



20 November 2019

Company Announcements Office
Australian Securities Exchange

Director Loan Security

Vectus Biosystems Limited (Vectus or the Company) has, over the last 18 months, been utilising a Director loan from Non-Executive Director Maurie Stang to fund its activities (previous references include the June 2019 Appendix 4C Quarterly Report, released on 31 July 2019). The commercial terms of the loan facility of \$2,500,000 (current advance of \$2,341,000) include an interest rate of 8% per annum, the loan to be repaid from future research and development (R&D) tax offset payments from the Australian Taxation Office (ATO), and no security at the time of the loan. The loan terms included a contractual obligation on the Company to utilise its future R&D tax offset payments from the ATO to repay the loan.

On 17 September 2019 Vectus announced additional funding provided by way of convertible notes secured by security over all of the assets of the Company (Capital Raising). The Capital Raising is being conducted in two tranches. The initial tranche of \$1,500,000 was completed under Vectus' available placement capacity under ASX Listing Rule 7.1 and was finalised on 30 September 2019. The second tranche is expected to be finalised later this month, subject to, and after, shareholder approval has been obtained at the Annual General Meeting (AGM) to be held on 22 November 2019. The total amount to be raised is \$7,000,000.

The grant of security in connection with the Capital Raising would have the practical effect of subordinating the existing Director loan from Mr Stang and giving first priority to the convertible note holders. Accordingly, the Company proposed to Mr Stang and the incoming convertible note holders, pursuant to the Capital Raising, that, subject to Vectus obtaining a waiver from ASX Listing Rule 10.1:

- (a) Mr Stang be granted security over all of the assets of the Company to secure past and future advances pursuant to the Director loan;
- (b) the security to be granted to Mr Stang will (subject to the points below) rank equally with the security granted to convertible note holders in connection with the Capital Raising;
- (c) Mr Stang will, subject to shareholder approval at the AGM under ASX Listing Rule 10.11, subscribe for convertible notes with a face value of \$1,000,000 pursuant to the Capital Raising and that Vectus will use this \$1,000,000 to partially repay the Director loan;
- (d) loan repayments will be made from future R&D tax offset amounts received from the ATO, repayment of the additional facility provided during the time the convertible notes were documented, and certain other payments that may be made, including when the Company has positive net assets after allowing for 12 months budgeted expenses, and repayments of the Director loan will be subordinated to repayments to the convertible note holders; and
- (e) Mr Stang will be restricted from taking any enforcement steps under the security to be granted with respect to the Director loan without the prior approval of the convertible note holders.

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ASX granted Vectus a waiver from Listing Rule 10.1 to the extent necessary to permit the Company to grant security over the assets and, together with an undertaking from Vectus in favour of Mr Stang as the lender to secure the Company's obligations under a loan agreement for an amount of up to \$2,500,000, and the facility held in the name of the lender and drawn down by Vectus as required (the Loan Facility) provided by the lender without obtaining shareholder approval, under certain conditions, including the following:

- (a) The security includes a term that if an event of default occurs, and the lender exercises their rights under the security, neither the lender nor any of their associates can acquire any legal or beneficial interest in an asset of the Company or its subsidiaries in full or part satisfaction of Vectus' obligations under the security, or otherwise deal with the assets of the Company or its subsidiaries, without Vectus first having complied with any applicable ASX Listing Rules, including Listing Rule 10.1, other than as required by law or through a receiver, or receiver or manager (or analogous person) appointed by the lender exercising their power of sale under the security and selling the assets to an unrelated third party on arm's length commercial terms and conditions, and distributing the cash proceeds to the lender or any of their associates in accordance with their legal entitlements.
- (b) A summary of the material terms of the security is made in each annual report of Vectus during the term of the security.
- (c) Any variations to the terms of the security, which are: not a minor change; or inconsistent with the terms of the waiver, must be subject to shareholder approval.
- (d) The Company and the lender must seek to discharge the security when the funds advanced to Vectus are repaid (other than when the funds are prepaid and redrawn within the original term of the Loan Facility), or if it is not discharged, seek shareholder approval for the continuation of the security for any further period.

A security agreement has now been signed by the Company and Mr Stang. Vectus' plans with respect to the repayment of the funds advanced under the Loan Facility are that the first repayment of \$1,000,000 will take place in late November 2019, when Mr Stang subscribes for 2,000,000 convertible notes with a face value of \$1,000,000 pursuant to the Capital Raising and when the Company uses this \$1,000,000 to partially repay the Director loan. Vectus is planning to make an additional repayment of approximately \$420,000 in December 2019 when the June 2019 R&D tax offset refund is received from the ATO, and in December 2019 to repay the approximate \$220,000 additional facility provided during the time the convertible notes were documented. The Company expects the balance to be repaid in the June 2021 financial year during which time the June 2020 financial year R&D tax offset refund is received from the ATO. Therefore the discharge of the security is expected to occur in the 2020-21 financial year.

Vectus chose to obtain a financial accommodation from a related party rather than a lender that is not a related party because the terms of the Director loan offered by Mr Stang were considerably more favourable to the Company than equivalent loans available from third party lenders that were prepared to lend against future R&D tax offset payments. These lenders typically required commercial interest rates significantly higher than those applicable to the Director loan (15% or higher) and they required first ranking security over all of the assets of the borrower, without subordination to other lenders. Vectus' Board satisfied itself that the loan transaction with Mr Stang was on arm's length terms, and was fair and reasonable from the perspective of the Company's shareholders because the security and loan terms were very similar to the terms of the convertible notes issue announced to ASX on 17 September 2019.

Vectus Biosystems Limited

Robert J Waring
Company Secretary