	-
Foreign exchange translation reserve	(71,800)	(55,885)
	(18,089)	(55,885)

a) Option Reserve

The option reserve records items recognised as expenses on valuation of employee share options.

Movement		
Balance at beginning of year	-	435,169
Options expense	53,711	-
Expired options reserve transfer to retained earnings	-	(435,169)
Balance at end of year	53,711	-

b) Foreign Exchange Translation Reserve

Movement		
Balance at beginning of year	(55,885)	(20,003)
Movement during the year	(15,915)	(35,882)
Balance at end of year	(71,800)	(55,885)

	CONSOLIDATED	
	30 June 2016	30 June 2015
	$	$
NOTE 16: REMUNERATION OF AUDITORS		
Audit services – PKF Hacketts Audit		
Audit and review of financial reports and other audit work under the Corporations Act 2001	45,250	50,600
Non-audit services		
Audit / review of regulatory returns and due diligence services – PKF Hacketts Corporate Advisory	4,000	13,530
	49,250	64,130

NOTE 17: FINANCIAL RISK MANAGEMENT

Financial Risk Management Policies

The Group's financial instruments consist mainly of deposits with banks in functional and foreign currencies, short-term investments, and accounts receivable and payable.

a) Treasury Risk Management

The Board, at each of its meetings, analyses financial risk exposure and evaluates treasury management strategies in the context of the most recent economic conditions and forecasts. The Board's overall risk management strategy seeks to assist the Group in meeting its financial targets, whilst minimising potential adverse effects on financial performance. Risk management policies are approved and reviewed on a regular basis.

b) Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are credit risk, interest rate risk, liquidity risk and foreign currency risk.

Credit risk exposures

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group. The credit risk on financial assets of the Group which have been recognised on the statement of financial position is generally the carrying amount, net of any provisions for doubtful debts.

Interest rate risk exposures

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments. At balance date, the Group does not have material exposure to interest rate risk.

Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate facilities or financing options are maintained. At balance date, the Group does not have material exposure to liquidity risk.

NOTE 17: FINANCIAL RISK MANAGEMENT (Continued)

Foreign currency risk

Exposure to foreign currency risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the functional currency of the Group. The Group manages foreign currency risk by monitoring forecast foreign currency commitments and foreign exchange rates. At balance date, the Group's exposure to foreign currency risk arises from the holding of cash balances US$4,855,098, and EUR 261,725 at exchange rates of 0.744 and 0.670 respectively.

c) Net fair value of financial assets and liabilities

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and the financial liabilities of the Group approximates their carrying amounts.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

d) Sensitivity Analysis

The Group has performed a sensitivity analysis relating to its exposure to interest rate and foreign currency exchange rate risks, to assess the effect on reported results and equity which could result from a change in these risks.

Management have determined that, at 30 June 2016, the effect on profit and equity as a result of changes in foreign currency exchange rates by +100 basis points or -100 basis points would be $69,127 exposure to foreign currency exposure. The effect on profit and equity as a result of changes in interest rate by +100 basis points or -100 basis points would be $73,641 additional, or less, interest revenue.

NOTE 18: SHARE-BASED PAYMENTS

The Employee Option Plan (**the Plan**) is designed to provide long-term incentives for key management personnel and directors to deliver long-term shareholder returns. Under the Plan, participants are granted options which only vest if certain performance standards are met. Participation in the plan is at the board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Options are granted under the plan for no consideration and carry no dividend or voting rights.

The following share-based payment arrangements existed during the financial year ended 30 June 2016:

a) On 14 September 2015, 1,300,000 options were granted and issued to key personnel, to take up ordinary shares at an exercise price of $0.08. The vesting of these options will occur over a three-year period upon the achievement of set KPIs, being one third each year on the anniversary of the grant date. The term of these options is four years from their issue date, i.e. expire on 14 September 2019. The assessed fair value of these options was $0.03 per option, which was independently determined using the Black-Scholes option pricing model applying the following inputs:

- exercise price: $0.08;
- issue date: 14 September 2015;
- expiry date: 4 years from issue date;
- underlying price: $0.0465;
- expected price volatility of the company's shares: 103.11%;
- expected dividend yield: 0.00%;
- risk-free interest rate: 2.297%

At 30 June 2016, 670,000 of these options had been forfeited, and the remaining 630,000 options are unvested.

NOTE 18: SHARE-BASED PAYMENTS (Continued)

b) Following shareholders' approval at the Annual General Meeting on 25 November 2015, 1,600,000 options were issued on 4 December 2015, 300,000 options to Dr Cherrell Hirst, 300,000 options to Mr Tim Hughes and 1,000,000 options to Dr Christian Behrenbruch with the following terms and conditions:

1) *Issue of 300,000 options to Dr Cherrell Hirst, non-Executive Director and Chairman, in lieu of directors fees*

The assessed fair value of these options was $0.03 per option, which was independently determined using the Black-Scholes option pricing model applying the following inputs:

- exercise price: $0.11;
- issue date: 4 December 2015;
- expiry date: 5 years from issue date;
- underlying price: $0.0485;
- expected price volatility of the company's shares: 98.38%;
- expected dividend yield: 0.00%;
- risk-free interest rate: 2.426%

The options issued will vest as follows:

- 75,000 options – 3 months after the issue date;
- 75,000 options – 6 months after the issue date;
- 75,000 options – 9 months after the issue date; and
- 75,000 options – 12 months after the issue date

In the event Dr Hirst ceases to be a director of Factor Therapeutics, any unvested options will lapse and any vested options will remain exercisable until the expiry date.

As at 30 June 2016, 150,000 of these options are vested and the remaining 150,000 options are unvested.

2) *Issue of 300,000 options to Mr Tim Hughes, non-Executive Director, in lieu of directors fees*

The assessed fair value of these options was $0.03 per option, which was independently determined using the Black-Scholes option pricing model applying the following inputs:

- exercise price: $0.11;
- issue date: 4 December 2015;
- expiry date: 5 years from issue date;
- underlying price: $0.0485;
- expected price volatility of the company's shares: 98.38%;
- expected dividend yield: 0.00%;
- risk-free interest rate: 2.426%

The options issued will vest as follows:

- 75,000 options – 3 months after the issue date;
- 75,000 options – 6 months after the issue date;
- 75,000 options – 9 months after the issue date; and
- 75,000 options – 12 months after the issue date

In the event Mr Hughes ceases to be a director of Factor Therapeutics, any unvested options will lapse and any vested options will remain exercisable until the expiry date.

As at 30 June 2016, 150,000 of these options are vested and the remaining 150,000 options are unvested.

NOTE 18: SHARE-BASED PAYMENTS (Continued)

3) *Issue of 1,000,000 options to Dr Christian Behrenbruch, Executive Director, in lieu of directors fees and executive performance*

The assessed fair value of these options was $0.028 per option, which was independently determined using the Black-Scholes option pricing model applying the following inputs:

- exercise price: $0.11;
- issue date: 4 December 2015;
- expiry date: 5 years from issue date;
- underlying price: $0.047;
- expected price volatility of the company's shares: 98.92%;
- expected dividend yield: 0.00%;
- risk-free interest rate: 2.363%

The options issued vested immediately following shareholder approval.

In the event Dr Behrenbruch ceases to be a director of Factor Therapeutics any vested options will remain exercisable until the expiry date.

As at 30 June 2016, 1,000,000 options are vested.

	2016		2015	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Movement in Options				
Outstanding at the beginning of the year	-	-	2,490,000	0.47
Granted	2,900,000	0.10	3,000,000	0.34
Forfeited	(670,000)	0.08	-	-
Exercised	-	-	-	-
Expired / lapsed	-	-	(5,490,000)	0.40
Outstanding at end of the year	2,230,000	0.10	-	-
Exercisable at end of the year	1,300,000	0.11	-	-
Weighted average remaining contractual life		4.09 years		0.00 years

There were no options exercised during the year ended 30 June 2016.

The expense for options for the year ended 30 June 2016 in the Statement of Profit or Loss and Other Comprehensive income is $53,711.

Refer also to Note 23 for details of options issued post balance date.

NOTE 19: COMMITMENTS FOR EXPENDITURES

	CONSOLIDATED	
	30 June 2016 $	30 June 2015 $
Commitments for rental lease, manufacturing development and stability study contracted for at the reporting date but not recognised as liabilities payable:		
Within one year	1,455,668	1,490,176
Later than one year but not later than 5 years	502,906	416,638
Later than 5 years	-	-
	1,958,574	1,906,814

NOTE 20: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Company has engaged Deloitte Tax Services Pty Ltd to review the R&D tax incentive claim for financial year 2012, 2013 and 2014. The directors believe that a favourable outcome is probable. However, the R&D tax incentive receivable has not been recognised at 30 June 2016 because it is not possible to reliably determine the amount this point.

Directors are not aware of any other contingent liabilities or assets that are likely to have a material effect on the results of the Group as disclosed in these financial statements.

NOTE 21: RELATED PARTY TRANSACTIONS

Transactions with related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Subsidiaries

Interest in subsidiaries are set out in note 28.

Key management personnel compensation

Details of remuneration of the key management personnel are provided in the remuneration report in the Directors' Report on pages 9 to 14.

Transactions with other related parties

There were no other transactions with related parties during the year.

NOTE 22: SEGMENT INFORMATION

Operating segments are identified, and segment information disclosed, on the basis of internal reports that are regularly provided to, or reviewed by, the Company's chief operating decision maker which, for the Company, is the Board of Directors. In this regard, the Board of Directors confirms that the Company continues to operate in one operating segment, being biotechnology.

NOTE 23: EVENTS SUBSEQUENT TO REPORTING DATE

On 1 July 2016, the company issued a total of 7,000,000 options under the Company's Equity Option Plan as follows: (**ASX:FTT** Appendix 3B, 1 July 2016):

- Following approval gained at the shareholder meeting on 29th June 2016, the company issued 1,000,000 options to Dr Christian Behrenbruch in accordance with his employment contract which included this option grant subject to his leading a successful capital raise of $15m prior to 30 June 2016; and
- 6,000,000 retention options were awarded to retain key management personnel, including the executive director, with their much needed relevant expertise and knowledge of Factor technology. Details of these retention options per below table.

Table 1: July 2016 Retention Options

	Grant Date	Expiry Date	Exercise price	Number of options
C Behrenbruch*	1 July 2016	30 June 2021	$0.11	2,000,000
N Johnson	1 July 2016	30 June 2021	$0.11	2,000,000
G Shooter	1 July 2016	30 June 2021	$0.11	1,250,000
S Jo	1 July 2016	30 June 2021	$0.11	750,000
				6,000,000

*These options issued to Dr Behrenbruch were approved at the shareholder meeting of 29 June 2016.

On 26 July 2016, following shareholder approval at the general meeting held on 29 June 2016, the company issued 5,714,284 ordinary shares under placement, 2,857,142 ordinary shares to Dr Cherrell Hirst, Chairman; and 2,857,142 ordinary shares to Elk River Holdings Pty Ltd. Elk River Holdings Pty Ltd is a related party of the company by virtue of Dr Christian Behrenbruch, Executive Director of the company, being a director of Elk River Holdings Pty Ltd. The issue price is $0.035 per ordinary share. (**ASX: FTT** Appendix 3B, 26 July 2016).

On 3 August 2016, the company issued a further 1,400,000 options to medical advisory board members, partially in lieu of payment of advisory fees. The exercise price of these options is $0.035 and they expire on 4 July 2020. These options will vest annually in two tranches on 4 July 2017 and 4 July 2018. (**ASX: FTT** Appendix 3B, 3 August 2016).

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

	CONSOLIDATED	
	30 June 2016	**30 June 2015**
	$	**$**
NOTE 24: CASH FLOW INFORMATION		
a) Reconciliation of Cash		
Cash at end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:		
Cash and cash equivalents	14,375,591	5,578,730

NOTE 24: CASH FLOW INFORMATION (Continued)

b) Reconciliation of Cash Flow from Operations with Loss after Income Tax

	CONSOLIDATED	
	30 June 2016 $	30 June 2015 $
Loss after income tax benefit	(11,612,031)	(11,218,514)
Non-cash flows in loss from ordinary activities		
Depreciation	42,664	80,650
Amortisation of deferred lease incentives	(29,966)	(29,963)
Impairment of inventory	7,485,691	4,091,831
Inventory write down to net realisable value	67,900	67,901
Net loss on disposal of property, plant and equipment	42,820	-
Non-cash consultant fees	-	132,240
Non-cash employee benefits expense – options based payments	53,711	-
Changes in operating assets and liabilities		
(Increase)/ decrease in receivables	(80,015)	63,831
(Increase) / decrease in inventory	261,352	(2,431,851)
(Increase) / decrease in current tax assets	(7,733)	49,857
(Increase) / decrease in other assets	(34,067)	211,213
Increase / (decrease) in payables and provisions	(912,508)	(61,904)
Increase / (decrease) in current tax liabilities	(12,836)	(251)
Cash flow from operating activities	(4,735,018)	(9,044,960)

c) Non-cash Investing and Financing activity

Shares issued for consulting services	-	132,240

	CONSOLIDATED	
	30 June 2016	**30 June 2015**
	$	**$**
NOTE 25: EARNINGS PER SHARE		
Loss after income tax benefit attributable to the Company	(11,612,031)	(11,218,514)
Weighted average number of shares used as the denominator	**No.**	**No.**
Weighted average number of ordinary shares outstanding during the year used in calculation of Basic EPS	381,386,733	278,319,325
Weighted average number of options outstanding which are considered potentially dilutive	-	-
Weighted average number of potential ordinary shares outstanding during the year used in calculation of Diluted EPS	381,386,733	278,319,325

The diluted EPS calculation includes that portion of the options considered to be potentially dilutive, weighted with reference to the date of conversion.

	Cents	**Cents**
Basic earnings per share	(3.04)	(4.03)
Diluted earnings per share	(3.04)	(4.03)

NOTE 26: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

Accounting Standards issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

– AASB 9: Financial Instruments and associated Amending Standards (applicable for annual reporting periods beginning on or after 1 January 2018).

  The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

  The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

  Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

- AASB 15: *Revenue from Contracts with Customers* (applicable to annual reporting periods beginning on or after 1 January 2018, as deferred by AASB 2015-8: *Amendments to Australian Accounting Standards – Effective Date of AASB 15*).

  This Standard is not expected to significantly impact the Group's financial statements.

NOTE 26: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

– AASB 16: Leases (applicable for annual reporting periods beginning on or after 1 January 2019).

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: *Leases* and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard include:

– recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets;

– depreciation of right-to-use asset in line with AASB 116: *Property, Plant and Equipment* in profit or loss and unwinding of the liability in principal and interest components;

– variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;

– by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease; and

– additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognize the cumulative effect of retrospective applications as an adjustment to opening equity on the date of initial application.

Although the directors anticipate that the adoption of AASB 16 will impact the Group’s financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

NOTE 27: PARENT INFORMATION

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards.

	30 June 2016 $	30 June 2015 $
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current assets	15,122,498	6,784,056
Non-current assets	1,340,802	8,405,376
TOTAL ASSETS	16,463,300	15,189,432
LIABILITIES		
Current liabilities	873,619	1,737,730
Non-current liabilities	169,799	241,984
TOTAL LIABILITIES	1,043,418	1,979,714
NET ASSETS	15,419,882	13,209,718
EQUITY		
Contributed equity	79,797,977	66,028,807
Reserves	53,711	-
Accumulated losses	(64,431,806)	(52,819,089)
TOTAL EQUITY	15,419,882	13,209,718
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME		
Total losses	(11,612,717)	(11,269,591)
Total comprehensive income	(11,612,717)	(11,269,591)

Guarantees

Factor Therapeutics Limited has not entered into any guarantees, in the current or previous financial year, in relation to the debts of its subsidiary.

Contingent Assets and Liabilities

For information relating to contingent assets and liabilities, refer to Note 20: Contingent Liabilities and Contingent Assets.

Contractual Commitments

For information relating to contractual commitments, refer to Note 19: Commitments for Expenditures. The commitments detailed in Note 19 are related to parent entity commitments only.

NOTE 28: CONTROLLED ENTITIES

Factor Therapeutics Europe Limited (previously Tissue Therapies Europe Limited) ("the Subsidiary"), a wholly owned subsidiary, was formed on 23rd January 2012, based in the United Kingdom, to provide administration support to Factor Therapeutics Limited ("the Parent Entity").

Factor Therapeutics USA LLC ("the Subsidiary"), a wholly owned subsidiary was formed on 18th February 2016, in the state of Delaware, USA. The purpose of the Subsidiary is to establish a contracting platform in the US, and manage human capital in relation to US-based clinical activities planned for later this calendar year.

NOTE 29: COMPANY DETAILS

The registered office and the principal place of business of the Company is:

Factor Therapeutics Limited
Level 19
179 Turbot Street
BRISBANE QLD 4000
Australia

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Factor Therapeutics Limited, the directors of the Company declare that:

1. the financial statements and notes, as set out on pages 18 to 47, are in accordance with the *Corporations Act 2001* and:
    a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
    b. give a true and fair view of the financial position as at 30 June 2016 and of the performance for the year ended on that date of the consolidated group;
2. 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; and
3. the directors have been given the declarations required by s 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer.

Cherrell Hirst
Chairman
Brisbane, 16 August 2016

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF FACTOR THERAPEUTICS LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Factor Therapeutics Limited ("the company") and its Controlled Entities ("the group") which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' declaration of the group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements* that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

PKF Hacketts Audit
ABN 33 873 151 348

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF FACTOR THERAPEUTICS LIMITED
(continued)

Opinion

In our opinion:

a) the financial report of Factor Therapeutics Limited and its Controlled Entities 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 2016 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 14 of the Directors' Report for the year ended 30 June 2016. 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.

Opinion

In our opinion the Remuneration Report of Factor Therapeutics Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

PKF Hacketts

PKF Hacketts Audit	**Shaun Lindemann**
Brisbane, 16 August 2016	**Partner**