

Appendix 4E

Preliminary final Report

| | |
|--|-------------------|
| Name of Entity | PharmAust Limited |
| ABN | 35 094 006 023 |
| Year Ended | 30 June 2016 |
| Previous Corresponding Reporting Period | 30 June 2015 |

Results for Announcement to the Market

| | \$'000 | Percentage increase/(decrease) over previous corresponding period |
|---|-------------------------------------|---|
| Revenue from ordinary activities | 2,754 | 14% |
| (Loss) from ordinary activities after tax attributable to members | (3,927) | (104%) |
| Net (loss) for the period attributable to members | (3,927) | (104%) |
| Dividends (distributions) | Amount per security | Franked amount per security |
| Final Dividend | It is not proposed to pay Dividends | |
| Interim Dividend | It is not proposed to pay Dividends | |
| Record date for determining entitlements to the dividends (if any) | Not Applicable | |

Dividends

| | |
|---|--------------|
| Date the dividend is payable | No dividends |
| Record date to determine entitlement to the dividend | No dividends |
| Amount per security | -c |
| Total dividend | -c |
| Amount per security of foreign sourced dividend or distribution | -c |
| Details of any dividend reinvestment plans in operation | No dividends |
| The last date for receipt of an election notice for participation in any dividend reinvestment plans | No dividends |

Net Tangible Assets per Security

| | Current Period | Previous corresponding period |
|---|----------------|-------------------------------|
| Net tangible asset backing per ordinary security | 2.07c | 0.20c |

The 30 June 2016 financial report dated 31 August 2016 forms part of and should be read in conjunction with the Preliminary Final Report (Appendix 4E).

This report is based on financial statements that have been audited. The audit report is included in the 30 June 2016 Annual Financial Report.



ABN 35 094 006 023

Annual Report 2016



**Pitney Pharmaceuticals
Limited**



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CORPORATE DIRECTORY

PRINCIPAL PLACE OF BUSINESS

PharmAust Limited
Suite 39,
1 Freshwater Parade
Claremont, Western Australia 6010
Tel +61 (8) 6364 0899 Fax +61 (8) 9467 6111
www.pharmaust.com
ASX CODE: PAA

Epichem Pty Ltd
Suite 5, 3 Brodie-Hall Drive
Bentley WA 6102

REGISTERED OFFICE

Suite 39, 1 Freshwater Parade
Claremont, Western Australia 6010
Tel +61 (8) 6364 0899 Fax +61 (8) 9467 6111

SYDNEY OFFICE

Level 7/139 Macquarie Street
Sydney, NSW 2000
Tel +61 (2) 9251 1142

DIRECTORS

Dr Roger Aston
Mr Robert Bishop
Mr Sam Wright
Dr Wayne Best

COMPANY SECRETARY

Mr Sam Wright

SHARE REGISTRY

Computershare Investor Services Pty Limited
Level 2, 45 St George's Terrace
Perth, Western Australia 6000

AUDITORS

RSM Australia Partners
8 St Georges Terrace
Perth, Western Australia 6000

SOLICITORS

Fairweather Corporate Lawyers
595 Stirling Highway
Cottesloe, Western Australia 6011

STOCK EXCHANGE

Australian Securities Exchange
Exchange Plaza
2 The Esplanade
Perth, Western Australia 6000

DIRECTORS' REPORT

Your Directors present their report on the Company and the entities it controlled for the financial year ended 30 June 2016.

Directors

The following persons held office as directors of PharmAust Limited during the financial year and up to the date of this report:

| | |
|------------------------|--|
| Dr Roger Aston | Executive Chairman |
| Robert Bishop | Executive Director |
| Professor David Morris | Non-Executive Director (resigned on 27 th October 2015) |
| Sam Wright | Non-Executive Director |
| Dr Wayne Best | Non-Executive Director |

Directors have been in office since the start of the financial period to the date of this report unless otherwise stated.

Principal Activities

The principal continuing activities constituted by PharmAust Limited and the entities it controlled during the year were to develop its own drug discovery intellectual property, namely three platforms for the treatment of different types of cancers in humans and animals, as well as providing highly specialised medicinal and synthetic chemistry services on a contract basis to clients.

Operating Results

The results of the consolidated entity for the year ended 30 June 2016 was a loss, after income tax expense, of \$3,927,256 (2015: loss of \$1,925,091).

Financial Position

The net assets of the consolidated entity were \$5,023,261 as at 30 June 2016 (2015: \$8,839,066).

Review of Operations

PITNEY PHARMACEUTICALS PTY LIMITED – 100% OWNED SUBSIDIARY

MPL PHASE I CLINICAL TRIAL IN HUMANS

During the year, the Company made significant progress with the development of its key anti-cancer product, Monepantel (MPL). On 23rd July 2015, the Company reported the successful closure of its Phase I (Phase IIa) "first in man" trial where seven patients were assessed for tumour markers at the Royal Adelaide Hospital. PharmAust received confirmation that the last patient, who was treated at the higher dose of MPL (25mg/kg), showed meaningful suppression of key cancer marker p70S6K. Importantly, during the trial, both principal end points were successfully met, namely:

1. MPL demonstrated a very good safety profile as compared with many other established anticancer drugs, and
2. MPL showed activity against cancer through the suppression of a key cancer marker.

In the trial, seven patients were treated with MPL for various time periods and measurements were successfully taken for anticancer activity through marker suppression (p70S6K). Three patients completed the full 28-day treatment period. One patient was not included in the cancer marker results as they only received a single dose of the drug. One patient received the higher dose of MPL (25mg/kg).

On 21 October 2015, PharmAust reported that it had received the Phase I Clinical Trial Synopsis from CPR Pharma Services, who have worked with CMAX-IDT to successfully complete PharmAust's first-in-man clinical trial of MPL at the Royal Adelaide Hospital.

Outcomes of Clinical Trial

SAFETY

MPL demonstrated a very good safety profile as compared with many other established anticancer drugs. Whilst MPL was well tolerated in humans, adverse events (AEs) deemed to be related to study medication included nausea, vomiting, diarrhoea, and decreased appetite. The poor palatability of MPL is believed to be the major contributor to these AEs and responsible for poor patient compliance in taking the drug during the trial. Although a number of Serious Adverse Events (SAEs) were noted during the study, they were not related to the study medication. To address the palatability issues of MPL, PharmAust has appointed Juniper Pharma Services, a subsidiary of Juniper Pharmaceuticals, Inc. (Nasdaq: JNP), to reformulate monepantel (MPL) for its Phase II studies currently in planning and preparation.

ORAL ABSORPTION

The pharmacokinetics of MPL indicate rapid absorption and peak blood levels (4-6 hours) following oral administration of the drug. The blood levels of MPL are in line with the levels observed for other anticancer drugs.

DIRECTORS' REPORT (Cont.)

ANTI-CANCER ACTIVITY

MPL showed activity against cancer through the suppression of tumour marker p70S6K which is highly significant when the data from 7 patients is combined and analysed (at day 3 of treatment $p < 0.0004$ and at day 7 of treatment $p < 0.002$). Furthermore, evaluation of white blood cells of patients who have received MPL for three consecutive days has shown that the levels of p-4E-BP1 cancer marker are significantly reduced as compared to its levels at Day 1 before treatment started. Of the 4 subjects with post-dose RECIST assessment (tumour measurements) at a dose level of 5 mg/kg, 2 were classified as stable disease and 2 were classified as progressive disease.

Dr Aston said "This is a very strong result for our Phase I trial which will now allow us to proceed as soon as possible to a Phase II evaluation of MPL. Preliminary discussions with physicians at both the Royal Adelaide Hospital and at Clinical Research Centres in the UK signal strong interest to evaluate MPL where first line therapy has failed. Following some additional contractual studies, which we will report upon, we expect to be able to select what chemotherapy is preferred to be used in conjunction with MPL in the next trial. Furthermore, the Phase I study has confirmed that MPL is absorbed orally in quantities that result in suppression of the cancer marker p70s6k in peripheral immune cells; this gives us much confidence that the drug is active on markers that have been correlated with aggressive features of cancer, such as growth, invasion and metastasis."

MPL PHASE I CLINICAL TRIAL IN CANINES

Following the announcement that MPL significantly suppressed a key cancer marker in two dogs evaluated, and has been safe and well tolerated by all the dogs treated with the drug so far, the Company decided to move to the next stage of clinical evaluations which make use of the "synergy" discovery (announced to the market 17th February 2014).

During the year, PharmAust advised that it had completed the treatment of two canine patients with MPL in combination with Carboplatin, one of the "standard of care" chemotherapy drugs used in both human and veterinary anticancer medicine. Neither dog suffered any adverse events despite the fact they both had progressive, advanced cancers and few treatment options. Executive Chairman, Dr Aston stated, "Combining chemotherapy with MPL in a target species with a natural cancer, is an important step for PharmAust. There is a highly significant synergy between chemotherapy and MPL without enhancement of the associated side-effects commonly seen with anticancer drugs. As such, the lack of any adverse events in canines is an exciting outcome. Furthermore, this gives us much confidence in moving forward with Phase II combination therapies in man."

GenScript to Complete Further Pre-Clinical Validation for Phase II Trial

PharmAust appointed GenScript to investigate the use of MPL/monepantel in conjunction with current "Standard of Care" in preparation for PharmAust's investigation of monepantel in Phase II.

Following PharmAust's demonstration that combinations of chemotherapy and monepantel result in synergy with respect to anticancer activity, the company will be investigating and validating the various combinations in different cancers in GenScript's model systems. This work programme will be as a prelude to PharmAust initiating its Phase II trial.

GenScript is the leading gene, peptide, protein and antibody research partner for fundamental life science research, translational biomedical research, and pre-clinical pharmaceutical development. Since their establishment in 2002, GenScript has exponentially grown to become a global leading biotech company that provides life sciences services and products to scientists over 100 countries worldwide. PharmAust will be accessing their in vitro and in vivo pharmacology capability to optimise its treatment regimens for the Phase II trial.

Juniper Pharma Services to reformulate MPL for Phase II Trials

On 11th January 2016, PharmAust appointed Juniper Pharma Services, a subsidiary of Juniper Pharmaceuticals, Inc. (Nasdaq: JNP), to reformulate monepantel (MPL) for its Phase II studies currently in planning and preparation.

UK-based Juniper Pharma Services are to manufacture 20,000 capsules of the reformulated MPL solution under Good Manufacturing Practice (GMP) for forthcoming human trials, ensuring that the Phase II data are admissible to regulators as part of any subsequent submissions. Juniper has already manufactured two batches of 2000 capsules for canine studies in UK and Australia.

The primary need to reformulate MPL stems from the particularly unpleasant taste of the current MPL formulation, as used at the Royal Adelaide Hospital during the Phase I study. Despite showing significant activity of MPL on tumour markers such as p70S6K and p-4E-BP1, compliance by patients in taking the drug for 28 days was poor due to nausea associated with the exceptionally poor palatability of the drug.

MPL PHASE II CLINICAL TRIAL IN CANINES

In June 2016, PharmAust reported that following the signing of a Materials Transfer Agreement with the University of Cambridge, Department of Veterinary Sciences, Dr Jane Dobson will oversee and evaluate the role of monepantel ("MPL") as a treatment for canine cancers.

The Phase II trial will be undertaken in canines which have failed standard of care and follows on from the Phase I trial undertaken in Sydney, Australia by Dr Angela Frimberger. The Phase I trial showed excellent safety with suppression of tumour markers and the Phase II will build on these successful earlier results.

PharmAust has a Research and Option Agreement with Novartis Animal Health and, as such, the outcome of this study will be important in understanding the commercial potential of MPL in veterinary cancer therapy.

DIRECTORS' REPORT (Cont.)

Notice of Allowance received from USA Patent Office

On 5th February 2016, PharmAust reported that its key patent "Kinase Inhibitors for the Treatment of Cancer" (14/387,270) has been examined and allowed for issuance in the USA by the United States Trademark And Patent Office. This patent governs the use of the Novartis veterinary drug, monepantel, in the treatment of both human and canine cancers. PharmAust has an "Option to Licence Agreement" with Novartis Animal Health for the use of this intellectual property in the treatment of veterinary cancers.

PharmAust's Chairman, Dr Roger Aston said: "This is the first of a series of patent applications applied for by the Company which are proceeding towards allowance in the USA and other territories on the use of aminoacetonitriles in cancer. For small biotech companies it is vital to have key controlling intellectual property to enable successful commercialisation."

PharmAust Receives \$546K R&D Rebate from ATO

On 1st February 2016, PharmAust announced that the Australian Taxation Office ("ATO") had recognised the innovation of the Research and Development being developed by wholly owned subsidiaries, Epichem Pty Ltd and Pitney Pharmaceuticals Pty Limited.

The Company had previously lodged an application with Innovation Australia following advice from PharmAust's consultants that the R&D may qualify for a Research and Development Tax Rebate on its 2015 tax return.

Following approval from the ATO of the Company's application for a Research and Development rebate, an amount of \$546,034.50 was deemed refundable on PharmAust's 2015 Tax Return and a cheque for that amount plus interest has subsequently been received by PharmAust and banked.

EPICHEM PTY LTD - 100% OWNED SUBSIDIARY

Epichem has been delivering synthetic and medicinal chemistry services to the drug discovery and pharmaceutical industries worldwide since 2003. Epichem offers a range of rare and hard to find pharmaceutical impurities, degradants and metabolites of active ingredients and excipients, particularly for OTC and generic drugs.

Epichem has been at the forefront of synthesizing new and difficult to obtain standards and many of these are exclusive to Epichem and not available elsewhere. This range is continually expanding in response to customer requests and developments in the industry. Epichem is globally competitive with clients in 32 countries and is rapidly expanding its reach.

Epichem also excels in custom synthesis and contract drug discovery, boasting a highly skilled team of scientists, most with a PhD and industry experience. This valuable investment in people allows Epichem to lead drug discovery programs, perform custom synthesis, conduct optimisation and method development for scale-up and engage in high-level problem solving.

Epichem has a long history of helping pharmaceutical companies identify trace impurities and has produced a range of pharmaceutical reference standards to aid the industry in detecting and measuring these impurities, ultimately assisting in the quality assurance and control of its clients' medicines.

Epichem's expert team of medicinal chemists is also supporting PharmAust's oncology programmes and has made a number of novel analogues of MPL. While still at the early pre-clinical research stage, if successful, this research could ultimately lead to a new drug with improved properties which is wholly owned by PharmAust.

Epichem continued to promote its products and services both within Australia and overseas with staff attending a number of conferences and tradeshows including AusBiotech in Melbourne and ChemOutsourcing in New Jersey, USA. Most notably, Epichem was an exhibitor at CPhI WorldWide in Madrid, Spain, which is the world's premier trade show for the pharmaceutical industry attended by 36,000 delegates. Feedback from CPhI was excellent with a number of new customers and prospects resulting.

Epichem has a new tag line to better reflect our business offerings: "Our Formula. Your Success". The Epichem website (www.epichem.com.au) and other promotional media are currently being refreshed.

Epichem Awarded Two Year Contract Extension from DNDi

Epichem was awarded a two year extension to its current contract with Drugs for Neglected Diseases initiative (DNDi). The contract, which was due to finish on 31 December 2015, will now see Epichem continue to provide synthetic & medicinal chemistry support to DNDi's drug discovery projects until 31 December 2017. The extension will generate a further \$2.3M in revenues for Epichem during that period.

Epichem's Managing Director, Dr Wayne Best, said "Everyone in the company is delighted to have been given the opportunity to continue contributing to the important work undertaken by DNDi."

DNDi is a not-for-profit product development partnership working to research and develop new treatments for neglected diseases, in particular human African trypanosomiasis, leishmaniasis, Chagas disease, malaria, paediatric HIV, and specific helminth-related infections.

DIRECTORS' REPORT (Cont.)

Epichem's New Laboratory Completed

During the year, Epichem reported the completion of their new laboratory in WA's Technology Park which became fully operational at the site on 11 September 2015. The new laboratory is over twice the size of its previous laboratory at Murdoch University and has provision for additional expansion in the future. The extra capacity of the new facilities will allow Epichem to rapidly grow its business to our 5-year target of \$10 million pa.

Managing Director of Epichem, Dr Wayne Best, stated, "Not only does the new laboratory provide significant extra capacity but its improved design offers significant improvements in efficiency". Dr Best added that "The timing couldn't be better for the expansion. With most of Epichem's business being for the export market, the current low Australian Dollar adds significantly to our competitiveness and profitability."

Epichem Successful in AusTrade & DNDi Grant

On 16th June 2016, PharmAust announced that the Australian Tropical Medicine Commercialisation Grants Programme, through the support of Australia's Trade and Investment Ministry, will provide \$250,000 for a project entitled "Novel compounds for the treatment of Leishmaniasis in humans and animals," to be led by its subsidiary Epichem in partnership with the Swiss-based Drugs for Neglected Disease initiative (DNDi).

Leishmaniasis is a potentially fatal parasitic disease spread by various species of sand fly. Already a human health issue in 98 countries, 350 million people are estimated to be at risk of infection, most notably poor populations living in remote areas. Leishmaniasis is also a significant disease in a number of animals, especially dogs in many parts of Europe and North America.

The grant will see Epichem provide the synthetic and medicinal chemistry component of a research program focused on developing new treatments for leishmaniasis in collaboration with the DNDi team. Any human drugs resulting from the project will be for the benefit of DNDi, but Epichem has the right to commercialise treatments for leishmaniasis in animals.

Twelve applications to the ATMCG programme have been successful, four are from Victoria, four are from Queensland, two are from NSW and two are from WA. Five of the successful applicants are private companies, two are independent research institutes and five are from Australian universities.

Annual General Meeting

On 27 October 2015, PharmAust held its Annual General Meeting of Shareholders at Epichem Pty Ltd, Suite 5, 3 Brodie-Hall Drive, Bentley, Western Australia. All resolutions that were put were unanimously passed on a show of hands, including the resolution authorising a consolidation of the Company's Issued Capital on the following basis:

- (a) every 20 Shares to be consolidated into 1 Share; and
- (b) every 20 Options be consolidated into 1 Option and the exercise price of each Option to be amended in inverse proportion to this ratio in accordance with ASX Listing Rule 7.22.1

SUBSEQUENT EVENTS

On 10th August 2016, PharmAust announced that it has received further interest from veterinary oncologist Dr Angela Frimberger to continue evaluation of MPL (monepantel) either as monotherapy or in combination with chemotherapy in dogs that have failed standard veterinary care. In the only previous studies evaluating MPL in conjunction with chemotherapy (carboplatin), neither of the two dogs treated suffered any adverse events despite the fact they both had advanced cancers and few treatment options. PharmAust will provide capsules newly formulated by Juniper Pharma Services for evaluation by Dr Frimberger's team.

PharmAust's Executive Chairman Dr Roger Aston said "Combining chemotherapy with MPL in a target species is a critical component of our development strategy both in canines and humans, as chemotherapy is usually a first line treatment of cancer. Furthermore, previous studies in rodent models showed highly significant synergy between chemotherapy and MPL without apparent enhancement of side-effects."

Principal investigator and dog cancer specialist, Dr Angela Frimberger, based at Veterinary Oncology Consultants Pty Ltd said "So far we have shown that MPL is safe and has biological activity in dogs; and we have given it with carboplatin in two dogs with late stage, resistant cancers without any enhancement of side effects. With the newly formulated capsules, we are delighted to now be able to offer the combination of MPL with other standard chemotherapeutics as well as carboplatin, for dogs with cancer where standard therapy either is not an option or has not been effective."

PharmAust will report progress with canine recruitment both in Cambridge and Sydney and possibly other Australian sites as canine patients are recruited.

On 3rd August 2016, PharmAust announced that following discussions with the University of New South Wales commercialisation arm, NewSouth Innovations Pty. Ltd. ("NSI"), the parties have agreed to an exchange of Intellectual Property ("IP"), which will result in PharmAust owning additional rights to MPL and related compounds that were previously held by the University.

In exchange for the assignment to PharmAust of outstanding IP in MPL, NSI will receive IP relating to the Mucin project that it provided to PharmAust under the "Easy Access Scheme" during 2014/2015 and will have the ability to commercialise this IP. The Mucin project entails the use of enzymes and other agents in cancers such as Pseudomyxoma Peritonei, a clinical condition caused by cancerous cells (mucinous adenocarcinoma) that produce abundant mucin and or gelatinous ascites. Importantly if NSI is successful in partnering the Mucin project, PharmAust will receive an ongoing royalty stream from NSI.

DIRECTORS' REPORT (Cont.)

PharmAust's Chairman, Dr Roger Aston said: "This is an important milestone for PharmAust. With continued progress and investment in MPL and related compounds and the prospects of both human and veterinary Phase II trials beginning, it is important that PharmAust can establish an IP position where it is as far as possible free to operate and commercialise its lead aminoacetonitrile (MPL-related) product(s). At the same time, PharmAust will retain an ongoing interest in the Mucin project through a royalty stream based on what is received by NSI. This strategy is also in line with PharmAust's strategy to list on NASDAQ. The use of MPL and related compounds for cancer therapy remains PharmAust's prime objective and the company continues to grow its IP base in the area through R&D as well as through acquisition"

Dividends

Since the end of the financial year, no dividend has been paid, declared or recommended.

Significant Changes in State of Affairs

A review of events during the reporting period can be found in the review of operations.

Future Developments

In the opinion of the Directors disclosure of information regarding likely developments in the Company's operations and the expected results of those operations in subsequent financial years could prejudice the Company's interests. Accordingly, this information has not been included in this report.

DIRECTORS' REPORT (Cont.)

Information on Directors

Dr Roger Aston – Executive Chairman

| | |
|--|---|
| Qualifications | BSc (Hons), Ph.D |
| Experience | <p>Dr Aston currently serves as Chief Executive Officer of Pitney. Dr Aston served as Chief Executive Officer of Mayne Pharma Group until 15 February 2012. During his career, he has been closely involved in start-up companies and major pharmaceutical companies. Aspects of his experience include FDA and EU product registration, clinical trials, global licensing agreements, fundraising through private placements, and a network of contacts within the pharmaceutical, banking and stock broking sectors. Dr Aston is both a scientist and seasoned biotechnology entrepreneur, with a successful track record in both fields.</p> <p>Dr Aston holds a B.Sc. (Hons) and Ph.D. degrees from the University of Manchester from 1975 to 1981.</p> |
| Interests in Shares & Options | Dr Aston holds 5,373,148 Fully Paid Ordinary Shares. |
| Other Current Directorships (ASX Listed Companies) | Immuron Limited (ASX:IMC), Oncosil Limited (ASX: OSL), Regeneus Limited (ASX:RGS) and ResApp Health Limited (ASX:RAP) |
| Previous Directorships (last 3 years) ASX Listed Companies | IDT Limited (ASX:IDT); and Polynovo Limited (ASX:PNV) (previously Calzada Limited (ASX:CZD)) |

Mr. Robert C Bishop –Executive Director

| | |
|--|--|
| Qualifications | LL.B (Hons), Solicitor (New South Wales and England & Wales), MAICD |
| Experience | Mr Bishop has 30 years' experience in corporate finance and equity capital markets. Having worked extensively in London and Sydney, first as a lawyer at Linklaters & Paines and Allen, Allen & Hemsley; and then as a stockbroker and investment banker at Ord Minnett, Robert Fleming and, since 1998, at his Sydney based corporate finance business, First Capital Markets. He has extensive experience in the areas of stock market flotation's, licensing and compliance work. |
| Interests in Shares & Options | Mr Bishop, via his company, holds 2,739,664 Fully Paid Ordinary Shares. |
| Other Current Directorships (ASX Listed Companies) | Nil |
| Previous Directorships (last 3 years) ASX Listed Companies | Nil |

Mr. Sam Wright – Non-Executive Director & Company Secretary

| | |
|--|--|
| Qualifications | AFin DipAcc ACIS MAICD |
| Experience | <p>Sam Wright is experienced in the administration of ASX listed companies, corporate governance and corporate finance. He joined the Company as the Financial Controller in September 2006, was appointed as the Company Secretary in August 2007, and was appointed as a Director in October 2008.</p> <p>Mr Wright has twenty years' experience in the pharmaceutical, biotech and healthcare industry and is a member of the Australian Institute of Company Directors, the Financial Services Institute of Australasia, and the Chartered Secretaries of Australia.</p> <p>Mr Wright is currently Company Secretary of ASX listed companies, Buxton Resources Limited and Structural Monitoring Systems plc. Mr Wright also has filled the role of Director and Company Secretary with a number of unlisted companies.</p> <p>He is the Managing Director of Perth-based corporate advisory firm Straight Lines Consultancy, specialising in the provision of corporate services to public companies.</p> |
| Interests in Shares & Options | Mr Wright, via his company, holds 500,000 ordinary shares in PharmAust Limited. |
| Other Current Directorships (ASX Listed Companies) | Nil |
| Previous Directorships (last 3 years) ASX Listed Companies | Buxton Resources Limited (ASX: BUX) and Structural Monitoring Systems plc (ASX: SMN) |

DIRECTORS' REPORT (Cont.)

Dr. Wayne Best – Non-Executive Director

| | |
|--|--|
| Qualifications | BSc (Hons), PhD, DIC, FRACI, GAICD |
| Experience | <p>Wayne has almost 30 years' experience in synthetic and medicinal chemistry both in academia, government and industry. Wayne obtained his BSc (Hons) and PhD in Organic Chemistry from The University of Western Australia. He then spent two years at Imperial College in the UK where he obtained a DIC, followed by a year at the Australian National University in Canberra.</p> <p>Wayne then took up a position with ICI Australia's Research Group in Melbourne where he spent over four years designing and synthesizing a range of biologically active compounds, particularly agrochemicals. During this time Wayne was seconded for six months to ICI Agrochemicals' Jealott's Hill Research Station in the UK to work on the rational design of a novel herbicide target.</p> <p>Following ICI, Wayne returned to Western Australia and spent the ten years preceding Epichem at the Chemistry Centre (WA) where he was responsible for the formation and running of the Medicinal & Biological Chemistry Section which undertook collaborative R&D into drug discovery and contract synthesis for the drug discovery and pharmaceutical industries.</p> <p>Wayne is a Fellow of the Royal Australian Chemical Institute and has held appointments as an Adjunct Associate Professor at both Murdoch University and The University of Western Australia. He is also a Director of Epichem's parent company, PharmAust Ltd, and a Graduate Member of the Australian Institute of Company Directors.</p> |
| Interests in Shares & Options | Dr Best holds 193,715 ordinary shares and 250,000 options in PharmAust Limited. |
| Other Current Directorships (ASX Listed Companies) | Nil |
| Previous Directorships (last 3 years) ASX Listed Companies | Nil |

DIRECTORS' REPORT (Cont.)

Meetings of Directors

The number of meetings of the Company's directors held during the year ended 30 June 2015, and the number of meetings attended by each director was:

| Directors | Meetings of Directors | |
|------------------------|-------------------------|-----------------|
| | Eligible to Participate | Number Attended |
| Dr Roger Aston | 11 | 9 |
| Robert Bishop | 11 | 10 |
| Professor David Morris | 1 | 1 |
| Sam Wright | 11 | 11 |
| Dr Wayne Best | 11 | 11 |

Indemnification and Insurance of Directors and Officers

During the year, the Company held Directors and Officers Indemnity insurance.

The Company's Constitution provides that except as may be prohibited by Sections 199A and 199B of the Corporations Act every Officer, auditor or agent of the Company shall be indemnified out of the property of the Company against any liability incurred by him in his capacity as Officer, auditor or agent of the Company or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings whether civil or criminal.

Share Options

The details of unissued ordinary shares under option at the date of this report are as follows:

| | Number | Exercise Price | Expiry Date |
|------------|---------|----------------|------------------|
| Non listed | 675,000 | 16 cents | 3 September 2018 |

During the year, no options were exercised. There have been no further options exercised since the end of the financial year to the date of this report.

Environmental Regulation

The Company is subject to a range of environmental regulation. During the year, the Company met all reporting requirements under any relevant legislation. There were no incidents which required reporting.

Proceedings on Behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of these proceedings.

Non-audit Services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 29 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 29 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

DIRECTORS' REPORT (Cont.)

Remuneration Report (Audited)

The remuneration report, which has been audited, outlines the key management personnel (KMP) remuneration arrangements for the consolidated entity, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

This report details the nature and amount of remuneration for each director and executive of PharmAust Limited.

Remuneration Policy

The remuneration of directors and executives of PharmAust Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Company's financial results. The Board of PharmAust Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Company, as well as create goal congruence between directors, executives and shareholders.

All executives receive a base salary (which is based on factors such as length of service and experience) and superannuation whilst some executives receive fringe benefits. The Board reviews executive packages periodically by reference to the Company's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The performance of executives is measured against criteria agreed regularly with each executive and is based on factors including the forecast growth of profits and shareholders' value.

The remuneration is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth. The goal of the remuneration structures it to align the remuneration packages of the executives with the Company's performance and specifically the Company's earnings and the consequences of the Company's performance on shareholder wealth including dividends, returns of capital and capital appreciation.

The executive directors and executives receive a superannuation guarantee contribution required by the government and do not receive any other retirement benefits. Individuals, however, have the option to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the Company and expensed. Any shares given to directors and executives will be valued as the difference between the market price of those shares and the amount paid by the director or executive. Any options granted will be valued by an independent expert using the Black-Scholes, Binomial or any other methodologies that the independent expert deems appropriate.

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Board (excluding the relevant director) determines payments to the directors and reviews their remuneration regularly, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the Company.

Service agreements:

Remuneration of Dr Roger Aston (Executive Chairman - PharmAust Limited)

Term of the agreement – permanent and no specific term.

Base salary of \$260,000 per year plus superannuation of 9.5% (2015:9.5%) of base salary.

Payment of termination benefit on termination by the employer, other than for gross misconduct, is equal to six (6) months base salary and superannuation.

Remuneration of Robert Bishop (Executive Director - PharmAust Limited)

Term of the agreement – permanent and no specific term.

Base salary of \$104,000 per year plus superannuation of 9.5% (2015:9.5%) of base salary.

Payment of termination benefit on termination by the employer, other than for gross misconduct, is equal to three (3) months base salary and superannuation.

Remuneration of Professor David Morris (Non-Executive Director – PharmAust Limited) (Resigned on 27 October 2015)

Directors fee of \$60,000 per annum plus superannuation of 9.5% (2015:9.5%).

Remuneration of Sam Wright (Non-Executive director and company secretary – PharmAust Limited)

Term of the agreement – permanent and no specific term.

Consultancy fee of \$7,500 plus GST per month, payable in arrears.

Payment of termination benefit on termination by the employer, other than for gross misconduct, is equal to six (6) months consultancy fee.

Remuneration of Colette Sims (Directors – Epichem Pty Ltd) (Resigned on 16 November 2016)

Base salary of \$96,900 per year plus superannuation of 9.5% (2015:9.5%) of base salary

Payment of termination benefit on termination by the employer, other than for gross misconduct, is equal to four (4) weeks base salary and superannuation.

DIRECTORS' REPORT (Cont.)

Remuneration Report (Audited)

Remuneration of Wayne Best (Non-Executive director – PharmAust Limited, Managing Director – Epichem Pty Ltd)

Base salary of \$150,000 per year plus superannuation of 9.5% (2015:9.5%) of base salary

Payment of termination benefit on termination by the employer, other than for gross misconduct, is equal to six (6) months base salary and superannuation.

Bonus of up to a maximum of \$30,000 in the event of the satisfaction of Bonus milestones for any one financial year that Epichem Pty Ltd makes an after tax profit of:

- \$100,000 – bonus of \$5,000; or
- \$200,000- bonus of \$10,000; or
- \$350,000- bonus of \$20,000; or
- \$500,000- bonus of \$30,000.

Remuneration of John Horton (Director – Epichem Pty Ltd)

Consultancy fee of \$10,000 per annum.

Remuneration of Rebecca McCrackan (Director – Epichem Pty Ltd)

Director fee of \$4,800 per annum plus superannuation of 9.5% (2015:9.5%) of base salary.

Remuneration of Directors and Specified Executives

Names and positions of key management personnel (KMP) in office at any time during the financial year are:

| Person | Position |
|------------------------|--|
| Dr Roger Aston | Executive Chairman |
| Robert Bishop | Executive Director |
| Professor David Morris | Non-Executive Director (resigned on 27 th October 2015) |
| Sam Wright | Non- Executive Director and Company Secretary |
| Dr Wayne Best | Non-Executive Director and Managing Director – Epichem Pty Ltd |
| Dr John Horton | Director – Epichem Pty Ltd |
| Dr Colette Sims | Director – Epichem Pty Ltd (Resigned on 16 November 2015) |
| Ms Rebecca McCrackan | Director – Epichem Pty Ltd (appointed on 11 April 2016) |

Details of the nature and amount of each element of remuneration of each key management personnel for the financial year are as follows:

| 2016 | Short-term | | Post-employment | Share based payment | | Termination benefits | Total |
|-------------------------|------------------|----------|-------------------|---------------------|---|----------------------|---------|
| | Salary & Fees \$ | Other \$ | Superannuation \$ | Options \$ | | \$ | \$ |
| Directors | | | | | | | |
| Dr Roger Aston | 260,000 | - | 24,700 | - | - | - | 284,700 |
| Dr Wayne Best | 150,000 | - | 14,250 | 12,910 | - | - | 177,160 |
| Robert Bishop | 104,000 | - | 9,880 | - | - | - | 113,880 |
| Sam Wright | 90,000 | - | - | - | - | - | 90,000 |
| Professor David Morris* | 25,000 | - | 2,375 | - | - | - | 27,375 |
| Executives | | | | | | | |
| Dr Colette Sims** | - | - | - | - | - | - | - |
| Dr John Horton | 10,000 | - | - | - | - | - | 10,000 |
| Rebecca McCrackan*** | 900 | - | 85 | - | - | - | 985 |
| | 639,900 | - | 51,290 | 12,910 | - | - | 704,100 |

* Resigned on 27th October 2015

**Resigned on 16 November 2015

***Appointed on 13 April 2016

| 2015 | Short-term | | Post-employment | Share based payment | | Termination benefits | Total |
|------------------------|------------------|----------|-------------------|---------------------|---|----------------------|---------|
| | Salary & Fees \$ | Other \$ | Superannuation \$ | Options \$ | | \$ | \$ |
| Directors | | | | | | | |
| Dr Roger Aston | 260,000 | - | 24,700 | - | - | - | 284,700 |
| Dr Wayne Best * | 188,000 | - | 17,385 | - | - | - | 205,385 |
| Robert Bishop | 104,000 | - | 9,880 | - | - | - | 113,880 |
| Sam Wright | 90,000 | - | - | - | - | - | 90,000 |
| Professor David Morris | 60,000 | - | 5,700 | - | - | - | 65,700 |
| Executives | | | | | | | |
| Dr Colette Sims | 126,230 | - | 11,991 | - | - | - | 138,221 |
| Dr John Horton | 10,000 | - | - | - | - | - | 10,000 |
| | 838,230 | - | 69,656 | - | - | - | 907,886 |

* Appointed on 24th October 2014.

DIRECTORS' REPORT (Cont.)

Remuneration Report (Audited)

Additional disclosures relating to key management personnel

Option holding

The number options over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

| 2016 - Number | Balance 1 July 2015 | Granted as Compensation No. | Options Exercised No. | Net Change Other* No. | Balance 30 June 2016 No. | Total Vested No. | Total Exercisable No. | Total Unexercisable No. |
|----------------------|------------------------|--------------------------------------|-----------------------------|--------------------------------|-----------------------------------|------------------------|-----------------------------|-------------------------------|
| Sam Wright | 375,000 | - | - | (375,000) | - | - | - | - |
| Roger Aston | 528,634 | - | - | (528,634) | - | - | - | - |
| Robert Bishop | 1,365,707 | - | - | (1,365,707) | - | - | - | - |
| David Morris | 528,634 | - | - | (528,634) | - | - | - | - |
| Wayne Best | - | 250,000 | - | - | 250,000 | 250,000 | - | - |
| John Horton | - | - | - | - | - | - | - | - |
| Collette Sims | - | - | - | - | - | - | - | - |
| Rebecca McCrackan | - | - | - | - | - | - | - | - |

*The net change other column above includes those options that have been disposed or acquired by holders during the year.

No other key management personnel held options in the Company.

Shareholding

The number of shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

| 2016- Number | Balance 1 July 2015 | Share consolidation No. | Received as Compensation No. | At date of appointment and/or resignation No. | Net Change Other** No. | Balance 30 June 2016 No. |
|----------------------|------------------------|-------------------------------|------------------------------------|---|------------------------------|--------------------------------|
| Sam Wright | 6,500,000 | (6,175,000) | - | - | 175,000 | 500,000 |
| Roger Aston | 105,282,951 | (100,018,803) | - | - | 109,000 | 5,373,148 |
| Robert Bishop | 54,071,824 | (51,368,232) | - | - | 36,072 | 2,739,664 |
| David Morris | 177,214,206 | (168,353,496) | - | - | (8,860,710) | - |
| Wayne Best | 2,874,290 | (2,730,574) | - | - | 50,000 | 193,716 |
| John Horton | 25,000 | (23,750) | - | - | - | 1,250 |
| Collette Sims | - | - | - | - | - | - |
| Rebecca McCrackan | - | - | - | - | - | - |

**The net change other column above includes those shares that have been disposed or acquired by holders during the year.

Share-based compensation

Issue of shares

There were no shares issued to directors and other KMP as part of compensation during the year ended 30 June 2016.

Option

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

| Grant date | Vesting date and exercisable date | Expiry date | Exercise price | Fair value per option at grant date |
|-----------------|--------------------------------------|------------------|----------------|---|
| 27 October 2015 | 27 October 2015 | 3 September 2018 | \$0.16 | \$0.05164 |

There were no options over ordinary shares vested by directors and other KMP as part of compensation during the year ended 30 June 2016.

Options granted as part of remuneration

Wayne Best was granted 250,000 options during the year ended 30 June 2016 (2015: nil). There were no other options issued as part of remuneration for the year ended 30 June 2016 and 30 June 2015.

There were options expired during the year as noted above.

DIRECTORS' REPORT (Cont.)

Remuneration Report (Audited)

Other transactions with key management personnel and their related parties

There were no other transactions with key management personnel and their related parties during the year.

Additional information

The earnings of the consolidated entity for the five years to 30 June 2016 are summarised below:

| | 2016 \$ | 2015 \$ | 2014 \$ | 2013 \$ | 2012 \$ |
|-----------------------|-------------|-------------|-------------|------------|-------------|
| Sales revenue | 2,754,737 | 2,420,020 | 2,007,086 | 1,720,887 | 1,625,530 |
| EBITDA | (4,076,414) | (1,844,390) | (1,261,822) | (432,586) | (4,161,980) |
| EBIT | (3,927,256) | (1,925,091) | (1,317,853) | (514,883) | (4,260,420) |
| Loss after income tax | (3,927,256) | (1,925,091) | (1,317,853) | (514,883) | (4,260,420) |

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|--------|--------|-------|--------|--------|
| Share price at financial year end (\$)* | 0.08 | 0.14 | 0.22 | 0.16 | 0.12 |
| Total dividends declared (cents per share) | - | - | - | - | - |
| Basic earnings per share (cents per share) | (0.60) | (0.13) | (0.1) | (0.09) | (0.93) |

* Historical share price has been adjusted due to share consolidation in October 2015 for 20 to 1 basis.

Voting and comments made at the company's 2015 Annual General Meeting ('AGM')

At the 2015 AGM, 93% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2015. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

[END OF REMUNERATION REPORT]

DIRECTORS' REPORT (Cont.)

Annual Report Disclosure on Corporate Governance

PharmAust Limited is a drug discovery and development company. The Company has established, and continues to refine and improve procedures to ensure a culture of good corporate governance exists and is respected across the consolidated entity.

The Company has a written policy designed to ensure compliance with ASX Listing Rules and all other regulatory requirements for disclosures. Additionally the Company has adopted a policy designed to ensure procedures to implement the policy are suitable and effective.

The Board wishes to acknowledge that nothing has come to its attention that would lead it to conclude that its current practices and procedures are not appropriate for an organisation of the size and maturity of the Company. The Corporate Governance Policy and the Company's corporate governance practices is set out on the Company's web site at www.pharmaust.com

Shares Issued on Exercise of Compensation Options

No options were exercised last financial year, this financial year or since.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included within these financial statements.

Auditor

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

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.



Dr ROGER ASTON
Executive Chairman

Signed at Perth, Western Australia this 31st day of August 2016

RSM Australia Partners

8 St Georges Terrace Perth WA 6000

GPO Box R1253 Perth WA 6844

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www.rsm.com.au**INDEPENDENT AUDITOR'S REPORT****TO THE MEMBERS OF****PHARMAUST LIMITED****Report on the Financial Report**

We have audited the accompanying financial report of PharmAust Limited, which comprises the statement of financial position as at 30 June 2016, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the 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, 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.

THE POWER OF BEING UNDERSTOOD**AUDIT | TAX | CONSULTING**

RSM Australia Partners is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Australia Partners ABN 36 965 185 036

Liability limited by a scheme approved under Professional Standards Legislation

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 PharmAust 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:

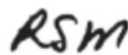
- (a) the financial report of PharmAust Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report contained within the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

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

A stylized, handwritten signature of 'RSM' in black ink.

RSM AUSTRALIA PARTNERS

A handwritten signature in black ink that reads 'David Wall'.

Perth, WA
Dated: 31 August 2016

DAVID WALL
Partner

RSM Australia Partners

8 St Georges Terrace Perth WA 6000

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of PharmAust 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.

RSM

RSM AUSTRALIA PARTNERS

David Wall

DAVID WALL
Partner

Perth, WA
Dated: 31 August 2016

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of PharmAust Limited, I state that:

1. In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2016 and of its performance, for the year ended on that date; and
 - (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
 - (c) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1;
2. This declaration has been made after receiving the declarations required to be made by the directors in accordance with sections of 295A of the Corporations Act 2001 for the financial year ending 30 June 2016.

On behalf of the Board



Dr ROGER ASTON
Executive Chairman

Signed at Perth, Western Australia this 31st day of August 2016

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2016

| | | CONSOLIDATED | |
|--|-------------|---------------------------|---------------------------|
| | NOTE | 2016 | 2015 |
| | | \$ | \$ |
| Revenue | 2 | 2,017,883 | 1,869,204 |
| Other income | 2 | 736,854 | 550,816 |
| | | <u>2,754,737</u> | <u>2,420,020</u> |
| Raw materials and consumables used | | (234,376) | (207,780) |
| Employee benefits expense | | (1,777,447) | (2,180,341) |
| Depreciation expense | | (109,232) | (77,146) |
| Finance costs | | (39,927) | (3,555) |
| Impairment of assets | | (2,071,651) | - |
| Research and development expenses | | (702,040) | (629,147) |
| Administration expenses | | <u>(1,747,320)</u> | <u>(1,247,142)</u> |
| (Loss) before income tax expense | | (3,927,256) | (1,925,091) |
| Income tax expense | 3a | <u>-</u> | <u>-</u> |
| (Loss) after income tax expense | | (3,927,256) | (1,925,091) |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive (loss) for the year | | <u>(3,927,256)</u> | <u>(1,925,091)</u> |
| Basic and diluted loss per share (cents per share) | 16 | (0.60) | (0.13) |

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As at 30 June 2016

| | | CONSOLIDATED | |
|--------------------------------------|-------------|---------------------|------------------|
| | NOTE | 2016 | 2015 |
| | | \$ | \$ |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 4 | 881,823 | 3,411,767 |
| Trade and other receivables | 5a | 94,019 | 223,271 |
| Other current assets | 6 | 28,130 | 89,910 |
| Financial assets | 7 | 4,250 | 7,200 |
| Inventory | 17 | 321,882 | - |
| TOTAL CURRENT ASSETS | | 1,330,104 | 3,732,148 |
| NON-CURRENT ASSETS | | | |
| Intangible assets | 8 | 3,107,476 | 5,179,128 |
| Plant and equipment | 9 | 1,819,868 | 611,009 |
| TOTAL NON-CURRENT ASSETS | | 4,927,344 | 5,790,137 |
| TOTAL ASSETS | | 6,257,449 | 9,522,285 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 10 | 397,435 | 459,610 |
| Borrowings | 11 | 157,899 | 31,596 |
| Provisions | 12 | 180,054 | 172,630 |
| TOTAL CURRENT LIABILITIES | | 735,388 | 663,836 |
| NON-CURRENT LIABILITIES | | | |
| Borrowings | 11 | 450,000 | 7,899 |
| Provisions | 12 | 48,799 | 11,484 |
| TOTAL NON-CURRENT LIABILITIES | | 498,799 | 19,383 |
| TOTAL LIABILITIES | | 1,234,187 | 683,219 |
| NET ASSETS | | 5,023,261 | 8,839,066 |
| EQUITY | | | |
| Issued capital | 13 | 44,463,072 | 44,393,484 |
| Reserves | 14 | 983,492 | 941,629 |
| Accumulated losses | 27 | (40,423,303) | (36,496,047) |
| TOTAL EQUITY | | 5,023,261 | 8,839,066 |

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2016

| | Issued Capital \$ | Accumulated Losses \$ | Options Reserve \$ | Total Equity \$ |
|--|----------------------------------|--------------------------------------|-----------------------------------|----------------------------|
| As at 1 July 2014 | 41,393,484 | (34,570,956) | 941,629 | 7,764,157 |
| Loss for the year | - | (1,925,091) | - | (1,925,091) |
| Total comprehensive (loss) for the year | - | (1,925,091) | - | (1,925,091) |
| Shares issued (net) | 3,000,000 | - | - | 3,000,000 |
| As at 30 June 2015 | 44,393,484 | (36,496,047) | 941,629 | 8,839,066 |
| As at 1 July 2015 | 44,393,484 | (36,496,047) | 941,629 | 8,839,066 |
| Loss for the year | - | (3,927,256) | - | (3,927,256) |
| Total comprehensive (loss) for the year | - | (3,927,256) | - | (3,927,256) |
| Shares issued (net) | 69,588 | - | - | 69,588 |
| Share based payment | - | - | 41,863 | 41,863 |
| As at 30 June 2016 | 44,463,072 | (40,423,303) | 983,492 | 5,023,261 |

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 30 June 2016

| | | CONSOLIDATED | |
|---|------|--------------|-------------|
| | NOTE | 2016 \$ | 2015 \$ |
| Cash Flows From Operating Activities | | | |
| Receipts from customers | | 2,147,135 | 1,744,177 |
| Payments to suppliers and employees | | (4,443,940) | (4,042,684) |
| Other income | | 700,030 | 502,122 |
| Interest received | | 36,824 | 48,694 |
| Interest and other costs of finance | | (39,927) | (3,555) |
| Net cash used in operating activities | 20b | (1,599,878) | (1,751,246) |
| Cash Flows From Investing Activities | | | |
| Payments for plant and equipment | | (1,499,720) | (109,732) |
| Net cash used in investing activities | | (1,499,720) | (109,732) |
| Cash Flows From Financing Activities | | | |
| Proceeds from share issues (net) | | 1,250 | 3,000,000 |
| Proceeds/Repayment of borrowing (net) | | 568,404 | (31,578) |
| Net cash provided by financing activities | | 569,654 | 2,968,422 |
| Net (decrease)/increase in cash held | | (2,529,944) | 1,107,444 |
| Cash at the beginning of the financial year | | 3,411,767 | 2,304,323 |
| Cash at the end of the financial year | 20a | 881,823 | 3,411,767 |

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2016

These consolidated financial statements and notes represent those of PharmAust Limited and its Controlled Entities (the "consolidated entity" or "group").

The separate financial statements of the parent entity, PharmAust Limited, have not been presented within this financial report as permitted by the *Corporations Act 2001*. Supplementary information about the parent entity is disclosed within this financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the Australian Accounting Standards Board has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

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

The financial report was authorised for issue on 31 August 2016 by the Directors of the Company.

Going Concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

As disclosed in the financial statements, the company and consolidated entity incurred a losses of \$3,854,422 and \$3,927,256 respectively and the consolidated entity had net cash outflows from operating and investing activities of \$1,599,878 and \$1,499,720 respectively for the year ended 30 June 2016.

The Directors believe that it is reasonably foreseeable that the company and consolidated entity will continue as going concerns and that it is appropriate to adopt the going concern basis in the preparation of the financial report after consideration of the following factors:

- The Company plans to issue additional shares in the next 12 months under the *Corporation Act 2001*. This strategy has proven to be successful in the past; and
- The Company has the ability to scale down its operations in order to curtail expenditure, in the event insufficient cash is available to meet projected expenditure.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2016

1 SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of PharmAust Limited as at 30 June 2016 and the results of all subsidiaries for the year then ended. PharmAust Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity 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. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

(b) Income Tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

The parent and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2016

1 SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(b) Income tax(Cont.)

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

(c) Plant and Equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset.

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

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

Depreciation

The depreciable amount of all plant and is depreciated on a straight line basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

| <i>Class of Fixed Asset</i> | <i>Depreciation Rate</i> |
|-----------------------------|--------------------------|
| Plant and equipment | 2.5-33% |

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 property, 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.

(d) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

1 SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(e) Financial Instruments

Recognition and initial measurement

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

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

Classification and subsequent measurement

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

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

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

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

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

(i) Loans and receivables

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

(ii) Financial assets at fair value through profit or loss

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss.

(iii) Financial liabilities

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

Impairment

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

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

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

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2016

1 SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(e) Financial Instruments (cont.)

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

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

Derecognition

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

(f) Foreign Currency Transactions and Balances

The financial statements are presented in Australian dollars, which is the group's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

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.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

(g) Impairment of Assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. 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 amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (e.g. in accordance with the revaluation model in AASB 116: Property, Plant and Equipment). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

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

Impairment testing is performed annually for goodwill, intangible assets with indefinite lives and intangible assets not yet available for use.

(h) Investments in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting.

(i) Employee Benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2016

1 SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(i) Employee Benefits (Cont.)

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, 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 option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

(j) 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.

(k) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities 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 statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

(l) 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.

(m) Revenue

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. When the inflow of consideration is deferred, it is treated as the provision of financing and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(m) Revenue (cont.)

Interest revenue is recognised using the effective interest method.

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

(n) Goods and services tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

(o) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(p) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(q) Earnings per share

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

(r) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(s) Intangibles Assets

Intellectual property rights- three oncology technology platforms

Intellectual property rights are recognised at cost of acquisition less accumulated amortisation and any impairment losses. For intellectual property rights not yet in use, they are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired, and are carried at cost less accumulated impairment losses.

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 is expected to deliver future economic benefits and these benefits can be measured reliably.

Intangible assets have a finite useful life and are amortised on a systematic basis based on the future economic benefits over the useful life of the project following commercialisation of the assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(t) Fair Value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

(u) Comparative Figures

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

(v) Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

(w) 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 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 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.

Deferred tax assets and liabilities are always classified as non-current.

(x) Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

(y) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity as a convertible note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

(z) New, revised or amending accounting standards and interpretations adopted

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period.

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

(aa) Business Combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

(ab) Critical Accounting Estimates 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, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

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.

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 impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor financial position.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

(ab) Critical Accounting Estimates and Judgements (Cont'd)

Estimation of useful lives of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, 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.

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.

Other finite life intangible assets not yet in use

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether other finite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

| | | CONSOLIDATED | |
|----|---|------------------|------------------|
| | | 2016 | 2015 |
| | | \$ | \$ |
| 2 | REVENUE | | |
| | Sales | 2,017,883 | 1,869,204 |
| | OTHER INCOME | | |
| | Interest received | 36,824 | 48,694 |
| | Other revenue | 700,030 | 502,122 |
| | | <u>736,854</u> | <u>550,816</u> |
| 3 | INCOME TAX EXPENSE | | |
| 3a | No income tax is payable as a tax loss has been incurred for income tax purposes. | | |
| | Loss before income tax | (3,927,256) | (1,925,091) |
| | Prima facie tax benefit at 30% (2015:30%) | (1,178,177) | (577,527) |
| | Tax effect of: | | |
| | - Other non-allowable items | 390,707 | 203,745 |
| | - Deferred tax asset not brought to account | 787,470 | 373,782 |
| | | <u>-</u> | <u>-</u> |
| 3b | Deferred tax asset | | |
| | The potential deferred tax assets have not been recognised in the statement of financial position because their recovery is not considered probable. | | |
| | - Tax losses at 30% tax rate (not recognised) | <u>6,708,585</u> | <u>6,549,019</u> |
| | PharmAust Limited and its wholly-owned Australian subsidiary have formed an income tax consolidated group under the Tax Consolidation Regime. PharmAust Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The tax consolidated group has entered a tax sharing agreement whereby each company in the consolidated entity contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group. | | |
| 4 | CASH AND CASH EQUIVALENTS | | |
| | Cash at bank | <u>881,823</u> | <u>3,411,767</u> |

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

| | | CONSOLIDATED | |
|----|--|---------------|----------------|
| | | 2016 | 2015 |
| | | \$ | \$ |
| 5 | TRADE AND OTHER RECEIVABLES | | |
| 5a | CURRENT | | |
| | Trade receivables | 94,019 | 223,271 |
| | Less: provision for doubtful debts | - | - |
| | | <u>94,019</u> | <u>223,271</u> |
| | Trade receivables: Payment terms are 30 days from the date of recognition. | | |
| 5b | Provision for impairment of receivables | | |
| | Current trade and term receivables are non-interest bearing and generally on 30-day terms. Non-current trade and term receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired. | | |
| | <i>Movement in provision:</i> | | |
| | Balance brought forward | - | (5,815) |
| | Provision provided for during the year | - | - |
| | Bad debts written off | - | 5,815 |
| | Balance carried forward | <u>-</u> | <u>-</u> |
| 5c | Past due but not impaired | | |
| | As of 30 June 2016, trade receivables of \$33,742 (2015:\$ 28,398) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows: | | |
| | 31 to 60 days | 13,585 | 24,425 |
| | 61 days and above | 20,157 | 3,973 |
| | | <u>33,742</u> | <u>28,398</u> |
| | Based on the credit history of these other classes, it is expected that these amounts will be received when due. The Group does not hold any collateral in relation to these receivables. | | |
| 5d | Fair value and credit risk | | |
| | The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties other than those receivables specifically provided for and mentioned within Note 5. The class of assets described as "trade and other receivables" is considered to be the main source of credit risk related to the Group. | | |
| 6 | OTHER CURRENT ASSETS | | |
| | GST receivables | 23,840 | 64,210 |
| | Bond | 4,290 | 4,291 |
| | Prepayments | - | 21,409 |
| | | <u>28,130</u> | <u>89,910</u> |
| 7 | FINANCIAL ASSETS | | |
| | Financial assets held for trading | | |
| | Shares in listed securities - fair value | <u>4,250</u> | <u>7,200</u> |
| 7a | Movements in Carrying Amounts | | |
| | Carrying amount at beginning of the year | 7,200 | 7,000 |
| | Movement in fair value | (2,950) | 200 |
| | Carrying amount at end of the year | <u>4,250</u> | <u>7,200</u> |

Refer to Note 18 for further information on fair value measurement.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

| | CONSOLIDATED | |
|--|---------------------|------------------|
| | 2016 | 2015 |
| | \$ | \$ |
| 8. Intangible Assets | | |
| Intellectual property rights – at cost | 3,107,476 | 5,179,128 |
| Amortisation | - | - |
| Accumulated impairment losses | (2,071,652) | - |
| | <u>3,107,476</u> | <u>5,179,128</u> |
| Movements in Carrying Amounts: | | |
| Balance at the beginning of the year | 5,179,128 | 5,179,128 |
| Addition | - | - |
| Impairment | (2,071,652) | - |
| Balance at the end of the year | <u>3,107,476</u> | <u>5,179,128</u> |
| 9. PLANT AND EQUIPMENT | | |
| Cost | 2,400,573 | 1,236,021 |
| Accumulated depreciation | (580,705) | (625,012) |
| | <u>1,819,868</u> | <u>611,009</u> |
| Movements in Carrying Amounts: | | |
| Carrying amount at beginning of the year | 611,009 | 578,423 |
| Additions | 1,499,720 | 109,732 |
| Disposals | (160,487) | - |
| Depreciation expense | (130,374) | (77,146) |
| Carrying amount at end of the year | <u>1,819,868</u> | <u>611,009</u> |
| 10. TRADE AND OTHER PAYABLES | | |
| Trade creditors and accruals | <u>397,435</u> | <u>459,610</u> |
| Payment terms are 30 days from receipt of goods and/or services rendered. | | |
| 11. BORROWINGS | | |
| CURRENT | | |
| Lease liability* | 7,899 | 31,596 |
| EFIC Loan** | 150,000 | - |
| | <u>157,899</u> | <u>31,596</u> |
| NON CURRENT | | |
| Lease liability* | - | 7,899 |
| EFIC Loan** | 450,000 | - |
| | <u>450,000</u> | <u>7,899</u> |
| <i>Terms and conditions:</i> | | |
| *The finance lease liability is secured. Interest is charged at 11.25%p.a (2015: 11.25%). | | |
| ** The EFIC Loan liability has a variable interest rate charged at the AFMA Bank Bill Average Bid Rate fix + 5% margin. At 30 June 2016 this rate was 6.99%. | | |
| Financing arrangements | | |
| The consolidated entity entered into a loan agreement to gain access to a loan facility of \$750,000. | | |
| Interests: 3 month AFMA Bank Bill Average Bid Rate fix plus 5% margin. | | |
| Security: First charge over the new laboratory equipment. | | |
| Loan facility: | | |
| Total facility limit | 600,000 | 750,000 |
| Amount utilised | (600,000) | - |
| | <u>-</u> | <u>750,000</u> |
| Total unused facility at 30 June | - | 750,000 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

| | | CONSOLIDATED | |
|----|-----------------------|--------------|------------|
| | | 2016 \$ | 2015 \$ |
| 12 | PROVISIONS | | |
| | CURRENT | | |
| | Employee entitlements | 180,054 | 172,630 |
| | NON CURRENT | | |
| | Employee entitlements | 48,799 | 11,484 |

Amounts not expected to be settled within the next 12 months

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. However, based on past experience, the consolidated entity does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

| | | |
|---|--------|--------|
| Employee benefits obligation expected to be settled after 12 months | 90,027 | 86,315 |
|---|--------|--------|

13 ISSUED CAPITAL

| | | |
|------------------------------------|------------|------------|
| Issued and paid up ordinary shares | 44,463,072 | 44,393,484 |
|------------------------------------|------------|------------|

13a Movement in fully paid ordinary shares

| | 2016 Number of shares | 2015 Number of shares | 2016 \$ | 2015 \$ |
|-------------------------------------|--------------------------|--------------------------|------------|------------|
| Ordinary Shares | | | | |
| At 1 July | 1,840,006,606 | 1,440,006,606 | 44,393,484 | 41,393,484 |
| Share Issued | 562,500 | 400,000,000 | 69,588 | 3,000,000 |
| Share Consolidation (20 to 1 basis) | (1,748,065,461) | - | - | - |
| At 30 June | 92,503,645 | 1,840,006,606 | 44,463,072 | 44,393,484 |

13b Terms and Conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up the Company, ordinary shares rank after all other shareholders and creditors and are fully entitled to any proceeds from liquidation.

Ordinary shares issued as a result of the exercise of options, will rank equally and on the same terms and conditions as all other shareholders.

13c Share options

At 30 June 2016, there were 675,000 (2015: 139,500,000) unissued ordinary shares under options.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

13 ISSUED CAPITAL (Cont.)

13d Capital Management

Management controls the capital of the Group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

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

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year. The gearing ratios for the year ended 30 June 2016 and 30 June 2015 are as follows:

| | | CONSOLIDATED | |
|---------------------------------|-------|--------------|-------------|
| | | 2016 | 2015 |
| | | \$ | \$ |
| Total borrowings | 10,11 | 1,005,334 | 499,105 |
| Less: cash and cash equivalents | | (881,823) | (3,411,767) |
| Net debt | | 123,511 | (2,912,662) |
| Total equity | | 5,023,262 | 8,839,066 |
| Total capital | | 5,146,773 | 5,926,404 |
| Gearing ratio | | 2.4% | - |

14 RESERVES

| | | |
|-----------------|---------|---------|
| Options reserve | 983,492 | 941,629 |
|-----------------|---------|---------|

Movement in options issued as follow:

2016

| | No. | Weighted Average Exercise Price \$ |
|--------------------------------------|---------------|---|
| At 1 July | 139,500,000 | 0.02 |
| Options Expired | (139,500,000) | - |
| Options Issued | 8,750,000 | 0.16 |
| Option Consolidation (20 to 1 basis) | (8,075,000) | - |
| At 30 June | 675,000 | 0.16 |

2015

| | No. | Weighted Average Exercise Price \$ |
|------------|-------------|---|
| At 1 July | 139,500,000 | 0.02 |
| At 30 June | 139,500,000 | 0.02 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

14 RESERVES (Cont.)

All the options are exercisable as at 30 June 2016 and 30 June 2015.

As at the date of exercise, the weighted average share price of options exercised during the year was \$0.16 (2015: \$0.02).

The weighted average remaining contractual life of options outstanding at year-end was 2.18 years (2015: 0.16 years). The exercise price of outstanding shares at the end of the reporting period was \$0.16 (2015: \$0.02).

| | | CONSOLIDATED | |
|-----|---|--------------|---------------|
| | | 2016 | 2015 |
| | | \$ | \$ |
| 15 | RELATED PARTY TRANSACTIONS | | |
| | Transactions between related parties are on normal commercial terms and conditions which are no more favourable than those available to other parties. There were no related party transactions other than those transactions identified above and key management personnel remuneration. | | |
| 16 | EARNINGS PER SHARE | | |
| | Net (loss) attributable to members of the Company | (3,927,256) | (1,925,091) |
| | | No. | No. |
| | Weighted average number of ordinary shares outstanding during the year used in calculating basic earnings per share. | 657,406,828 | 1,517,091,538 |
| 16a | Basic Earnings per Share | | |
| | Basic earnings per share is determined by dividing the loss after income tax attributable to members of the Company by the weighted average number of ordinary shares outstanding during the financial period, adjusted for any bonus elements in ordinary shares issued during the year. | | |
| 16b | Diluted Earnings per Share | | |
| | Diluted earnings per share is the same as basic earnings per share as there were no options on issue which would be potential ordinary shares. | | |
| 17 | Inventories | | |
| | Finished Goods | 321,882 | - |
| | | 321,882 | - |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to and from subsidiaries, borrowings and leases.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

| | Note | Consolidated 2016 \$ | 2015 \$ |
|--|------|----------------------------|------------------|
| Financial assets | | | |
| Cash and cash equivalents | 4 | 881,823 | 3,411,767 |
| Financial assets at fair value through profit or loss: | | | |
| – held for trading | 7 | 4,250 | 7,200 |
| Loans and receivables (excluding GST) | 5a,6 | 98,310 | 248,971 |
| Total financial assets | | 984,383 | 3,667,938 |
| Financial liabilities | | | |
| Financial liabilities at amortised cost: | | | |
| – trade and other payables | 10 | 397,435 | 459,610 |
| – borrowings | 11 | 607,899 | 39,495 |
| Total financial liabilities | | 1,005,334 | 499,105 |

Specific Financial Risk Exposures and Management

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk and foreign exchange risk. Other minor risks are either summarised below or disclosed at Note 5 in the case of credit risk and Note 13 in the case of capital risk management. The Board reviews and agrees policies for managing each of these risks.

Cash Flow Interest Rate Risk

The Group's exposure to the risks of changes in market interest rates relates primarily to the Group's short-term deposits with a floating interest rate. These financial assets with variable rates expose the Group to cash flow interest rate risk. All other financial assets and liabilities in the form of receivables and payables are non-interest bearing. The Group does not engage in any hedging or derivative transactions to manage interest rate risk.

The following tables set out the carrying amount by maturity of the Group's exposure to interest rate risk and the effective weighted average interest rate for each class of these financial instruments.

The Group has not entered into any hedging activities to cover interest rate risk. In regard to its interest rate risk, the Group does not have a formal policy in place to mitigate such risks.

2016

| | Weighted Average Interest Rate | Floating Interest Rate \$ | Fixed Interest Rate Within 1 Year \$ | Fixed Interest Rate Within 1-5 Years \$ | Non-Interest Bearing \$ | Total \$ |
|---|---|------------------------------------|---|--|-------------------------------|--------------------|
| Financial Assets | | | | | | |
| Cash and cash equivalents | 1.52% | 881,823 | - | - | - | 881,823 |
| Trade and other receivables | - | - | - | - | 98,310 | 98,310 |
| Other financial assets | - | - | - | - | 4,250 | 4,250 |
| Total financial assets | | 881,823 | - | - | 102,560 | 984,383 |
| Financial liabilities | | | | | | |
| Trade and other payables | - | - | - | - | (397,435) | (397,435) |
| Borrowings | 7.05% | (600,000) | (7,899) | - | - | (607,899) |
| Total financial liabilities | | (600,000) | (7,899) | - | (397,435) | (1,005,334) |
| Net Financial Assets/(Liabilities) | | 281,823 | (7,899) | - | (294,875) | (20,951) |

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2016

18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)

Cash Flow Interest Rate Risk (Cont.)

2015

| | Weighted Average Interest Rate | Floating Interest Rate \$ | Fixed Interest Rate Within 1 Year \$ | Fixed Interest Rate Within 1-5 Years \$ | Non-Interest Bearing \$ | Total \$ |
|---------------------------------------|---|------------------------------------|---|--|-------------------------------|-------------|
| Financial Assets | | | | | | |
| Cash and cash equivalents | 2.38% | 897,896 | 2,513,871 | - | - | 3,411,767 |
| Trade and other receivables | - | - | - | - | 248,971 | 248,971 |
| Other financial assets | - | - | - | - | 7,200 | 7,200 |
| Total financial assets | | 897,896 | 2,513,871 | - | 256,171 | 3,667,938 |
| Financial liabilities | | | | | | |
| Trade and other payables | - | - | - | - | (459,610) | (459,610) |
| Borrowings | 11.25% | - | (31,596) | (7,899) | - | (39,495) |
| Total financial liabilities | | - | (31,596) | (7,899) | (459,610) | (499,105) |
| Net Financial Assets/(Liabilities) | | 897,896 | 2,482,275 | (7,899) | (203,439) | 3,168,833 |

Interest rate sensitivity analysis

At 30 June 2016, if interest rates had changed by 100 basis points during the entire year with all other variables held constant, profit for the year and equity would have been \$2,173 (2015:\$ 8,979) lower/higher, mainly as a result of lower/higher interest income from cash and cash equivalents.

Based on the sensitivity analysis only interest revenue from variable rate deposits and cash balances are impacted resulting in a decrease or increase in overall income.

Liquidity risk

The Group manages liquidity risk by maintaining sufficient cash reserves and marketable securities and through the continuous monitoring of budgeted and actual cash flows.

| | 2016 \$ | CONSOLIDATED 2015\$ |
|--|------------|------------------------|
| Contracted maturities Payables - within 1 year | 397,435 | 459,610 |
| Borrowings - within 1 year | 157,899 | 31,596 |

Price risk

The Group is not exposed to price risk.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)

Foreign exchange risk

The Group is exposed to foreign exchange rate arising from various currency exposures. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the Group's functional currency.

The Group's exposure to foreign currency risk at the reporting date was as follows:

| | USD \$ | 2016 EUR \$ | GBP \$ | USD \$ | 2015 EUR \$ | GBP \$ |
|-------------------|-----------|-------------------|-----------|-----------|-------------------|-----------|
| Trade receivables | 8,081 | 28,421 | 815 | 121,738 | 5,680 | - |
| Trade payables | 6,157 | 716 | - | 5,964 | 694 | - |

Foreign currency risk sensitivity analysis

At 30 June, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the foreign currencies, with all other variables remaining constant is as follows:

| | 2016 Change in profit and equity with a +/- 10% in AUD to | | | 2015 Change in profit and equity with a +/- 10% in AUD to | | |
|-------------------|---|-----------|-----------|---|-----------|-----------|
| | USD \$ | EUR \$ | GBP \$ | USD \$ | EUR \$ | GBP \$ |
| Trade receivables | 771 | 2,713 | 78 | 11,620 | 542 | - |
| Trade payables | 588 | 68 | - | 569 | 66 | - |

Net fair values

For assets and other liabilities the net fair value approximates their carrying value. The Group has no financial assets where the carrying amount exceeds net fair values at reporting date.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of comprehensive income and in the notes to the financial statements.

Financial instruments at fair value

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using the fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted prices in active markets for identical assets and liabilities (Level 1);
- inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|-----------------------------------|---------|---------|---------|-------|
| 2016 | \$ | \$ | \$ | \$ |
| Financial assets held for trading | 4,250 | - | - | 4,250 |
| | 4,250 | - | - | 4,250 |
| 2015 | | | | |
| Financial assets held for trading | 7,000 | - | - | 7,000 |
| | 7,000 | - | - | 7,000 |

19 INVESTMENT IN CONTROLLED ENTITIES

| | COUNTRY OF CORPORATION | CLASS OF SHARES | EQUITY HOLDING 2016 % | EQUITY HOLDING 2015 % |
|---|---------------------------|-----------------|-----------------------------|-----------------------------|
| Parent Entity: PharmAust Limited | Australia | - | - | - |
| Name of Controlled Entity: Epichem Pty Ltd | Australia | Ordinary | 100 | 100 |
| Pitney Pharmaceuticals Pty Ltd | Australia | Ordinary | 100 | 100 |

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

20 NOTES TO THE STATEMENT OF CASH FLOWS

20a Reconciliation of Cash

| | CONSOLIDATED | |
|--|---------------------|-------------|
| | 2016 | 2015 |
| | \$ | \$ |
| Cash at bank | 881,823 | 3,411,767 |
| 20b Reconciliation of net cash used in operating activities to loss after income tax | | |
| Loss after income tax | (3,927,256) | (1,925,091) |
| Write down of intangible assets | 2,071,652 | - |
| Loss on disposal of fixed assets | 160,493 | - |
| Depreciation | 109,232 | 77,146 |
| Depreciation capitalised into inventories | 21,138 | - |
| Provision for doubtful debt | - | (18) |
| Unrealised loss/(gain) on financial assets | - | (200) |
| Share Based Payment | 110,201 | - |
| Movement in assets and liabilities: | | |
| Inventory | (321,882) | - |
| Receivables | 129,252 | (125,025) |
| Other assets | 64,729 | (47,397) |
| Payables | (62,175) | 229,174 |
| Provisions | 44,738 | 40,165 |
| Net cash used in operating activities | (1,599,878) | (1,751,246) |

20c Non-cash Financing and Investing Activities

- i. The consolidated entity acquired plant and equipment with an aggregate value of Nil (2015: \$nil) by means of finance leases. These acquisitions are not reflected in the statement of cash flows.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2016

21 SHARE BASED PAYMENTS

Share granted as share based payments are as follows:

| | | 2016 | 2015 |
|-----------------|---------------------------------|---------|--------|
| Grant Date | Purpose | Number | Number |
| 4 December 2015 | Service provided to the company | 500,000 | - |

The weighted average fair value of those equity instruments was determined by reference to the market price which was \$0.14 (2015: nil).

In 2015, there were no share based payments transaction.

Options granted as share based payments are as follows:

2015

| Grant date | Expiry date | Exercise price | Number |
|------------|-------------|----------------|----------------|
| 3/9/2015 | 3/9/2018 | \$0.16 | 425,000 |
| 27/10/2015 | 3/9/2018 | \$0.16 | 250,000 |
| | | | <u>675,000</u> |

* The options are issued as part of the consideration for acquisition of Pitney Pharmaceuticals Pty Ltd.

**The options are issued to Peloton Capital Pty Ltd as part of corporate advisory service provided.

The fair values were calculated using the Black-Scholes option pricing model applying the following input:

| | Share price at grant date | Exercise price | Expected volatility | Dividend yield | Risk-free interest rate | Fair value at grant date |
|---------|---------------------------|----------------|---------------------|----------------|-------------------------|--------------------------|
| Options | | | | | | |
| 425,000 | \$0.12 | \$0.16 | 100% | 0% | 1.85% | \$0.06817 |
| 250,000 | \$0.10 | \$0.16 | 100% | 0% | 1.85% | \$0.05164 |

22 KEY MANAGEMENT PERSONNEL

22a Remuneration of Key Management Personnel

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the consolidated entity's key management personnel for the year ended 30 June 2015 and 30 June 2015.

The totals of remuneration paid to key management personnel of the consolidated entity during the year are as follows:

| | 2016 \$ | 2015 \$ |
|------------------------------|----------------|----------------|
| Short term employee benefits | 639,900 | 838,230 |
| Post-employment benefits | 51,290 | 69,656 |
| Share based payment | 12,910 | - |
| | <u>704,100</u> | <u>907,886</u> |

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2016

| | | CONSOLIDATED | |
|-----|---|--------------|------------|
| | | 2016 \$ | 2015 \$ |
| 23 | COMMITMENTS | | |
| 23a | Corporate advisory fees | | |
| | - Not later than 12 months | 43,092 | - |
| | - Between 12 months and 5 years | - | - |
| | Minimum payments | 43,092 | - |
| 23b | Office lease commitments | | |
| | Non-cancellable operating leases contracted for but not recognised in the financial statements: | | |
| | Payable – minimum lease payments | | |
| | - Not later than 12 months | 164,500 | 140,450 |
| | - Between 12 months and 5 years | 530,000 | 530,000 |
| | - Later than 5 years | 536,257 | 651,459 |
| | Minimum lease payments | 1,230,757 | 1,321,909 |

24 SEGMENT REPORTING

Segment Information

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

Descriptions of segments

- i. *Corporate*
The corporate segment covers all the corporate overhead expenses.
- ii. *Pharmaceutical*
The pharmaceutical segment provides products and services in synthetic and medicinal chemistry to the drug discovery and pharmaceutical industries.

Basis of accounting for purposes of reporting by operating segments

a. Accounting policies adopted

All amounts reported to the Directors, being the chief decision makers with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in these financial statements.

b. Intersegment transactions

There are intersegment sales and purchase within the consolidated entity.

Intersegment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs.

c. Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives majority economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

d. Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2016

24 SEGMENT REPORTING (Cont.)

The consolidated entity operates in three business segments as disclosed below:

i) Segment Performance

Consolidated

| 2016 | Corporate \$ | Pharmaceutical \$ | Total \$ |
|--|-----------------|----------------------|-------------|
| Revenue | | | |
| External sales | - | 2,017,883 | 2,017,883 |
| Other external revenue | 540,944 | 195,909 | 736,853 |
| Inter-segment sales | - | 111,184 | 111,184 |
| Total segment revenue | 540,944 | 2,324,976 | 2,865,920 |
| Inter-segment elimination | | | (111,184) |
| Total revenue per statement of comprehensive income | | | 2,754,736 |
| Results | | | |
| Segment result from continuing operations before tax | (3,854,422) | (72,833) | (3,927,255) |

Consolidated

| 2015 | Corporate \$ | Pharmaceutical \$ | Total \$ |
|--|-----------------|----------------------|-------------|
| Revenue | | | |
| External sales | - | 1,869,204 | 1,869,204 |
| Other external revenue | 318,872 | 231,944 | 550,816 |
| Inter-segment sales | - | 46,415 | 46,415 |
| Total segment revenue | 318,872 | 2,147,563 | 2,466,435 |
| Inter-segment elimination | | | (46,415) |
| Total revenue per statement of comprehensive income | | | 2,420,020 |
| Results | | | |
| Segment result from continuing operations before tax | (1,917,693) | (7,398) | (1,925,091) |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

24 SEGMENT REPORTING (Cont.)

ii) Segment assets and liabilities

| Consolidated | Corporate | Pharmaceutical | Total |
|---|------------------|-----------------------|--------------|
| | \$ | \$ | \$ |
| 2016 | | | |
| Segment assets | | | |
| Segment assets | 791,415 | 5,466,034 | 6,257,449 |
| Total assets of the consolidated entity: | 791,415 | 5,466,034 | 6,257,449 |
| Segment liabilities | | | |
| Segment operating liabilities | (191,546) | (1,042,641) | (1,234,187) |
| Total liabilities of the consolidated entity: | (191,546) | (1,042,641) | (1,234,187) |
| Consolidated | Corporate | Pharmaceutical | Total |
| | \$ | \$ | \$ |
| 2015 | | | |
| Segment assets | | | |
| Segment assets | 2,914,168 | 6,608,117 | 9,522,285 |
| Total assets of the consolidated entity: | 2,914,168 | 6,608,117 | 9,522,285 |
| Segment liabilities | | | |
| Segment operating liabilities | (330,711) | (352,508) | (683,219) |
| Total liabilities of the consolidated entity: | (330,711) | (352,508) | (683,219) |

ii) Revenue by geographical region

| | 2016 | 2015 |
|--|-------------|-------------|
| | \$ | \$ |
| Revenue by geographical region | | |
| Revenue attributable to external customers is disclosed below, based on the location of the external customer: | | |
| Switzerland | 1,163,442 | 931,538 |
| Australia | 1,292,093 | 1,228,137 |
| Others | 299,202 | 260,345 |
| Total revenue | 2,754,737 | 2,420,020 |

Assets by geographical region

The location of segment assets by geographical location of the assets is disclosed below:

| | | |
|--------------|-----------|-----------|
| Australia | 6,257,449 | 9,522,285 |
| Total assets | 6,257,449 | 9,522,285 |

Major customers

The consolidated entity has a number of customers to which it provides both products and services. The consolidated entity supplies a single external customer within the pharmaceutical segment who accounts for 41% of external revenue (2015: 72%). The next most significant customer accounts for 11% (2015: 8%).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

25 CONTINGENT LIABILITIES

The consolidated entity has the following contingent liabilities at reporting date:

Issue of additional shares

As part of Share Sale Agreement to acquire Pitney Pharmaceuticals Pty Ltd, the consolidated entity will issue additional shares of 2.5 million (post consolidation of 20 to 1) each to the seller upon meeting the three milestones.

The three milestones are:

- Milestone 1 - One of the consolidated entity's products being granted investigational new drug (IND) status from the US Food and Drug Administration and the Company receiving an IND number issued by the US Food and Drug Administration within 5 years of the Settlement Date and provided this is no later than 31 October 2018;
- Milestone 2 - Commencement of treatment of the first patient under a Phase II Trial with the product Albendazole within 5 years of the Settlement Date and provided this is no later than 31 October 2018; and
- Milestone 3 - Commencement of treatment of the first patient under a Phase II Trial using the product Monepantel within 5 years of the Settlement Date and provided this is no later than 31 October 2018.

Capital raising costs

The consolidated entity signed an agreement with supplier for potential capital raising with the following fees payable upon certain milestones as noted below.

- USD100,000 of consolidated entity's shares upon successfully raising of USD3 million; and
- USD200,000 of consolidated entity's shares upon successfully raising of USD3 to 10 million.

Other than the above, there were no other material contingent liabilities or contingent assets.

26 PARENT INFORMATION

| Statement of Financial Position | 2016 \$ | 2015 \$ |
|---------------------------------------|---------------------|---------------------|
| Assets | | |
| Current assets | 4,226,048 | 8,413,567 |
| Non-current assets | 733,616 | 385,003 |
| Total assets | <u>4,959,664</u> | <u>8,798,570</u> |
| Liabilities | | |
| Current liabilities | 221,698 | 337,632 |
| Non-current liabilities | 234,063 | 214,063 |
| Total liabilities | <u>455,761</u> | <u>551,695</u> |
| Equity | | |
| Issued capital | 44,463,072 | 44,393,484 |
| Reserves | 983,492 | 941,629 |
| Accumulated losses | <u>(40,942,661)</u> | <u>(37,088,238)</u> |
| Total equity | <u>4,503,903</u> | <u>8,246,875</u> |
| Statement of comprehensive income | | |
| (Loss) for the year | (3,854,422) | (1,917,693) |
| Other comprehensive income | - | - |
| Total comprehensive loss for the year | <u>(3,854,422)</u> | <u>(1,917,693)</u> |

Guarantees

PharmAust Limited is a guarantor of a debt facility for its fully owned subsidiary during the year as disclosed in Note 11.

Other Commitments and Contingencies

PharmAust Limited has no commitments to acquire property, plant and equipment and has no contingent liabilities other than disclosed in Note 25.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

| | 2016 \$ | CONSOLIDATED 2015 \$ |
|--|---------------------|----------------------------|
| 27 EQUITY- ACCUMULATED LOSSES | | |
| Accumulated losses at beginning of the financial year | (36,496,047) | (34,570,956) |
| (Loss)after income tax for the year | (3,927,256) | (1,925,091) |
| Accumulated losses at the end of the financial year | <u>(40,423,303)</u> | <u>(36,496,047)</u> |
| 28 EVENTS AFTER THE REPORTING PERIOD | | |
| The directors are not aware of any significant events since the end of the reporting period. | | |
| 29 AUDITOR'S REMUNERATION | | |
| Remuneration of RSM Australia Partners as auditor for: | | |
| - auditing or reviewing the financial report | 65,000 | 60,000 |
| - taxation services | 16,100 | 27,650 |
| | <u>81,100</u> | <u>87,650</u> |
| 30 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET MANDATORY OR EARLY ADOPTED | | |

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2016. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

30 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET MANDATORY OR EARLY ADOPTED (cont'd)

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the consolidated entity.

SHAREHOLDER INFORMATION

Additional information required by the Australian Stock Exchange Limited Listing Rules, and not disclosed elsewhere in this report.

SHAREHOLDINGS

At the date of this report two shareholders had lodged substantial shareholder notices with the Company.

- Prof Morris is a substantial shareholder holding a relevant interest in 6,975,720 shares representing 7.54% of voting power.
- Dr Aston is a substantial shareholder holding a relevant interest in 5,214,148 shares representing 5.64% of voting power.

CLASS OF SHARES AND VOTING RIGHTS

The voting rights attached to the Fully Paid Ordinary shares of the Company are:

- at a meeting of members or classes of members each member entitled to vote may vote in person or by proxy or by attorney; and
- on a show of hands every person present who is a member has one vote, and on a poll every person present in person or by proxy or attorney has one vote for each ordinary share held.

There are no voting rights attached to any Options on issue.

ORDINARY FULLY PAID SHARES as at 29 August 2016

| Range of Units Snapshot | | | Composition : ORD | |
|-------------------------|---------------|------------|---------------------|--|
| Range | Total holders | Units | % of Issued Capital | |
| 1 - 1,000 | 205 | 68,543 | 0.07 | |
| 1,001 - 5,000 | 410 | 1,262,755 | 1.37 | |
| 5,001 - 10,000 | 168 | 1,337,826 | 1.45 | |
| 10,001 - 100,000 | 503 | 17,731,074 | 19.17 | |
| 100,001 - 9,999,999,999 | 132 | 72,103,447 | 77.95 | |
| Rounding | | | -0.01 | |
| Total | 1,418 | 92,503,645 | 100.00 | |

Unmarketable Parcels

| Minimum Parcel Size | Holders | Units |
|--|---------|---------|
| Minimum \$ 500.00 parcel at \$ 0.0950 per unit | 5264 | 619 |
| | | 1351814 |

There is no current on-market buy back taking place.

During the reporting period the Company used its cash and assets in a manner consistent with its business objectives.

TWENTY LARGEST SHAREHOLDERS (as at 29 Aug 2016)

| Rank | Name | Units | % of Units |
|--|---------------------------------------|------------|------------|
| 1. | PROFESSOR DAVID LAWSON MORRIS | 6,975,720 | 7.54 |
| 2. | DR ROGER ASTON | 5,214,148 | 5.64 |
| 3. | PERSHING AUSTRALIA NOMINEES PTY LTD | 4,891,242 | 5.29 |
| 4. | MYALL RESOURCES PTY LTD | 4,490,000 | 4.85 |
| 5. | ONMELL PTY LTD | 2,877,803 | 3.11 |
| 6. | ZACHARIAH INVESTMENTS PTY LTD | 2,765,000 | 2.99 |
| 7. | Longbow Croft Capital Pty Limited | 2,628,592 | 2.84 |
| 8. | OMNIOFFICES PTY LTD | 2,235,616 | 2.42 |
| 9. | DR PAUL ANTHONY PORTER + DR TI-WAN NG | 1,731,705 | 1.87 |
| 10. | ABN AMRO CLEARING SYDNEY NOMINEES | 1,721,748 | 1.86 |
| 11. | MR GRAHAM JAMES DARCY | 1,500,000 | 1.62 |
| 12. | MR SAMUEL KAH TECK NG | 1,255,572 | 1.36 |
| 13. | MR ZHONGSHI WU | 1,250,000 | 1.35 |
| 14. | MR GERALD JAMES VAN BLOMMESTEIN | 1,186,786 | 1.28 |
| 15. | MR GREGORY PAUL YEATMAN | 1,050,000 | 1.14 |
| 16. | MR MICHAEL PHILIP EASTERBROOK | 1,000,000 | 1.08 |
| 17. | GRANDLODGE PTY LTD | 955,414 | 1.03 |
| 18. | MR MARK WAYNE BRADFIELD | 680,000 | 0.74 |
| 19. | DEPOFO PTY LTD | 637,708 | 0.69 |
| 20. | PLANE SAILING TRAILS PTY LTD | 630,140 | 0.68 |
| Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL) | | 45,677,194 | 49.38 |
| Total Remaining Holders Balance | | 46,826,451 | 50.62 |