



Paradigm Biopharmaceuticals Limited

ABN 94 169 346 963

2016 ANNUAL REPORT

PARADIGM BIOPHARMACEUTICALS LIMITED
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General Information

The Financial Statements cover Paradigm Biopharmaceuticals Limited as a Consolidated Entity consisting of Paradigm Biopharmaceuticals Limited and the entities it controlled at the end of, or during the year. The Financial Statements are presented in Australian dollars, which is Paradigm Biopharmaceuticals Limited's functional and presentation currency.

Paradigm Biopharmaceuticals Limited is a listed public company limited by shares, incorporated and domiciled in Australia. A description of the nature of the Consolidated Entity's operations and its principal activities are included the part of the Financial Statements.

The Financial Statements were authorised for issue, in accordance with a resolution of Directors, on 31 August 2016. The Directors have the power to amend and reissue the Financial Statements.

PARADIGM BIOPHARMACEUTICALS LIMITED
CORPORATE DIRECTORY

Directors

Mr Graeme Kaufman	–	Chairman & Non-Executive Director
Mr Paul Rennie	–	Managing & Executive Director
Mr Christopher Fullerton	–	Non-Executive Director
Mr John Gaffney	–	Non-Executive Director

Company Secretary

Mr Kevin Hollingsworth

Notice of Annual General Meeting

The details of the annual general meeting of Paradigm Biopharmaceuticals Limited are:

K&L Gates
Level 25, South Tower, 525 Collins Street
Melbourne, VIC 3000
11:00am on 10 November 2016

Principal Place of Business and Registered Office

C/-Hollingsworth & Co Pty Ltd
Level 2, 517 Flinders Lane
Melbourne, VIC 3000

Telephone: (61-3) 9629 5566
Facsimile: (61-3) 9629 5466

Auditor

RSM Australia Partners
Level 21
55 Collins Street
Melbourne, VIC 3000

Solicitors (Corporate)

K&L Gates
Level 25, South Tower, 525 Collins Street
Melbourne, VIC 3000

Share Registry

Computershare Limited
Yarra Falls, 452 Johnston Street
Abbotsford, VIC 3067

Telephone: (61-3) 1300 137 328

Bankers

Commonwealth Bank
Level 20, Tower One, Collins Square
727 Collins Street
Melbourne, VIC 3008

Stock Exchange

ASX Limited
Level 4, North Tower, 525 Collins Street
Melbourne, VIC 3000

ASX Code: PAR

Website

www.paradigmbiopharma.com

PARADIGM BIOPHARMACEUTICALS LIMITED
CHAIRMAN'S REPORT

Dear Shareholders,

I am pleased to present the 2016 Annual Report for Paradigm Biopharmaceuticals Limited.

Paradigm listed on the Australian Securities Exchange (ASX) on 19 August 2015.

From listing, Paradigm commenced the repurposing of the historic drug Pentosan Polysulfate Sodium (PPS) for two clinical development programs, namely the treatment of bone marrow edema (bone bruising) and allergic rhinitis (also known as hay fever).

An unresolved subchondral bone marrow edema following an acute knee injury is strongly associated with the development of post-traumatic osteoarthritis. With the early intervention of the drug PPS, we aim to demonstrate that bone marrow edema can be resolved and the cartilage protected from further damage. Paradigm's open labelled Phase 2 study commenced in March, 2016 and recruitment is ongoing. The treatment of bone marrow edema is an emerging market with no pharmaceuticals currently registered to treat this clinical indication. Treatment of bone marrow lesions represents an addressable market of US\$2.5B in the USA.

Intranasal corticosteroids and anti-histamines are the current first line therapies used to treat the symptoms of allergic rhinitis. Paradigm is developing an intranasal PPS spray which aims to address this US\$11B global market but with significant potential advantages for the sufferer over conventional therapies. The Paradigm product aims to be the first non-steroid based nasal spray on the market which is dual acting, having both anti-histamine and anti-inflammatory properties. Since listing, Paradigm has developed the nasal spray formulation, completed a toxicology study and a Phase 1 clinical trial and received clearance from the Safety Data Monitoring Committee to proceed to a Phase 2 clinical trial scheduled to commence in December, 2016.

In addition to the two lead clinical indications, Paradigm has generated some PPS proof-of-concept, nonclinical and clinical data in a new indication which expands our pipeline.

Paradigm continues to execute on its drug repurposing business strategy. In the 2015-2016, over 70% of funds were spent directly on the clinical development plans.

The year ahead will be an exciting time for Paradigm, and I acknowledge the terrific support of our shareholders which is so important to the company. I also thank our CEO, Paul Rennie, and his management team for the very significant outcomes they have achieved in the short time since our listing.

On behalf of the Directors,



Graeme Kaufman
Chairman
Melbourne, Victoria
31 August 2016

PARADIGM BIOPHARMACEUTICALS LIMITED
MANAGING DIRECTOR'S REVIEW

Dear Shareholder,

I am pleased to report on the progress made by Paradigm's executive management team in the past 12 months.

Clinical Development

Bone Marrow Edema: In February 2016 the Company commenced the open labelled Phase 2 clinical trial (up to 40 participants with an interim analysis at 20 participants), investigating the role of the drug pentosan polysulfate sodium (PPS) in treating traumatic Bone Marrow Lesions. This trial is actively recruiting participants.

Bone marrow edema or bone bruising is the accumulation of interstitial fluid or inflammation within the bone marrow, typically a consequence of direct trauma to the bone. Currently there are no approved therapeutics for the treatment of bone marrow edema. Treatment of bone marrow edema is a rapidly growing market opportunity which the Company estimates to be US\$2.5 Billion per annum in the USA.



Allergic Rhinitis / hay fever: Significant progress has been made with the PPS intra-nasal spray to treat the symptoms of allergic rhinitis / hay fever.

In August, 2016 the Company announce the results of the 28 Day intra-nasal toxicology study in rats. The intra-nasal toxicology study included in life observations, systemic haematology, biochemistry, coagulation, histopathology of major organs and nasal tissue. The final toxicology report noted no observed adverse effects at any dose of PPS and the data supports a safety margin of 20 x the estimated human dose.

The Company was also pleased to announce the treatment of the 18 healthy volunteers in its Phase 1 study was completed. The Phase 1 study design was a randomised double-blind, placebo-controlled trial with 2 cohorts of 2 dose levels. Participants had full blood analysis, daily clinical observations and a general and nasal examination. The Company also announce that the Phase 1 Data and Safety Monitoring Committee had cleared the Company's PPS intra-nasal product for the Phase 2 study which is scheduled to commence in Sweden in December, 2016.



The current market for Allergic Rhinitis is about US\$ 11 Billion and is dominated by anti-histamines and corticosteroids with market surveys highlighting patient dissatisfaction and the need for effective therapy. Rhinosul® has unique properties consisting of both histamine stabilising and anti-inflammatory properties without the known side effects of anti-histamines and steroids. The company believes its product can meet market needs that are not effectively managed by current nasal sprays.

2016-2017 Milestones

Over the next 12 months, the Company has an ambitious plan to generate human data with the repurposed drug, PPS, commence business development activities and continue to develop and prosecute the Company's IP portfolio. Paradigm has identified the following milestones for the coming year:

- Complete the open label Phase 2 Bone Marrow Edema clinical trial;
- Complete the randomised double-blind placebo-controlled Phase 2 challenge study for its intra-nasal spray for allergic rhinitis; and
- Commence a Phase 2 clinical trial treating viral arthritis with PPS.

Business Development: The Company will commence its business development plans by directly approaching potential commercial partners in Q1 and Q2 CY2017. The Company will present its data packages including toxicology reports, peer-reviewed pre-clinical data, Phase 1 and Phase 2 clinical data.

Research & Development: A focussed Research & Development (R&D) program will be undertaken to identify and develop second generation products. This R&D program will be managed by the Company's Chief Scientific Officer. The Company will continue to outsource its R&D to world-class research laboratories and CRO's. In line with the Company's publication policy it will publish the pre-clinical studies in peer-reviewed scientific journals.

Intellectual Property (Patents)

BME Patent: The Company announced on 26 August 2015 it had been granted a patent by the United States Patent and Trademark Office (USPTO) to use the drug Pentosan Polysulfate Sodium (PPS) for treatment of Bone Marrow (o)Edema (BME). The US granted patent (US 9,101,650 B2) entitled 'Treatment of bone marrow edema (oedema) with polysulfated polysaccharides' provides coverage until February 2032. The BME patent is now granted in Australia, New Zealand, China and the USA.

Respiratory Patent: Paradigm's respiratory patent covers the use of PPS for treating Allergic Rhinitis, Allergic Asthma and COPD. The Respiratory patent is now granted in Australia, New Zealand, China, Canada and Europe.

Thank you: The significant achievement in the past 12 months has been made possible by the highly talented and productive Paradigm employees and consultants. I would also like to acknowledge the outstanding support of Paradigm's shareholders, stockbrokers, clinical & regulatory consultants, scientific & medical professionals and our manufacturing partners. All Paradigm employees and consultants continue to work hard for our shareholders and other stakeholders and we will work diligently towards achieving our corporate objectives over the next 12 months.

Paul Rennie
Chief Executive Officer

PARADIGM BIOPHARMACEUTICALS LIMITED

DIRECTORS' REPORT

The Directors present their report together with the financial report of Paradigm Biopharmaceuticals Limited (the "Company") and its controlled entities (the "Group"), for the financial year ended 30 June 2016, and the Auditor's Report thereon.

DIRECTORS

Information on Directors

The Directors of the Company at any time during or since the end of the financial year are:

Graeme Kaufman, Chairman and Non-Executive Director (Appointed on 02 May 2014)

Graeme Kaufman BSc, MBA, has wide ranging experience across the biotechnology sector, spanning scientific, commercial and financial areas. His experience with CSL Limited, Australia's largest biopharmaceutical company included responsibility for all of their manufacturing facilities, and the operation of an independent business division operating in the high technology medical device market. As CSL's General Manager Finance, Mr Kaufman had global responsibility for finance, strategy development, human resources and information technology. Mr Kaufman has also served as an executive Director of ASX-listed Circadian Technologies and a non-executive Director of Amrad Corporation, and held the role of Executive Vice President Corporate Finance with Mesoblast Limited until 2013. He is currently Chairman of Bionomics Limited and IDT Australia Limited.

Paul Rennie, Managing and Executive Director (Appointed on 02 May 2014)

Paul Rennie BSc, MBM, Grad Dip Commercial Law, MSTC, has sales, marketing, business development, operational and IP commercialisation experience in the biopharmaceutical sector. Paul's experience includes working for Boehringer Mannheim (now Roche Diagnostics), Merck KGGA as national sales and marketing manager and Soltec (FH Faulding Ltd) as their Director of business development. Paul also led the commercialisation of Recaldent® a novel biopharmaceutical arising from research at the dental school, University of Melbourne. Paul took an R&D project from the laboratory bench to a commercial product now marketed globally as an additive to oral care products. More recently Paul worked in a number of positions with Mesoblast Ltd. Paul was the inaugural COO and moved into Executive Vice President New Product Development for the adult stem cell company. For the past year Paul has worked full time at Paradigm BioPharmaceuticals Limited.

Christopher Fullerton, Non-Executive Director (Appointed on 30 September 2014)

Christopher Fullerton, BEc, has extensive experience in investment, management and investment banking and is a qualified chartered accountant. He is an investor in listed equities and private equity and his current unlisted company directorships cover companies in the property investment and agriculture sectors. Mr Fullerton's exposure to and experience in the fields of biotechnology and health care technology was gained through his non-executive chairmanships of Bionomics Limited, Cordlife Limited and Health Communication Network Limited and his non-executive directorship of Global Health Limited.

John Gaffney, Non-Executive Director (Appointed on 30 September 2014)

John Gaffney LL.M is a lawyer with over 30 years' experience and has undertaken the AICD Company Directors qualification. He brings to the board a compliance and corporate governance background and is experienced in financial services compliance. John also has corporate and commercial experience having worked with a major national law firm as a senior lawyer and also practised as a Barrister at the Victorian Bar. Previously John has been a non-executive Director of a US based biotechnology company.

COMPANY SECRETARY

Kevin Hollingsworth, Company Secretary (Appointed on 02 May 2014)

Kevin Hollingsworth, FCPA, FCMA, CGMA, in addition to his duties at Paradigm, serves as Principal of Hollingsworth Financial Services. Prior to that he served as Chief Financial Officer and Company Secretary of Mesoblast Limited (ASX: MSB), before which he held the same positions at Patrys Limited (ASX: PAB). At Alpha Technologies Corporation Limited (ASX: ASU), Kevin Hollingsworth served as a Non-Executive Director. He has served as National President of CIMA Australia, State Councillor for CPA Australia and Chairman of the National and Victorian Industry and Commerce Accountants Committees. He is a Chartered Global Management Accountant and Fellow of CPA Australia and Chartered Management Accountants.

PARADIGM BIOPHARMACEUTICALS LIMITED
DIRECTORS' REPORT (CONT'D)

DIRECTORSHIPS IN OTHER LISTED ENTITIES

Directorships of other listed entities held by Directors of the Company during the last 3 years immediately before the end of the financial year are as follows:

Director	Company	Period of directorship	
		From	To
Graeme Kaufman	Bionomics Limited	18-Sep-12	Current
	IDT Australia Limited	01-Jun-13	Current
	Cellmid Limited	27-Aug-12	30-Jun-15

DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) and the number of meetings attended by each of the Directors of the Company during the financial year are:

Director	Board		Nomination & Remuneration Committee		Audit & Risk Committee	
	Held	Attended	Held	Attended	Held	Attended
Graeme Kaufman	7	7	-	-	2	2
Paul Rennie	7	7	-	-	2	2
Christopher Fullerton	7	7	-	-	2	2
John Gaffney	7	6	-	-	2	2

Committee membership

As at the date of the report, the Company had a Nomination and Remuneration Committee and an Audit and Risk Committee of the Board of Directors. Members acting on the committees of the Board during the financial year were:

Nomination & Remuneration Committee	Audit & Risk Committee
Graeme Kaufman	Graeme Kaufman
Paul Rennie	Christopher Fullerton
Christopher Fullerton	John Gaffney
John Gaffney	

PRINCIPAL ACTIVITIES

The principal activities of the Group are researching and developing therapeutic products for human use. It is a drug repurposing company which seeks to find new uses for old drugs, thereby reducing the cost and time to bring therapeutics to market.

OPERATING REVIEW

The Group made a loss for the financial year ended 30 June 2016 of \$2,924,425 (2015: Loss of \$1,565,305).

Consolidated revenue including other income during the period was \$1,394,161 (2015: \$7,331). This revenue included interest of \$103,568 (2015: \$7,331), and an R&D tax incentive of \$1,290,593 (2015: Nil).

The consolidated total expenses for the period were \$4,318,586 (2015: \$1,572,636).

The research and development expenses for the period were \$2,867,985 (2015: \$157,710).

The other operating expenses during the period were \$1,450,601 (2015: \$1,414,926).

Basic and diluted net loss per share decreased to 3.60 cents (2015: 4.68 cents) due to the increased number of shares.

ENVIRONMENTAL REGULATION

The Group's operations are not regulated by any significant environmental law of the Commonwealth or of a state or territory of Australia.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On the 5 August 2015, Paradigm completed its Asset Purchase Agreement with Glycan Biosciences LLC with the final payment of \$410,228 (US\$300,000).

On the 7 August 2015, having obtained conditional approval from the ASX for the admission of Paradigm to the ASX Official List and having raised \$8,000,000 as part of its Initial Public Offer, Paradigm completed the acquisition of Xosoma Pty Ltd.

Paradigm now owns 100% of Xosoma Pty Ltd and the Xosoma vendors have received 19,495,238 Paradigm shares.

On the 7 August 2015, the Series 1 Preference Shareholders holding 1,235,000 Preference Shares converted to 7,057,143 Ordinary Shares.

On the 7 August 2015, the Series 2 Preference Shareholders holding 600,000 Preference Shares converted to 2,637,363 Ordinary Shares.

On the 19 August 2015, having raised the maximum subscription of \$8,000,000 as part of its Initial Public Offer, Paradigm shares were quoted on the Official List of the ASX.

On the 27 January 2016, Xosoma Pty Ltd completed the acquisition of C4M Pharmaceuticals Pty Ltd.

DIVIDENDS

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

EVENTS SUBSEQUENT TO BALANCE DATE

No other matters or circumstances have arisen since balance date which have impacted or are likely to impact the Consolidated Entity's operations, results and state of affairs in future financial years.

LIKELY DEVELOPMENTS

There no likely developments.

CORPORATE GOVERNANCE

The Company's Corporate Governance Statement can be found in Appendix A.

DIRECTORS' INTERESTS

The relevant interest of each Director in the shares and options issued by the Company at the date of this report is as follows:

Director	Ordinary shares
Graeme Kaufman	2,043,000
Paul Rennie	21,547,876
Christopher Fullerton	617,145
John Gaffney	632,000

INDEMNIFICATION AND INSURANCE OF OFFICERS

Indemnification

The Company has agreed to indemnify the current Directors of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors of the Company, except where the liability arises out of conduct involving a lack of good faith.

The agreement stipulates that the Company will meet to the maximum extent permitted by law, the full amount of any such liabilities, including costs and expenses.

Insurance Premiums

The Company paid a premium during the year in respect of a Director and officer liability insurance policy, insuring the Directors of the Company, the Company Secretary, and all Executive Officers of the Company against a liability incurred as such a Director, Secretary or Executive Officer to the extent permitted by the Corporations Act 2001. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

The Company's auditor, RSM Australia, was appointed in July 2014 for audit services and also provided taxation services during the year.

Officers of the Company who are former partners of RSM Australia

There are no Officers of the Company who are former partners of RSM Australia.

Auditor's Independence Declaration

The Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 17 of the financial report.

Auditor

RSM Australia Partners continues in office in accordance with section 327 of the Corporations Act 2001.

PARADIGM BIOPHARMACEUTICALS LIMITED
REMUNERATION REPORT

AUDITED REMUNERATION REPORT

This Remuneration Report outlines the Director and Executive Remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2001* and the *Corporations Regulations 2001*.

For the purposes of this report, Key Management Personnel of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Company. The Group does not presently employ any Executives, other than the Executive Director.

KEY MANAGEMENT PERSONNEL

The following were Key Management Personnel of the Group at any time during the year and unless otherwise indicated were Key Management Personnel for the entire year:

Name	Position held	Date Appointed	Date Ceased
Graeme Kaufman	Chairman & Non-Executive Director	2 May 2014	
Paul Rennie	Managing & Executive Director	2 May 2014	
Christopher Fullerton	Non-Executive Director	30 September 2014	
John Gaffney	Non-Executive Director	30 September 2014	
Kevin Hollingsworth	Chief Financial Officer & Company Secretary	2 May 2014	

REMUNERATION COMMITTEE

The Nomination and Remuneration Committee proposes candidates for Director appointment for the Board's consideration, reviews the fees payable to both Executive and Non-Executive Directors and reviews and advises the Board in relation to Chief Executive Officer succession planning. The Nomination and Remuneration Committee has the authority to consult any independent professional adviser it considers appropriate to assist it in meeting its responsibilities.

The Nomination and Remuneration Committee is a committee of the Board and is established in accordance with the authority provided in the Company's constitution.

The Board is responsible to shareholders for ensuring that the Company:

- has coherent remuneration policies and practices which are observed and which enable it to attract and retain Executives and Directors who will create value for shareholders;
- fairly and responsibly rewards executives having regard to the performance of the Company, the performance of the Executive and the general pay environment;
- provides disclosure in relation to the Company's remuneration policies to enable investors to understand the costs and benefits of those policies and the link between remuneration paid to Directors and key Executives and corporate performance; and
- complies with the provisions of the ASX Listing Rules and the Corporations Act.

PRINCIPLES OF REMUNERATION

The primary purpose of the Nomination and Remuneration Committee is to support and advise the Board in fulfilling its responsibilities to shareholders in ensuring that the Board is appropriately remunerated, structured and comprised of individuals who are best able to discharge the responsibilities of Directors by:

- assessing the size, composition, diversity and skills required by the Board to enable it to fulfil its responsibilities to shareholders, having regard to the Company's current and proposed scope of activities;
- assessing the extent to which the required knowledge, experience and skills are represented on the Board;
- establishing processes for the identification of suitable candidates for appointment to the Board;
- overseeing succession planning for the Board and CEO;
- establishing processes for the review of the performance of individual Directors and the Board as a whole;
- assessing the terms of appointment and remuneration arrangements for Non-Executive Directors; and
- assessment and reporting to the Board

Remuneration structure

In accordance with best practice Corporate Governance, the structure of Non-Executive Directors' Remuneration is clearly distinguished from that of Executives.

PARADIGM BIOPHARMACEUTICALS LIMITED
REMUNERATION REPORT (CONT'D)

Non-Executive Director Remuneration

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. Remuneration of Non-Executive Directors is determined in maximum aggregate by the shareholders, and is allocated by the Board on the recommendation of the Remuneration Committee. The Remuneration Committee will take independent advice in respect to Directors' fees on an as needed basis.

There is no separate payment made for attendance at Board committee meetings or for other attendances to Company or Board activities.

Directors are not required to hold shares in the Company as part of their appointment.

There is to be no plan to provide remuneration, reward or other benefits to Non-Executive Directors upon the cessation of them holding office as a Director.

Executive remuneration

Executive Directors receive no extra remuneration for their service on the Board beyond their executive salary package.

Fixed compensation

Fixed compensation consists of base compensation, as well as employer contributions to superannuation funds. Compensation levels are reviewed annually by the remuneration committee through a process that considers individual, segment and overall performance of the Group.

Short-term incentives

Executive Key Management Personnel may receive short-term incentives.

Long-term incentives

Share-based compensation - Options granted to Directors and key management personnel

The Company has a long-term incentive plan being the Employee Share Plan (ESP). Refer to Note 11 for further information on the Plan. The shares issued under the ESP are considered to be options under the Australian Accounting standards.

Issue of shares

Details of shares issued to Directors and other Key Management Personnel as part of the ESP compensation:

Name	Date	Shares	Issue price	Fair value of issued shares	\$
Graeme Kaufman	29 May 2015	1,200,000	\$0.35	\$0.208	249,600
Paul Rennie	29 May 2015	600,000	\$0.35	\$0.208	124,800
Christopher Fullerton	29 May 2015	600,000	\$0.35	\$0.208	124,800
John Gaffney	29 May 2015	600,000	\$0.35	\$0.208	124,800
Kevin Hollingsworth	29 May 2015	600,000	\$0.35	\$0.208	124,800

Movement in shares

The movement during the reporting period in the number of ordinary shares in Paradigm Biopharmaceuticals Limited held directly, indirectly or beneficially by each Director and Key Management Personnel, including their related entities in as follows:

PARADIGM BIOPHARMACEUTICALS LIMITED
REMUNERATION REPORT (CONT'D)

Movement in shares (cont'd)

	Held at year opening	Purchases	Disposals	Issued via ESP	Held at year end
Directors & Key Management Persons					
Graeme Kaufman	1,200,000	843,000	-	-	2,043,000
Paul Rennie	21,214,543	333,333	-	-	21,547,876
Christopher Fullerton	600,000	17,145	-	-	617,145
John Gaffney	600,000	32,000	-	-	632,000
Kevin Hollingsworth	600,000	2,971,871	-	-	3,571,871

EMPLOYMENT AGREEMENTS

The Board has reviewed the remuneration package for the Chief Executive Officer in July 2016. The Remuneration and other terms of employment for the Chief Executive Officer is formalised in a service agreement. Details of this agreement is as follows:-

Name:	Paul Rennie
Title:	Managing Director and Chief Executive Officer
Agreement commenced:	7 November 2014
Term of agreement:	3 years
Details:	Base annual package *, STI ** and discretionary share based LTI remuneration ***, subject to annual performance review, 6 month termination notice by either party, 3-12 month non-solicitation clause after termination depending on the area. The Company may terminate the agreement with cause in certain circumstances such as gross misconduct.
	* Base annual package for financial year 2016/17 - \$350,000 per annum plus statutory superannuation.
	** STI to award for financial year 2015/2016 – 25% of base (\$70,000)

PARADIGM BIOPHARMACEUTICALS LIMITED
REMUNERATION REPORT (CONT'D)

REMUNERATION OF KEY MANAGEMENT PERSONNEL

Details of the nature and amount of each major element of the remuneration of each Key Management Personnel of the Group for the year ended 30 June 2016 are:

		Short-term		Post-employment	Long-term	Share-based payments		
		Salary & fees	Cash Bonus	Superannuation benefits	Long service leave	Options	Total	Proportion of remuneration performance related
		\$	\$	\$	\$	\$	\$	%
Directors & Key Management Personnel								
<i>Non-executive</i>								
Graeme Kaufman		105,667	-	10,038	-	-	115,705	0.0%
Christopher Fullerton		45,833	-	4,354	-	-	50,187	0.0%
John Gaffney		45,833	-	4,354	-	-	50,187	0.0%
<i>Executive</i>								
Paul Rennie		253,333	70,000	30,717	-	-	354,050	21.65%
Kevin Hollingsworth		58,833	-	5,589	-	-	64,422	0.0%
Total	2016	509,499	70,000	55,052	-	-	634,551	21.65%
								0.00%

PARADIGM BIOPHARMACEUTICALS LIMITED
REMUNERATION REPORT (CONT'D)

REMUNERATION OF KEY MANAGEMENT PERSONNEL (cont'd)

Details of the nature and amount of each major element of the remuneration of each Key Management Personnel of the Group for the year ended 30 June 2015 are:

	Short-term		Post-employment	Long-term	Share-based payments				
	Salary & fees	Cash Bonus	Superannuation benefits	Long service leave	Options	Total	Proportion of remuneration performance related	Value of options as proportion of remuneration	
	\$	\$	\$	\$	\$	\$	%	%	
Directors & Key Management Personnel									
Non-executive									
Graeme Kaufman	84,000	-	7,980	-	249,600	341,580	0.0%	73.07%	
Christopher Fullerton	-	-	-	-	124,800	124,800	0.0%	100.00%	
John Gaffney	-	-	-	-	124,800	124,800	0.0%	100.00%	
Executive									
Paul Rennie	120,000	-	11,400	-	124,800	256,200	0.0%	48.71%	
Kevin Hollingsworth	78,000	-	7,410	-	124,800	210,210	0.0%	59.37%	
Total	2015	282,000	-	26,790	-	748,800	1,057,590	-	70.80%

PARADIGM BIOPHARMACEUTICALS LIMITED
REMUNERATION REPORT (CONT'D)

REMUNERATION OF KEY MANAGEMENT PERSONNEL (cont'd)

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2016	2015	2016	2015	2016	2015
<i>Non-executive</i>						
Graeme Kaufman	100.00%	26.93%	-	-	-	73.07%
Christopher Fullerton	100.00%	-	-	-	-	100.00%
John Gaffney	100.00%	-	-	-	-	100.00%
<i>Executive:</i>						
Paul Rennie	78.35%	51.29%	21.65%	-	-	48.71%
Kevin Hollingsworth	100.00%	40.63%	-	-	-	59.37%

PARADIGM BIOPHARMACEUTICALS LIMITED
REMUNERATION REPORT (CONT'D)

REMUNERATION OF KEY MANAGEMENT PERSONNEL (cont'd)

The proportion of the cash bonus payable is as follows:

Name	Cash bonus payable	
	2016	2015
<i>Non-executive</i>		
Graeme Kaufman	-	-
Christopher Fullerton	-	-
John Gaffney	-	-
<i>Executive:</i>		
Paul Rennie	70,000	-
Kevin Hollingsworth	-	-

This is the end of the audited Remuneration Report.

Dated at Melbourne, Victoria this 31st day of August 2016.

Signed in accordance with a resolution of the Directors:



Graeme Kaufman
Chairman

RSM Australia Partners

Level 21, 55 Collins Street Melbourne VIC 3000
PO Box 248 Collins Street West VIC 8007

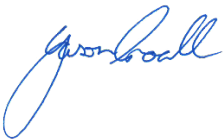
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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Paradigm Biopharmaceuticals Limited for the year ended 30 June 2016 I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

A handwritten signature in blue ink, appearing to read 'RSM'.**RSM AUSTRALIA PARTNERS**A handwritten signature in blue ink, appearing to read 'J S Croall'.

J S CROALL
Partner

31 August 2016
Melbourne, Victoria

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PARADIGM BIOPHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
for the year ended 30 June 2016

	Notes	Period from 1-Jul-15 to 30-Jun-16 \$	Period from 1-Jul-14 to 30-Jun-15 \$
Other income	2	1,394,161	7,331
Research and development		(2,867,985)	(157,710)
Employee expenses	3	(700,625)	(1,195,029)
General and administration expenses		(749,976)	(219,897)
Loss before income tax		(2,924,425)	(1,565,305)
Income tax expense / (benefit)		-	-
Loss for the year		(2,924,425)	(1,565,305)
Other comprehensive income		-	-
Total comprehensive income attributable to members of the Consolidated Entity		(2,924,425)	(1,565,305)

Earnings per share (cents)

<i>Basic and diluted earnings per share</i>	15	(3.60) cents	(4.68) cents
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The consolidated statement of profit or loss is to be read in conjunction with the accompanying notes.

PARADIGM BIOPHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2016

	Notes	2016 \$	2015 \$
ASSETS			
Current assets			
Cash and cash equivalents	4	2,998,352	124,857
Trade and other receivables	5	1,342,224	15,741
Prepaid capital raising costs		-	697,527
Prepaid insurance		8,040	-
Total current assets		4,348,616	838,125
Non-current assets			
Intangible assets	6	7,987,552	356,288
Plant and equipment	7	10,635	-
Total non-current assets		7,998,187	356,288
Total assets		12,346,803	1,194,413
LIABILITIES			
Current liabilities			
Trade and other payables	8	1,026,308	556,078
Employee benefits	9	90,376	29,209
Total current liabilities		1,116,684	585,287
Net assets		11,230,119	609,126
EQUITY			
Issued capital	10	15,071,813	1,577,497
Share options reserve	11	799,902	748,800
Accumulated losses	12	(4,641,596)	(1,717,171)
Total equity		11,230,119	609,126

The consolidated statement of financial position is to be read in conjunction with the accompanying notes.

PARADIGM BIOPHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 June 2016

	Period from 1-Jul-15 to 30-Jun-16 \$	Period from 1-Jul-14 to 30-Jun-15 \$
Cash flows from operating activities		
Payments to suppliers and employees (Inclusive of GST)	(3,689,020)	(1,210,614)
Interest received	101,442	7,331
Net cash outflow from operating activities	(3,587,578)	(1,203,283)
Cash flows from investing activities		
Payments for intangible assets	(752,581)	(237,977)
Payments for plant and equipment	(12,968)	-
Net cash outflow from investing activities	(765,549)	(237,977)
Cash flows from financing activities		
Proceeds from the issue of share capital	8,000,000	1,582,345
Payment of share issue costs	(631,490)	(24,000)
Movement in related party loans	(141,388)	-
Net cash inflow from financing activities	7,227,122	1,558,345
Net increase in cash and cash equivalents	2,873,495	117,085
Cash at the beginning of the financial period	124,857	7,772
Cash at the end of the financial period	2,998,352	124,857

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

PARADIGM BIOPHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2016

	Issued Capital \$	Share Option Reserve \$	Accumulated Losses \$	Total \$
Balance at 31 July 2014	1	-	(151,866)	(151,865)
Loss for the period	-	-	(1,565,305)	(1,565,305)
Shares issued	1,835,000	-	-	1,835,000
Costs in relation to shares issued	(257,504)	-	-	(257,504)
Fair value of shares issued to eligible employees under the plan	-	748,800	-	748,800
Balance at 30 June 2015	1,577,497	748,800	(1,717,171)	609,126
Loss for the period	-	-	(2,924,425)	(2,924,425)
Shares issued (Notes 10 & 21)	14,823,334	-	-	14,823,334
Costs in relation to shares issued	(1,329,018)	-	-	(1,329,018)
Fair value of shares issued to eligible employees under the plan	-	51,102	-	51,102
Balance at 30 June 2016	15,071,813	799,902	(4,641,596)	11,230,119

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

PARADIGM BIOPHARMACEUTICALS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

The Consolidated Entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

(a) Reporting entity

Paradigm Biopharmaceuticals Limited (the "Company") is a company incorporated and domiciled in Australia. Paradigm Biopharmaceuticals Limited is a company limited by shares which are publicly traded on the Australian Securities Exchange from 19 August 2015. The consolidated financial report of the Company for the year ended 30 June 2016 comprises the Company and controlled entities (together referred to as the "Group").

The nature of the operations and principal activities of the Group are described in the Directors' Report.

For the purposes of preparing the Financial Statements the Company is a for-profit entity.

(b) Basis of preparation

Statement of Compliance

This financial report is a general purpose financial report prepared in accordance with the Australian Accounting Standards ("AASs") (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board and the *Corporations Act 2001*. This Consolidated Financial Report complies with the International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board (IASB).

Basis of measurement

Historical cost convention

The Financial Statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates

The preparation of the Financial Statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Consolidated Entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are disclosed in note 1 (c).

Significant accounting policies

The accounting policies set out below have been applied consistently by the Group to all periods presented in these Financial Statements.

New and amended standards adopted by the entity.

The Group has reviewed and applied all new accounting standards and amendments applicable for the first time in their annual reporting period commencing 1 July 2015, and determined that there was no material impact on the Group's Financial Statements in the current reporting year.

(c) Significant accounting estimates, assumptions and judgements

The preparation of the Financial Statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the Financial Statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Significant accounting estimates, assumptions and judgements (cont'd)

assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Estimation of useful lives of assets

The Consolidated Entity determines the estimated useful lives and related depreciation and amortisation charges for its plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Consolidated Entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Consolidated Entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Provision for annual leave and long service leave

The calculation of annual leave and long service leave has been based on estimates and judgements made by the Directors. Should any of these estimates or judgements significantly change this could have a material effect on the amount recognised.

Employee benefits provision

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

(d) Summary of Significant Accounting Policies

(i) **Basis of consolidation**

Parent entity

In accordance with the Corporations Act 2001, these Financial Statements present the results of the Consolidated Entity only. Supplementary information about the parent entity is disclosed in note 18.

Subsidiaries

The consolidated Financial Statements comprise those of the Company, and the entities it controlled at the end of, or during, the financial year. The balances and effects of transactions between entities in the Consolidated Entity included in the Financial Statements have been eliminated. Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased.

Subsidiaries are entities controlled by the Group. Control exists when the Group 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 to direct the activities of the entity. The Financial Statements of subsidiaries are included in the consolidated Financial Statements from the date control is transferred to the Group until the date that control ceases.

Transactions eliminated on consolidation

Intra-Group balances and all gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(ii) **Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above but also include as a component of cash and cash equivalents bank overdrafts (if any), which are included as borrowings on the statement of financial position.

(iii) **Trade and other receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Consolidated Entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

(iv) **Investments**

Investments are initially measured at cost. Transaction costs are included as part of the initial measurement. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

(v) **Intangible assets**

(a) *Intellectual property and licences 'Patents'*

Patents have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Intellectual property and licences are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

(b) *Research and development*

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.

(vi) **Impairment**

At the end of each reporting period, the Company assesses whether there is any indication that an asset may be impaired. The assessment will include considering external sources of information and internal sources of information. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

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

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

(vii) **Plant and equipment**

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(vii) Plant and equipment (cont'd)

(excluding land) over their expected useful lives as follows:

Plant and equipment	3-7 years
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The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Consolidated Entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

(viii) Trade and other payables

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the entity during the reporting period which remain unpaid. The balance is recognised as a current liability with the amounts normally paid within the requisite terms specified by the supplier.

(ix) Share capital

Ordinary and preference shares are classified as equity.

Any incremental costs directly attributable to the issue of new shares or options are recognised in equity as a deduction, net of tax, from the proceeds.

(x) Provisions

Provisions are recognised when the Consolidated Entity has a present (legal or constructive) obligation as a result of a past event, it is probable the Consolidated Entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

(xi) Revenue

Interest income

Interest income is recognised on a time proportion basis using the effective interest rate method.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Government grants

Grants that compensate the Group for expenditures incurred are recognised in profit or loss on a systematic basis in the periods in which the expenditures are recognised.

R&D tax offsets received will be recognised in profit before tax (in EBIT) over the periods necessary to match the benefit of the credit with the costs for which it is intended to compensate. Such periods will depend on whether the R&D costs are capitalised or expensed as incurred

(xii) Employee Benefits

Wages and salaries, cash bonus, annual leave and long service leave

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

Provisions made in respect of employee benefits are measured based on an assessment of the existing benefits to determine the appropriate classification under the definition of short-term and long-term benefits, placing emphasis on when the benefit is expected to be settled.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(xii) *Employee Benefits (cont'd)*

Short-term benefits provisions that are expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Long term benefits provisions that are not expected to be settled within 12 months, and are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date to estimate the future cash flows at a pre-tax rate that reflects current market assessments of the time value of money.

Regardless of the expected timing of settlement, provisions made in respect of employee benefits are classified as a current liability unless there is an unconditional right to defer the settlement of the liability for at least 12 months after the reporting date, in which case it would be classified as a non-current liability. Provisions made for annual leave and unconditional long service leave are classified as a current liability where the employee has a present entitlement to the benefit. Provisions for conditional long service are classified as non-current liability.

Share-based payments

The Company operates an incentive scheme to provide these benefits, known as the Paradigm Biopharmaceuticals Limited Employee Share Plan ("ESP") approved on 22 October 2014. Issues of shares to employees with limited recourse loans under the ESP are considered to be share based payments in the form of options.

The fair value of options granted under the ESP is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options. The fair value at grant date is determined using a binomial pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the limited recourse loan. In valuing share-based payment transactions, no account is taken of any non-market performance conditions.

The Group provides benefits to employees (including Directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares.

The cost of share-based payment transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

(xiii) *Income tax*

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(xiv) Tax consolidation

The Company and its wholly-owned Australian resident entities are part of a tax-consolidated entity. As a consequence, all members of the tax-consolidated entity are taxed as a single entity. The head entity within the tax-consolidated entity is Paradigm Biopharmaceuticals Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated entity are recognised in the separate Financial Statements of the members of the tax-consolidated entity using the 'separate taxpayer within Consolidated Entity' approach by reference to the carrying amount of assets and liabilities in the separate Financial Statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated entity. Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated entity to the extent that it is probable that future taxable profits of the tax-consolidated entity will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

(xv) Current and non-current classification

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

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Consolidated Entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Consolidated Entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

(xvi) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). 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 are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows at their nominal value inclusive of GST.

(xvii) Earnings per share

The Group presents basic and, when applicable, diluted earnings per share ("EPS") data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is calculated by adjusting basic earnings for the impact of the after tax effect of costs associated with dilutive ordinary shares and the weighted average number of additional ordinary shares that would be outstanding assuming the conversion of all dilutive potential ordinary shares. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(xviii) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability

PARADIGM BIOPHARMACEUTICALS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(xviii) Determination of fair values (cont'd)

Trade and other payables

The fair value of trade and other payables recognised as a result of a business combination is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Share-based payment transactions

Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Foreign currency translation

The Financial Statements are presented in Australian dollars, which is Pinnacle Unlisted Public General Purpose Limited's functional and presentation currency.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

(xix) New accounting standards and interpretations applicable to the Company in future periods

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below.

The following are applicable for annual reporting periods commencing on or after the indicated date but are not considered to materially impact on the Group;

Applicable after 1 July 2015

AASB 2015-3 *Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality*

New standards and interpretations issued but not yet effective

At the date of this financial report the following standards and interpretations, which may impact the entity in the period of initial application, have been issued but are not yet effective:

Reference	Title	Summary	Application date (financial years beginning)	Expected Impact
AASB 2010-7	<i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)</i>	Amends AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 16, 19, 107 & 127 for issuance of AASB 9.	1 January 2018	No impact
AASB 2015-8	<i>Amendments to Australian Accounting Standards – Effective Date of AASB 15</i>	This Standard defers the effective date of AASB 15 <i>Revenue from Contracts with Customers</i> to 1 January 2018.	1 January 2017	No impact

PARADIGM BIOPHARMACEUTICALS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2016

New standards and interpretations issued but not yet effective (cont'd)

AASB 15	<i>Revenue from Contracts with Customers</i>	It contains a single model for contracts with customers based on a five-step analysis of transactions for revenue recognition, and two approach, a single time or over time, for revenue recognition.	1 January 2018	No impact
AASB 2014-5	<i>Amendments to Australian Accounting Standards arising from AASB 15</i>	Consequential amendments arising from the issuance of AASB 15.	1 January 2018	No impact
AASB 9	<i>Financial Instruments</i>	This Standard supersedes both AASB 9 (December 2010) and AASB 9 (December 2009) when applied. It introduces a "fair value through other comprehensive income" category for debt instruments, contains requirements for impairment of financial assets, etc.	1 January 2018	No impact
AASB 2014-7	<i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)</i>	Consequential amendments arising from the issuance of AASB 9	1 January 2018	No impact
AASB 16	Leases	AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. This standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all lease contracts, effectively resulting in the recognition of almost all leases on the statement of financial position. The accounting by lessors, however, will not significantly change.	1 January 2019	No impact
2016-3	Amendments to Australian Accounting Standards — Clarifications to AASB 15	2016- 3 amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence. In addition, it provides further practical expedients on transition to AASB 15.	1 January 2018	No impact

PARADIGM BIOPHARMACEUTICALS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2016

	2016 \$	2015 \$
2. OTHER INCOME		
R&D tax incentive	1,290,593	-
Interest received	103,568	7,331
	<u>1,394,161</u>	<u>7,331</u>
3. EMPLOYEE EXPENSES		
Wages, salaries and self-employed contractors expenses	151,506	294,000
Performance bonus	163,600	-
Defined contribution superannuation expenses	47,731	35,910
Increase in liability for employee benefits expenses	61,167	29,209
Non-Executive Directors fees	197,333	84,000
Fair values of shares issued to eligible employees under the Employee Share Plan	51,102	748,800
Workcover	2,330	3,109
Payroll Tax	25,856	-
	<u>700,625</u>	<u>1,195,029</u>
4. CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	2,998,352	124,857
	<u>2,998,352</u>	<u>124,857</u>
5. TRADE AND OTHER RECEIVABLES		
GST receivable	49,505	15,741
Interest receivable	2,126	-
R&D tax incentive receivable	1,290,593	-
	<u>1,342,224</u>	<u>15,741</u>
6. INTANGIBLE ASSETS		
Patents	7,987,552	356,288
Less: Accumulated amortisation	-	-
	<u>7,987,552</u>	<u>356,288</u>
Reconciliation		
Carrying amount at the beginning of the period	356,288	88,921
Additions during the period	7,631,264	267,367
Disposals	-	-
Amortisation expense	-	-
Balance at the end of the financial year	<u>7,987,552</u>	<u>356,288</u>

PARADIGM BIOPHARMACEUTICALS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2016

	2016 \$	2015 \$
7. PLANT AND EQUIPMENT		
Computer equipment	4,814	-
Less: Accumulated depreciation	(1,531)	-
	<u>3,283</u>	<u>-</u>
Reconciliation		
Carrying amount at the beginning of the period	-	-
Additions during the period	4,814	-
Disposals	-	-
Depreciation expense	(1,531)	-
Balance at the end of the financial year	<u>3,283</u>	<u>-</u>
Clinical trial equipment	8,154	-
Less: Accumulated depreciation	(802)	-
	<u>7,352</u>	<u>-</u>
Reconciliation		
Carrying amount at the beginning of the period	-	-
Additions during the period	8,154	-
Disposals	-	-
Depreciation expense	(802)	-
Balance at the end of the financial year	<u>7,352</u>	<u>-</u>
8. TRADE AND OTHER PAYABLES		
Trade and other creditors	989,719	384,295
Shareholder loans	36,589	171,783
	<u>1,026,308</u>	<u>556,078</u>
9. EMPLOYEE BENEFIT PROVISION		
Annual leave and on-costs	90,376	29,209
	<u>90,376</u>	<u>29,209</u>

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Consolidated Entity does not have an unconditional right to defer settlement.

PARADIGM BIOPHARMACEUTICALS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2016

10. ISSUED CAPITAL

	2016	2015	2016	2015
	Number of Shares	Number of Shares	\$	\$
Ordinary shares Fully paid	<u>87,580,220</u>	<u>37,368,333</u>	<u>15,071,813</u>	<u>1,577,497</u>

The following movements in issued capital occurred during the year:

	2016		2015	
	Number of Shares	\$	Number of Shares	\$
Ordinary Shares				
Balance as at the beginning of the period	37,368,333	1,577,497	1	1
Ordinary shares issued	42,352,381	14,823,334	-	-
Ordinary shares issue costs (Net of GST)		(1,329,018)	-	-
Ordinary shares issued	-	-	31,933,332	-
Shares issued under ESP	-	-	3,600,000	-
Preference shares issued during the period	-	-	1,835,000	1,835,000
Preference shares issue costs (Net of GST)	-	-	-	(257,504)
Cancellation of Preference shares	(1,835,000)	(1,835,000)	-	-
Preference shares conversion to Ordinary shares	9,694,506	1,835,000	-	-
Balance as at the end of the period	<u>87,580,220</u>	<u>15,071,813</u>	<u>37,368,333</u>	<u>1,577,497</u>

In addition the Company has granted various options which expire 3 years from ASX listing of the Company with (i) 3,023,812 unlisted options at an exercise price of \$0.375 per option; and (ii) 1,714,285 unlisted options at an exercise price of \$0.50 per option and otherwise on the terms specified in the ASX Listing Rules.

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

PARADIGM BIOPHARMACEUTICALS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2016

10. ISSUED CAPITAL (cont'd)

Capital risk management

The Consolidated Entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Consolidated Entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Consolidated Entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The Consolidated Entity is not actively pursuing additional investments in the short-term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The Consolidated Entity is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 30 June 2015 Annual Report.

	2016 \$	2015 \$
11. SHARE OPTIONS RESERVE		
Balance as at the beginning of the period	748,800	-
Fair values of shares issued to eligible employees under the Employee Share Plan	51,102	748,800
	<u>799,902</u>	<u>748,800</u>

The establishment of the ESP was approved on 22 October 2014. Under the ESP, participating employees were invited to purchase shares in the Company at a price of \$0.35 per share to participate in the Plan.

A total of 1,800,000 were purchased. A further invitation of ESP shares of 230,000 based on the 2016 performance were issued in July 2016.

Once approved by the Board, monies are loaned by the Company interest free and on a non-recourse basis to Participants to finance the purchase of shares in the Company. The ESP shares are registered in the name of Participants but are subject to a restriction on disposal for a period of five years (from date of issue) and for further Periods whilst they remain financed. On cessation of employment, the entitlement to any shares held for less than three years is pro-rated.

The shares issued under the ESP are treated as options for accounting purposes. They do not expire, and vest immediately on grant date.

Fair values at loan date are determined using a binomial pricing model that takes into account the issue price, the term of the loan, the share price at loan date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the loan."

Set out below are summaries of options granted under the plan:

PARADIGM BIOPHARMACEUTICALS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2016

11. SHARE OPTIONS RESERVE (cont'd)

2016

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Balance at the end of the year
28/07/2016	N/A	\$0.33	-	230,000	-	230,000
29/05/2015	N/A	\$0.35	3,600,000	3,600,000	-	3,600,000
			<u>3,600,000</u>	<u>3,830,000</u>	<u>-</u>	<u>3,830,000</u>

2015

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Balance at the end of the year
29/05/2015	N/A	\$0.35	3,600,000	3,600,000	-	3,600,000
			<u>3,600,000</u>	<u>3,600,000</u>	<u>-</u>	<u>3,600,000</u>

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follow:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Fair value at grant date
28/07/2016	N/A	\$0.37	\$0.33	90.00%	0.00%	\$0.22

12. ACCUMULATED LOSSES

	2016 \$	2015 \$
Balance as at the beginning of the period	(1,717,171)	(151,866)
Loss for the accounting period	(2,924,425)	(1,565,305)
	<u>(4,641,596)</u>	<u>(1,717,171)</u>

13. COMMITMENTS

The Consolidated Entity had no capital commitments as at 30 June 2016 and 30 June 2015.

14. CONTINGENCIES

The Consolidated Entity had no contingent liabilities as at 30 June 2016 and 30 June 2015

PARADIGM BIOPHARMACEUTICALS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2016

	2016 \$	2015 \$
15. EARNINGS PER SHARE		
Net loss for the year attributable to ordinary shareholders	<u><u>(2,924,425)</u></u>	<u><u>(1,565,305)</u></u>
Basic earnings per share		
<i>Basic number of ordinary shares</i>	Number	Number
Balance at the beginning of the year	35,533,333	1
Subdivision and issue of shares	-	33,418,811
Issue of shares - Xosoma share swap	17,519,008	-
Preference shares conversion	8,393,052	-
IPO Offer	19,788,650	-
	<u><u>81,234,043</u></u>	<u><u>33,418,812</u></u>
Basic and diluted earnings per share	(3.60) cents	(4.68) cents

There is no material difference between basic and diluted earnings per share.

16. FINANCIAL INSTRUMENTS DISCLOSURE

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

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies of these Financial Statements, are as follows;

Financial assets

Current

Cash and cash equivalents	2,998,352	124,586
Trade and other receivables	1,342,224	15,741
	<u><u>4,340,576</u></u>	<u><u>140,327</u></u>

Financial liabilities

Current

Trade and other payables at amortised cost	<u><u>1,026,308</u></u>	<u><u>556,078</u></u>
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16. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

Financial risk management objectives

The Consolidated Entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk), credit risk and liquidity risk. The Consolidated Entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Consolidated Entity. The Consolidated Entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Consolidated Entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Consolidated Entity's operating units. Finance reports to the Board on a monthly basis.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income and expenses or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Equity price risk

The Group is currently not subject to equity price risk movement.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from fluctuations in interest bearing financial assets and liabilities that the Group uses. Interest bearing assets comprise cash and cash equivalents which are considered to be short-term liquid assets and investment decisions are governed by the monetary policy.

During the year, the Group had no variable rate interest bearing liability.

It is the Group's policy to settle trade payables within the credit terms allowed and therefore not incur interest on overdue balances

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

The Group does not presently have customers and consequently does not have credit exposure to outstanding receivables. Trade and other receivables represent GST refundable from the Australian Taxation Office and R&D Tax incentive claims. Trade and other receivables are neither past due nor impaired.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's objective is to maintain a balance between continuity of funding and flexibility. The Group's exposure to financial obligations relating to corporate administration and projects expenditure, are subject to budgeting and reporting controls, to ensure that such obligations do not exceed cash held and known cash inflows for a period of at least 1 year.

Fair value of financial assets and liabilities

The fair value of cash and cash equivalents and non-interest bearing financial assets and financial liabilities of the Group is equal to their carrying value.

Foreign currency risk

The Group's exposure to currency risk is minimal at this stage of the operations.

Commodity price risk

The Group's exposure to price risk is minimal at this stage of the operations.

PARADIGM BIOPHARMACEUTICALS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2016

17. RELATED PARTIES

Parent entity

The Parent Entity is Paradigm Biopharmaceuticals Limited.

Controlled entities

The controlled entities are Paradigm Health Sciences Pty Ltd, Xosoma Pty Ltd and C4M Pharmaceuticals Pty Ltd.

In the Financial Statements of the Company investments in subsidiaries are measured at cost. All entity interests held are fully paid ordinary shares or units.

The consolidated Financial Statements incorporate the assets, liabilities and results of the following wholly-owned subsidiaries in accordance with the accounting policy described in note 1:

Name	Ownership interest		
	Principal place of business	2016	2015
		%	%
Paradigm Health Sciences Pty Ltd	Australia	100.00%	100.00%
Xosoma Pty Ltd	Australia	100.00%	-
C4M Pharmaceuticals Pty Ltd	Australia	100.00%	-

Subsidiaries

An inter-company loan exists between Paradigm (parent) and:
Paradigm Health Sciences (subsidiary) of \$334,061 (2015: \$142,563).

Receivable from and payable to related parties

There were no transactions that took place to or from related parties at the current and previous reporting date.

Key Management Personnel remuneration

	2016	2015
	\$	\$
Short-term employee benefits	579,499	282,000
Post-employment benefits	55,052	26,790
Long-term benefits	-	-
Share-based payments	-	748,800
	<u>634,551</u>	<u>1,057,590</u>

PARADIGM BIOPHARMACEUTICALS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2016

	2016 \$	2015 \$
18. PARENT ENTITY DISCLOSURES		
Set out below is the supplementary information about the parent entity		
<i>Statement of profit or loss and other comprehensive income</i>		
Loss after income tax	<u>(2,922,948)</u>	<u>(1,572,185)</u>
<i>Statement of financial position</i>		
Total current Assets	4,682,667	945,602
Total Assets	<u>12,556,707</u>	<u>1,212,969</u>
Total current Liabilities	1,080,095	379,725
Total Liabilities	<u>1,080,095</u>	<u>379,725</u>
Equity		
Issued capital	16,658,334	1
Preference shares	-	1,835,000
Share issue expenses	(1,476,348)	(168,229)
Share options reserve	799,902	748,800
Retained earnings	(1,582,328)	(10,143)
Current (losses)	(2,922,948)	(1,572,185)
Total Equity	<u>11,476,612</u>	<u>833,244</u>

There are no guarantees entered into by the parent entity in relation to the debts of its subsidiaries

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2016 and 30 June 2015.

Capital commitments

The parent entity had no capital commitments as at 30 June 2016 and 30 June 2015.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Consolidated Entity.

PARADIGM BIOPHARMACEUTICALS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2016

	2016 \$	2015 \$
19. RECONCILIATION OF CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Loss for the year	(2,924,425)	(1,565,305)
(Increase)/Decrease in receivables	(1,334,523)	4,209
Depreciation	2,535	-
Increase in trade creditors and accruals	668,835	357,813
Net cash used in operating activities	(3,587,578)	(1,203,283)

20. NON CASH AND INVESTING ACTIVITIES

Intangible assets included in trade payables	48,657	29,390
Share issue costs included in trade payables	550	4,849
Acquisition of intangible assets through share swap agreement	6,817,209	-
	6,866,416	34,239

21. SHARE-BASED PAYMENTS

Purchase of Xosoma Pty Limited and C4M Pharmaceuticals Pty Ltd

On 7 August 2015 The Consolidated Entity entered into a Share Swap agreement to acquire 100% of the issued equity of Xosoma Pty Limited in consideration for issue of 19,495,238 ordinary shares in the Company.

Xosoma owns a significant patent application.

As Xosoma is not a business, as defined in AASB 3 – Business Combinations, this acquisition has been accounted for as an asset acquisition.

At the acquisition date, the only material assets owned by Xosoma related to its patent application and related intellectual property.

As part of the original agreement between the Consolidated Entity and Xosoma, it was agreed that Xosoma would acquire IP from a third party to be included in the acquisition price of \$6,823,333. Xosoma acquired 100% of the issued equity of C4M Pharmaceuticals Pty Ltd.

In accordance with AASB 2 – Share Based Payment, the value of the patent application and related intellectual Property has been valued indirectly by reference to the value of the equity issued as consideration for the acquisition. The equity issued has been valued at \$0.35 per share based on the Offer price and consequently, the value of the patent application and related intellectual property of Xosoma has been recognised upon acquisition at \$6,823,333 (19,495,238 x \$0.35).

PARADIGM BIOPHARMACEUTICALS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2016

22. EVENTS SUBSEQUENT TO REPORTING DATE

No other matters or circumstances have arisen since balance date which have impacted or are likely to impact the Consolidated Entity's operations, results and state of affairs in future financial years.

	2016 \$	2015 \$
23. AUDITOR REMUNERATION NOTE		
During the financial year the following fees were paid or payable for services provided by RSM Australia Partners, the auditor of the company		
<i>Audit services - RSM Australia Partners</i>		
Audit or review of the Financial Statements	40,000	25,000
	<u>40,000</u>	<u>25,000</u>
<i>Other services - RSM Australia Partners</i>		
Preparation of the tax return	2,350	12,400
R&D Tax incentive claim	6,000	5,000
	<u>8,350</u>	<u>17,400</u>
	<u>48,350</u>	<u>42,400</u>

PARADIGM BIOPHARMACEUTICALS LIMITED
DIRECTORS' DECLARATION

In the opinion of the Directors of Paradigm Biopharmaceuticals Limited and Controlled Entities:

- (a) the Financial Statements and notes thereto and the Remuneration Report contained in the Directors' Report are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2016 and their performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards;
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by Section 295A of the Corporations Act for the financial year ending 30 June 2016.

Signed in accordance with a resolution of the Directors.



Graeme Kaufman
Chairman

Dated at Melbourne, Victoria this 31st day of August 2016.

RSM Australia Partners

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
PARADIGM BIOPHARMACEUTICALS LIMITED

We have audited the accompanying financial report of Paradigm Biopharmaceuticals Limited ("the consolidated entity"), which comprises the consolidated statement of financial position as at 30 June 2016, and the consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity 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(b), 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. These Auditing 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 judgement, 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 entity's preparation and fair presentation of the financial report 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 entity'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 opinions.

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RSM Australia Partners ABN 36 965 185 036

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Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Paradigm Biopharmaceuticals Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Paradigm Biopharmaceuticals Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year then ended; 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(b).

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 16 of the directors' report for the financial 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.

Auditor's Opinion

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



RSM AUSTRALIA PARTNERS



J S CROALL
Partner

31 August 2016
Melbourne, Victoria

PARADIGM BIOPHARMACEUTICALS LIMITED
SHAREHOLDER INFORMATION

Details of shares and options as at 24 August 2016:

Top holders

The 20 largest holders of each class of equity security as at 24 August 2016 were:

Fully paid ordinary shares

Name	No. of Shares	%
PAUL JOHN RENNIE	10,313,468	11.75
KZEE PTY LTD <KZEE SUPERANNUATION FUND A/C>	10,301,075	11.73
MJGD NOMINEES PTY LTD <BSMI A/C>	6,915,809	7.88
IRWIN BIOTECH NOMINEES PTY LTD <BIOA A/C>	6,310,313	7.19
PETER MILONAS	4,873,810	5.55
BILL PASPALIARIS	4,873,810	5.55
NANCY EDITH WILSON-GHOSH <GHOSH FAMILY A/C>	3,910,935	4.45
V REDFORD PTY LTD <REDFORD SUPER FUND A/C>	2,505,419	2.85
JGM INVESTMENT GROUP PTY LTD <MUCHNICKI FAMILY A/C>	2,285,715	2.60
GRAEME ROY KAUFMAN	2,043,000	2.32
TREVOR MAUNDRELL	1,072,007	1.22
KANNE HOLDINGS PTY LTD <KANNE FAMILY A/C>	1,043,592	1.19
TASS INVESTMENTS PTY LTD	1,020,000	1.16
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,011,544	1.15
LESLEY LODGE	824,086	0.94
ADMIRAL RIDGE PTY LTD	780,027	0.89
DAVSAM PTY LTD <ROSEMAN RETIREMENT FUND A/C>	714,286	0.81
DAVID ANDREW RIDLEY	710,156	0.81
MONTCLAIR PTY LTD <WASSIM GAZAL FAMILY A/C>	653,835	0.74
WAKKO ENTERPRISES PTY LTD <L & S WAKEFIELD S/F A/C>	653,835	0.74
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES	62,816,722	71.54
Total Remaining Holders Balance	24,993,498	28.46

Distribution schedules

A distribution of each class of equity security as at 31 July 2016:

Fully paid ordinary shares

Range	Total holders	Units	% of Issued Capital
1 - 100	0	0	0
101 - 1,000	0	0	0
1,001 - 10,000	178	1,254,658	1.43
10,001 - 100,000	224	7,991,339	9.10
100,001 - 500,000	58	12,851,809	14.64
500,001 - 1,000,000	10	6,756,225	7.69
1,000,001 - 9,999,999,999	14	58,956,189	67.14
Total	484	87,810,220	100

PARADIGM BIOPHARMACEUTICALS LIMITED
SHAREHOLDER INFORMATION (CONT'D)

Substantial shareholders

The names of substantial shareholders and the number of shares to which each substantial shareholder and their associates have a relevant interest, as disclosed in substantial shareholding notices given to the Company, are set out below:

Substantial shareholder	Number of Shares
Paul Rennie and related companies	21,547,876
MJGD Nominees Pty Ltd	6,915,809
Irwin Biotech Nominees Pty Ltd	6,310,313
Peter Milonas	4,873,810
Bill Paspaliaris	4,873,810

Unmarketable parcels

Holdings less than a marketable parcel of ordinary shares (being 1,389 shares at 31 July 2016):

Holders	Units
0	0

Voting Rights

The voting rights attaching to ordinary shares are:

On a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options do not carry any voting rights.

On-Market Buy Back

There is no current on-market buy-back.

Corporate Governance Statement

The Board and management of Paradigm Biopharmaceuticals Limited (**Company**) are committed to conducting the business of the Company in an ethical manner and in accordance with the highest standards of corporate governance. The Company has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Third Edition) to the extent appropriate to the size and nature of the Company's operations. This Corporate Governance Statement is accurate and up to date as at 30 June 2016 and has been approved by the Board.

Principle 1 - Lay solid foundations for management and oversight

Responsibilities and functions of the Board and Management

The Board of Paradigm Biopharmaceuticals Limited (**Company**) maintains the following responsibilities and functions:

- setting overall goals for the Company;
- approving strategies, objectives and plans for the Company's businesses to achieve these goals;
- ensuring that business risks are identified and approving systems and controls to manage those risks and monitor compliance;
- approving the Company's major human resources policies and overseeing the development strategies for senior and high performing executives;
- approving financial plans and annual budgets;
- monitoring executive management and business performance in the implementation and achievement of strategic and business objectives;
- approving key management recommendations (such as major capital expenditure, acquisitions, divestments, restructuring and funding);
- appointing and removing the Managing Director and ratifying the appointment and removal of executives reporting directly to the Managing Director (senior executives);
- reporting to shareholders on the Company's strategic direction and performance including constructive engagement in the development, execution and modification of the Company's strategies;
- overseeing the management of occupational health and safety and environmental performance;
- determining that satisfactory arrangements are in place for auditing the Company's financial affairs;
- meeting statutory and regulatory requirements and overseeing the way in which the business risks and the assets of the Company are managed.

The Board has delegated the day-to-day management of the Company to the Managing Director, CEO and other senior executives (**Management**). The Company's Management is responsible for the following:

- implementing the strategic objectives set by the Board;
- operating within the risk parameters set by the Board;
- operational and business management of the Company;
- managing the Company's reputation and operating performance in accordance parameters set by the Board;
- day-to-day running of the Company;
- providing the Board with accurate, timely and clear information to enable the Board to perform its responsibilities; and
- approving capital expenditure (except acquisitions) within delegated authority levels.

Senior executives have their roles and responsibilities defined in specific position descriptions.

Director Appointment and Election

Before appointing a Director, or putting forward to shareholders a Director for appointment, the Company undertakes comprehensive reference checks that cover elements such as the person's character, experience, employment history, qualifications, criminal history, bankruptcy history, and disqualified officer status.

An election of Directors is held each year. A Director that has been appointed during the year must stand for election at the next Annual General Meeting (**AGM**). No Director except the Managing Director may hold office for a period in excess of 3 years, or beyond the third annual general meeting (**AGM**) following the Director's election, whichever is the longer, without submitting himself or herself for re-election. One third of all Directors, except the Managing Director, will retire by rotation each year but may offer themselves for re-election for a further 3-year period.

The Company provides to shareholders for their consideration information about each candidate standing for election or re-election as a Director that the Board considers necessary for shareholders to make a fully informed decision. Such information includes the person's biography, which include experience and qualifications, details of other directorships, adverse information about the person that the Board is aware of including material that may affect the person's ability to act independently on matters before the Board, and whether the Board supports the appointment or re-election.

PARADIGM BIOPHARMACEUTICALS LIMITED
APPENDIX A (C O N T ' D)

The terms of the appointment of a non-executive Director are set out in writing and cover matters such as the term of appointment, time commitment envisaged, required committee work and other special duties, requirements to disclose their relevant interests which may affect independence, corporate policies and procedures, indemnities, and remuneration entitlements.

Executive Directors and senior executives are issued with service contracts which detail the above matters as well as the person or body to whom they report, the circumstances in which their service may be terminated (with or without notice), and any entitlements upon termination.

Company Secretary

The Company Secretary reports directly to the Board through the Chairman and is accessible to all Directors. The Company Secretary's role, in respect of matters relating to the proper functioning of the Board, includes:

- advising the Board and its Committees on governance matters;
- monitoring compliance of the Board and associated committees with policies and procedures;
- coordinating all Board business;
- retaining independent professional advisors;
- ensuring that the business at Board and committee meetings is accurately captured in the minutes; and
- helping to organise and facilitate the induction and professional development of Directors.

Diversity Policy

The Company has a diversity policy which requires the Board to set measurable objectives for achieving gender diversity and to assess the objectives and the Company's progress towards achieving them on an annual basis.

The policy aims to provide a work environment where employees have equal access to career opportunities, training and benefits. It also aims to ensure that employees are treated with fairness and respect, and are not judged by unlawful or irrelevant reference to gender, age, ethnicity, race, cultural background, disability, religion, sexual orientation or caring responsibilities. This commitment enables the Company to attract and retain employees with the best skills and abilities.

As Board and employee positions become available, attention will be given to identifying opportunities for improving gender diversity across the organisation.

The respective proportion of women and men in the Company including its subsidiaries (**Consolidated Entity**) as at 30 June 2016 are as follows:

	Portion of women	Proportion of men
On the Board	0%	100%
Across the whole organisation	29%	71%

As no entity within the Consolidated Entity is a 'relevant employer' for the purposes of the Workplace Gender Equality Act 2012 on the basis that no entity employs 100 or more employees in Australia, there are no Gender Equality Indicators to be disclosed.

Performance Assessment

The Board reviews its performance annually, as well as the performance of individual Committees and individual Directors (including the performance of the Chairman as Chairman of the Board). The use of an external facilitator may be utilised periodically to assist in the review process. The review for the current financial year ended on 30 June 2016 are performed by the Chairman. The process includes collective Board discussions to capture observations for where improvements could be made and where processes worked well, individual interviews with each Director conducted by the Chairman, and provision of anonymous feedback collected from individual Board members. The review of the Chairman's role is conducted by the Chair of the Audit and Risk Committee after obtaining feedback from each individual Director.

The Board conducts an annual performance assessment of the CEO against agreed performance measures determined at the start of the year. The CEO undertakes the same assessments of senior executives. In assessing the performance of the individual, the review includes consideration of the senior executive's function, individual targets, group targets, and the overall performance of the Company.

The CEO provides a report to the Board on the performance of senior executives together with remuneration recommendations which must be approved by the Board after consultation with the Nomination and Remuneration Committee. The review of senior executives in accordance with this process are undertaken for financial year ended 30 June 2016.

Principle 2 - Structure the board to add value

Nomination and Remuneration Committee

The Board maintains a combined Nomination and Remuneration Committee, whose members during the financial year were as follows:

Names	Position	Independence status
Graeme Kaufman	Chairman & Non-Executive Director	Yes
Paul Rennie	Managing and Executive Director	No
Christopher Fullerton	Non-Executive Director	Yes
John Gaffney	Non-Executive Director	Yes

During the period ended 30 June 2016, the Company complies with the ASX recommendation to have a Nomination and Remuneration Committee with a majority of independent Directors.

The Nomination and Remuneration Committee met once during the year.

Skills Matrix

The Board regularly evaluates the mix of its skills, experience and diversity. The Board considers that collectively its Directors have a level of skill, knowledge and experience that enables the Board to effectively discharge its responsibilities and duties (including the activities and industries outlined below). The mix of skills the Board is seeking to maintain, and to build upon, includes:

- Finance and Tax (e.g. financial management capability including accounting or related financial management qualifications);
- Research and development;
- Executive leadership;
- Pharmaceutical and Medical Devices;
- Biomedical science;
- Risk management understanding and experience;
- Commercial acumen;
- Product development; and
- Strategic capabilities.

The Company does not have a formal induction or professional development program for Directors. To date, such programs have been considered unnecessary as the current Board has satisfactory experience and skill set. Consideration will be given to implementing such programs should it be proposed that any new Directors join the Board.

Composition of the Board

The Board assesses annually the independence of each Director to ensure that those designated as independent do not have any alliance to the interests of Management, substantial shareholders or other relevant stakeholders. They must be free of any interest, position, association or relationship that might influence, or reasonably be perceived to influence, in a material respect, their capacity to bring an independent judgment to bear on issues before the Board and to act in the best interests of the Company and its security holders generally.

Details of the Board of Directors, their appointment dates, and independence status is as follows:

Names	Position	Independence status	Tenure
Graeme Kaufman	Chairman & Non-Executive Director	Yes	02 May 2014 to current
Paul Rennie	Managing and Executive Director	No	02 May 2014 to current
Christopher Fullerton	Non-Executive Director	Yes	30 September 2014 to current
John Gaffney	Non-Executive Director	Yes	30 September 2014 to current

Graeme Kaufman is Non-Executive Chair of the Board and is considered to be an independent Director of the Company. Paul Rennie is the Managing Director and Chief Executive Officer.

Principle 3 - Act ethically and responsibly

Code of Conduct

The Company maintains a code of conduct for its Directors, senior executives and employees. In summary, the code requires the following of each relevant person:

- act honestly, in good faith and in the best interests of the Company as a whole;
- exercise a duty to use care and diligence in fulfilling the functions of office or position and exercising the powers attached to that office or position;
- use the powers of office for a proper purpose and in the best interests of the Company as a whole;
- recognise that the primary responsibility is to the Company as a whole but may, where appropriate, have regard for the interest of other stakeholders of the Company;
- not to make improper use of information acquired as a Director or employee;
- not take improper advantage of their position as a member of the Board or employee;
- properly manage and declare any conflict of interest with the Company;
- Directors to be independent in judgement and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken by the Board;
- confidential information received in the course of the exercise of their duties remains the property of the Company and, unless appropriate authority granted, it is improper to disclose it, or allow it to be disclosed;
- not to engage in conduct likely to affect the reputation of Company; and
- to comply with the spirit, as well as the letter, of the law and with the principles of this Code.

Principle 4 - Safeguard integrity in corporate reporting

Audit and Risk Committee

The Board has an Audit and Risk Committee consisting of 3 independent Directors of the Board. At the date of this Corporate Governance Statement, it comprises Christopher Fullerton, John Gaffney and Graeme Kaufman,

Details of each member's qualifications and experience is detailed in the 'Directors' Report' section of the Company's annual report.

The Charter of the Committee is available at the Company's website. It provides details in relation to its role, confers on it all necessary powers to perform that role, and explains how the Committee achieves its main objectives, which are to carry out the following functions:

- reporting of financial information to users of financial reports, in particular the quality and reliability of such information;
- assessing the consistency of disclosures in the Financial Statements with other disclosures made by the Company to the financial markets, governmental and other public bodies;
- review and application of accounting policies;
- financial management;
- review of internal and external audit reports to ensure that where weaknesses in controls or procedures have been identified, appropriate and prompt remedial action is taken by management;
- evaluation of the Company's compliance and risk management structure and procedures, internal controls and ethical standards;
- review of business policies and practices;
- conduct of any investigation relating to financial matters, records or accounts, and reporting those matters to the Board;
- protection of the Company's assets;
- compliance with applicable laws, regulations, standards and best practice guidelines; and
- review of the Company's corporate governance policy.

Financial Reporting

In relation to the Financial Statements for the financial year ended 30 June 2016 and the period ended 31 December 2015, the Company's CEO and CFO have provided the Board with declarations, that in their opinion:

- the financial records of the Company have been properly maintained;
- the Financial Statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company; and
- has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

External Auditor

The engagement partner for the Company's audit attends the AGM and is available to answer shareholder questions from shareholders relevant to the audit.

Principle 5 - Make timely balanced disclosure

Listing Rule 3.1 requires a listed entity, subject to certain exceptions, to disclose to ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of its securities. The Company is committed to providing the market with complete and timely information about disclosure events in compliance with its continuous disclosure obligations and the *Corporations Act 2001*.

The Company maintains a written policy that outlines the responsibilities relating to the Directors, officers and employees in complying with the Company's disclosure obligations. Where any such person is of any doubt as to whether they possess information that could be classified as market sensitive, they are required to notify the Company Secretary immediately, in the first instance, so that appropriate analysis and internal consultation can be conducted. Legal advice may also be sought internally or from the Company's external counsel.

The Company Secretary is required to consult with the CEO in relation to matters brought to his or her attention for Chairman is not contactable, the Company Secretary may decide whether an announcement is made, or whether a trading halt is warranted.

Generally, the CEO is ultimately responsible for decisions relating to the making of market announcements. The Company Secretary is responsible for ensuring that the Board is aware of items of business that could result in an announcement. The Board is required to authorise announcements of significance to the Company such as significant acquisitions, disposals and closures, material profit upgrades or downgrades, dividend declarations and buybacks, and any other transaction flagged by the Chairman as being fundamentally significant.

The Company Secretary is responsible for advising when announcements are not required due to either circumstances such as where the information relates to matters of supposition or is insufficiently definite, it concerns an incomplete proposal or negotiation, the information is confidential or would represent a breach of law if disclosed, and where a reasonable person would not expect the disclosure of the information.

No member of the Company shall disclose market sensitive information to any person unless they have received acknowledgement from the ASX that the information has been released to the market.

Principle 6 - Respect the rights of security shareholders

The Company maintains information in relation to governance documents, Directors and senior executives, Board and committee charters, annual reports, ASX announcements and contact details on the Company's website.

In order for the investors to gain a greater understanding of the Company's business, governance practices, financial performance and future prospects, the Company schedules interactions during the year where it engages with institutional and private investors, analysts and the financial media.

Meetings and discussions with analysts must be approved by the CEO and are generally conducted by the CEO/ Managing Director. The discussions are restricted to explanations of information already within the market or which deal with non-price sensitive information. These meetings are not held within a four week blackout period in advance of the release of interim or full-year results.

Shareholder Participation and Correspondence

The Company encourages shareholders to attend the Company's AGM and to send in questions prior to the AGM so that they may be responded to during the meeting. It also encourages ad hoc enquiry via email which are responded to.

The 2016 Notice of AGM will be provided to all shareholders and made available on the Company's website.

The external auditor is required to attend the AGM of the Company and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company engages its share registry to manage the majority of communications with shareholders.

Shareholders are encouraged to receive correspondence from the Company electronically, thereby facilitating a more effective, efficient and environmentally friendly communication mechanism with shareholders.

Principle 7 - Recognise and Manage Risk

The Board maintains a combined Audit and Risk Committee. The members of the Committee are detailed in Principle 4 above. The Company has complied with the ASX recommendation of having an Audit and Risk Committee made up of at least three members, all of whom are Non-Executive Directors and a majority of whom are independent Directors.

The Charter of the Committee is available at the Company's website. The charter outlines the Committee's responsibilities which include procedures for general risk oversight and monitoring, internal control and risk management, risk transfer and insurance and other responsibilities. The key aspects of the charter follow.

Principle 7 - Recognise and Manage Risk (cont'd)

The Committee assists the Board by providing independent and objective review, advice and assistance in developing Board policy and monitoring corporate activity within the scope of its remit, making recommendations to the Board for resolution, and assisting the Board understand risks which may:

- impede the Company from achieving its goals and objectives;
- impact on the Company's performance;
- affect the health, safety or welfare of employees, visitors and others in relation to the Company's operations;
- threaten compliance with the Company's regulatory and legal obligations;
- impact on the community and the environment in which the Company operates;
- impact on the Company's reputation, or that of its people; and
- result in personal liability for Company officers arising from the Company's operations.

Its responsibilities include review of the following elements:

- Company risk appetite and risk tolerance, as determined by the Board across the Company and within specific operational segments;
- the likelihood of occurrence, severity of impact, and any mitigating measures affecting those risks;
- responsibility for risk oversight and management of specific risks to ensure a common understanding of accountabilities and roles;
- procedures for periodic and critical reporting of matters to the Board and the risk committee;
- communication of risk management policies and strategies throughout the Company to ensure it is embedded as part of the Company's corporate culture;
- internal communication and control systems to encourage the timely flow of risk-related information to personnel;
- reports from management, external auditors, internal auditors, legal counsel, regulators, and consultants as appropriate, regarding risks the Company faces and the Company's Management of those risks;
- assessment of the internal processes for determining and managing key risk areas, with particular focus on compliance with laws, regulations, standards and best practice guidelines, important judgments and accounting estimates, litigation and claims, and fraud and theft;
- assessment of effectiveness of the internal controls, risk management and performance management systems after consultation with Management and the internal and external auditors;
- assessment of effectiveness of, and compliance with, the corporate code of ethical conduct and compliance with internal plans, policies and procedures;
- obtaining regular updates from Management and Company lawyers about compliance matters;
- ensuring the chief executive officer (or equivalent) and the chief financial officer (or equivalent) are reasonably able to state that their declarations under section 295A of the Corporations Act 2001 relating to Financial Statements and reports of the Company are founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects, in relation to the financial reporting risks;
- how certain risks of the Company have been mitigated by risk transfer strategies;
- the scope, adequacy and cost of the Company's insurance arrangements;
- ensure appropriate corporate governance is in place within the scope of its remit; and
- confirm annually that all responsibilities outlined in this charter have been carried out.

The Audit and Risk Committee reviews the Company's risk management framework at least annually to ensure that it is still suitable to the Company's operations and objectives and that the Company is operating within the risk parameters set by the Board. A review is undertaken for the year ended 30 June 2016.

Internal Audit

The internal audit function is to provide an independent assessment of risk and compliance with internal controls. The results of internal audits are reported to senior management and to the Audit and Risk Committee on a regular basis. In addition, processes have been put in place to ensure that appropriate follow up actions are taken in relation to significant audit findings and identified areas of risk.

External Audit

The Board and management need to ensure that the statutory auditor is both independent and seen to be independent. The purpose of an independent statutory audit is to provide shareholders and investors with reliable and clear financial reports on which to base investment decisions.

Economic, Environmental and Social Sustainability Risks

The Company has no material exposure to environmental or social sustainability risks.

Economic, Environmental and Social Sustainability Risks (cont'd)

As the Company's main activity is clinically developing its lead product, it still operates at clinical trial levels. Accordingly, the Board is of the view that the Company, as with other companies at such a stage of development, is subject to exposure for economic sustainability, including the risk that its clinical trials may not be successful or become too expensive to conclude.

The Directors believe that the Company has adequate systems in place to monitor the costs, risks and progress of its trials to manage those economic sustainability risks as they apply to the Company. For further information on the Company's risk management framework, refer to the above Principle 7 responses.

Principle 8 - Remunerate fairly and responsibly

The Board maintains a combined Nomination and Remuneration Committee. The members of the Committee are detailed in the Principle 2 commentary above. The Company complies with the ASX recommendation to have a Nomination and Remuneration Committee with a majority of independent Directors. The independence of the Nomination and Remuneration Committee is subject to continual evaluation.

Details of the qualifications and experience of the members of the Committee are found in the Directors' report within the annual report.

The Remuneration Committee oversees remuneration policy and monitors remuneration outcomes to promote the interests of shareholders by rewarding, motivating and retaining employees.

The Charter of the Committee is available at the Company's website. The Committee's charter sets out the roles and responsibilities, composition and structure of the Committee.

In summary, the charter provides for the committee to monitor and advise upon the following matters:

- the Company's remuneration structure including long-term incentives and superannuation arrangements;
- remuneration and incentives of the Board, CEO and Company Secretary;
- performance and remuneration of senior management;
- remuneration strategies, practices and disclosures generally;
- workplace health and safety;
- workplace diversity;
- employee share payment plans;
- recruitment, retention and termination strategies;
- management succession, capability and talent development; and
- the Remuneration Report, contained within the Directors' report.

When considered necessary, the Committee may obtain external advice from independent consultants in determining the Company's remuneration practices including remuneration levels.

Remuneration of Non-Executive Directors is determined in maximum aggregate by the shareholders, and is allocated by the Board on the recommendation of the Remuneration Committee.

Executive Directors and other senior executives are remunerated using combinations of fixed and performance based remuneration. Fees and salaries are set at levels reflecting market rates having regard to the individual's performance and responsibilities. Performance based remuneration is linked directly to specific performance targets that are aligned to both short and long-term objectives. Share options and rights are aligned to longer term performance hurdles. Termination payments are detailed in individual contracts and payable on early termination with the exclusion of termination in the event of misconduct.

Further details in relation to the Company's remuneration policies are contained in the Remuneration Report, within the Directors' report.

Employee Share Plan

The Company has an employee share plan with accompanying limited recourse loan made available to certain employees. Details of this plan can be found in the Company's annual report.

END OF REPORT