

Annual Financial Statements

Announcement

PYC Therapeutics Limited, (ASX: PYC) ('The Company' or 'PYC') submits its Annual Financial Statements for the year ended 30 June 2020.

This ASX announcement was approved and authorised for release by the Board of PYC Therapeutics Limited

ENDS For further information, please contact:

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About PYC Therapeutics

PYC Therapeutics (ASX: PYC) is a drug development company solving a major challenge in the development of a revolutionary new class of drugs – delivering large drugs into cells. Cell Penetrating Peptides (CPPs) can overcome 'the delivery challenge' and provide access for a wide range of potent and precise drug 'cargoes' to the 'undruggable genome' – the highest value drug targets that exist inside cells. PYC Therapeutics is using its CPP platform to develop a pipeline of novel therapies with an initial focus on inherited retinal diseases.

About Vision Pharma

Vision Pharma Pty Ltd (Vision) is a joint venture between PYC Therapeutics (PYC) and the Lions Eye Institute (LEI) dedicated to the development of new treatments for a range of debilitating eye diseases. Vision is advancing a lead program for the treatment of a form of Retinitis Pigmentosa as well as a range of other precision medicines for different eye diseases. Vision combines the clinical expertise of LEI with the drug development capabilities of PYC and is owned according to a 90% (PYC) and 10% (LEI) shareholding distribution.

Forward looking statements

Any forward-looking statements in this ASX announcement have been prepared on the basis of a number of assumptions which may prove incorrect and the current intentions, plans, expectations and beliefs about future events are subject to risks, uncertainties and other factors, many of which are outside the Company's control. Important factors that could cause actual results to differ materially from assumptions or expectations expressed or implied in this ASX announcement include known and unknown risks. Because actual results could differ materially to assumptions made and the Company's current intentions, plans, expectations and beliefs about the future, you are urged to view all forward-looking statements contained in this ASX announcement with caution. The Company undertakes no obligation to publicly update any forward-looking statement whether as a result of new information, future events or otherwise.

This ASX announcement should not be relied on as a recommendation or forecast by the Company. Nothing in this ASX announcement should be construed as either an offer to sell or a solicitation of an offer to buy or sell shares in any jurisdiction.

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PYC Therapeutics Limited

ACN 098 391 961

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Limited

ABN 48 098 391 961

Annual Financial Statements
30 June 2020

Corporate Information

Directors

Mr Alan Tribe
Non-Executive Chair

Dr Rohan Hockings
Chief Executive Officer
Executive Director

Mr Douglas Huey
Executive Director

Dr Bernard Hockings
Non-Executive Director

Company Secretary

Mr Kevin Hart

Share Registry

Automic Group
Level 2, 267 St Georges Terrace
Perth, Western Australia 6000
Telephone: (02) 8072 1400

Auditors

HLB Mann Judd
Level 4
130 Stirling Street
Perth
Western Australia 6000

Lawyers

HWL Ebsworth Lawyers
Level 20
240 St Georges Terrace
Perth
Western Australia 6000

Website

www.pyctx.com

Incorporated in Western Australia,
October 2001

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Registered Office

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Western Australia 6153
Telephone: 08 9316 9100
Facsimile: 08 9315 5475

Postal Address

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Mt Pleasant
Western Australia 6153

Principal Place of Business

Harry Perkins Institute
6 Verdun Street
Nedlands
Western Australia 6009
Telephone: 08 6151 0992
Facsimile: 08 9315 5475

Listed on:

Australian Securities Exchange (ASX)
Home Exchange: Perth

Code: PYC ordinary shares

Directors' Report

For the year ended 30 June 2020

The Directors present their report on PYC Therapeutics Limited and its controlled entities ("The Group" or "PYC") together with the financial report for the year ended 30 June 2020 and the audit report thereon.

1. Directors

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

Mr Alan W Tribe **Age: 72**

Non-Executive Director and Chairman – Appointed 11 April 2018

Mr Tribe has a background in the accounting profession both in the UK and Australia. Moving into industry he became the Managing Director of a group of companies with interests in natural resources in Australia and overseas. The group also included a technology Group which grew through both successful product development and acquisitions.

He was closely involved in establishing subsidiary operations in the USA, UK and Singapore to access markets worldwide.

Most recently he was the catalyst for the development of large retail operations in Western and South Australia.

Mr Tribe will contribute his broad experience in successfully commercialising technology internationally. He represents a large shareholding in PYC.

Mr Tribe has held no other Australian listed company Directorships in the last three years.

Dr Rohan Hockings **Age: 37**

M.B.B.S (Hons.), J.D., G.D.L.P

Chief Executive Officer / Executive Director - Appointed 30 November 2018

Dr Hockings is a founding principal of a private equity fund active in the acquisition of health care assets within Australia. His previous roles include strategy and operational advisory positions with a global management consulting firm, equity capital markets experience as a solicitor with a national law firm and a number of appointments as a medical practitioner. Dr. Hockings has a special interest in both venture capital and private equity within the healthcare industry.

Dr Hockings has held no other Australian listed company Directorships in the last three years.

Mr Douglas Huey **Age: 43**

MBA

Executive Director – Appointed 11 February 2020/ Managing Director USA subsidiary PYC Therapeutics LLC

Mr Huey joins PYC from McKinsey & Company, where he was a Partner and a leader in the firm's Strategy & Corporate Finance practice. Originally from the US, Mr Huey moved to Australia in 2013 and successfully helped grow McKinsey's newly opened Perth office.

With two decades of professional experience, Mr Huey has led global multi-disciplinary teams to transform the performance of his clients.

Mr Huey holds an MBA from the prestigious Kellogg School of Management, where he graduated with distinction, and he brings a diverse range of capabilities across strategy, finance, and operations.

Mr Huey has held no other Australian listed company Directorships in the last three years.

Directors' Report *(Cont.)*

For the year ended 30 June 2020

Dr Bernard Hockings **Age: 72**
R.F.D., MD (WA), M.B.B.S (WA), F.R.A.C.P., F.C.S.A.N.Z, GAICD
Non-Executive Director

Non-Executive Director - Appointed 23 January 2014.

Dr Hockings retired as an Interventional Cardiologist in Private Practice in Western Australia in July 2017. He is a Clinical Associate Professor in Medicine at the University of Western Australia. Previously he was Director of the Coronary Care Unit at Royal Perth Hospital, Chair of the Medical Advisory Committee at the Mount Hospital and Director of Health Reserves (WA) for the Royal Australian Air Force.

Dr Hockings has a lifelong interest in medical research. His Doctoral Thesis involved Vasodilator Therapy in the treatment of heart failure. He has been closely involved with clinical teaching throughout his career. Dr Hockings is a major shareholder in PYC.

Dr Hockings has held no other Australian listed company Directorships in the last three years.

2. Company Secretary

Mr Kevin Hart **Age: 58**
BComm FCA
Group Secretary/Chief Financial Officer – Appointed 24 July 2017

Mr Hart holds a Bachelor of Commerce Degree and is a Chartered Accountant. He is a Partner at Endeavour Corporate Pty Ltd, an advisory firm that specialises in the provision of Group secretarial and accounting services to ASX listed entities. Mr Hart has over 30 years of professional experience with the accounting and management of public companies.

3. Directors' Meetings

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

Director	Directors' Meetings	
	Number of meetings held whilst in office	Meetings attended
A Tribe	11	11
D Huey ⁽ⁱ⁾	5	5
R Hockings	11	11
B Hockings	11	11

(i) Appointed 11 February 2020

4. Principal Activities

The principal activity of the Company during the financial year was drug development and progressing the company's lead drug through the Investigational New Drug (IND) pathway to clinical development.

5. Operating Results and Financial Position

The operating loss after tax for the financial year ended on 30 June 2020 was \$7,079,539 (2019 loss: \$4,079,768). Included in the result for the year is an income tax benefit of \$2,395,706 (2019 \$2,904,120) being the R&D income tax incentive received.

The cash position of the Group at 30 June 2020 was \$7.2 million (30 June 2019: \$1.7 million) with a further \$18.1 million in investments being term deposits with terms of greater than 3 months (2019: \$4.5 million).

6. Review of Activities

Corporate

During the year the Group was focussed on drug development. In October 2019 the company announced a strategic partnership with the Lions Eye Institute (LEI) to develop a pipeline of treatments for blinding eye diseases. The company's 90% owned (LEI-10%) subsidiary Vision Pharma Pty Ltd is the strategic partnership vehicle combining PYC's delivery technology and global leading expertise in Anti-Sense Oligonucleotides (ASO) design and validation with LEI's expertise in the eye.

In the second half of the financial year, the company established a USA office and executive presence in order to better facilitate three important sets of interactions through the transition to clinical stage drug developer:

- 1) Regulatory engagement – the process of engaging with the US Food and Drug Administration in support of first in human testing of the Group's lead drug candidate has begun with the submission of both Orphan Drug Designation and Rare Paediatric Disease Designation applications;
- 2) Business Development – engagement of potential industry partners to identify meaningful opportunities will remain a feature of the Group's operations and is particularly important in the context of how rapidly PYC's technology can scale across multiple indications; and
- 3) Investor Relations – the US is the most advanced life sciences market globally and the Group anticipates building a substantial institutional investor base in this market.

In November 2019, the Group completed a \$26.8m Accelerated Non-Renounceable Entitlement Offer at an issue price of \$0.055 per share to provide strength to the Group's balance sheet as the company progresses towards clinical development.

Operational

During the 2019/2020 financial year PYC took control of the entirety of the drug design and development process through the appointment of Professor Sue Fletcher as the Group's Chief Scientific Officer. A team of RNA therapeutics design experts was recruited in support of Prof. Fletcher enabling the Group to expand its pipeline of drugs in development. The integration of these capabilities with PYC's existing expertise in drug delivery and translation have facilitated the Group's transition to drug developer with a multi-asset pipeline.

Operational highlights during the year and up to the date of this report include:

- Successful demonstration of the efficacy of the lead drug program in patient derived models of disease;
- Successful demonstration of a dose-response relationship for the Group's drug delivery technology alongside the safety profile of the technology in animal models;
- Initiation of Investigational New Drug (IND)-enabling studies in preparation for the Group's IND submission in 2021; and
- Expansion of the Group's drug discovery efforts to include other programs directed towards genetic retinal diseases with intellectual property protection filing anticipated within the remainder of 2020.

COVID-19

The company has been able to maintain progress on the RP11 program with only minor developmental delays despite the COVID restrictions. Critical lab activities have continued, and the majority of personnel have returned to working at PYC's offices.

7. Significant Changes in the State of Affairs

There were no significant changes in the state of affairs.

8. Dividends

No dividends have been paid or declared by the Group since the end of the previous financial year.

9. Events Subsequent to Reporting Date

The impact of the Coronavirus (COVID-19) pandemic is ongoing. The situation is rapidly developing and is dependent on measures imposed by the Australian Government, United States Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided. It is not practicable to estimate the potential impact, positive or negative, after the reporting date.

Other than the above, there are no matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group, in future financial years.

10. Directors' Interests

The relevant interest of each Director in the shares and options over shares issued by PYC as notified by the Directors to the Australian Securities Exchange in accordance with Section 205G(1) of the Corporations Act 2001, at the date of this report is as follows:

Director	Ordinary Shares	Options
A Tribe	882,563,760	-
D Huey	-	20,000,000
R Hockings	-	10,000,000
B Hockings	263,659,571	-

11. Indemnification and Insurance of Directors and Officers

11.1 Directors' and Officers' indemnity

The Group has agreed to indemnify each Director and the Group Secretary (Officers) against all liabilities or loss (other than the Group or a related body corporate) that may arise from their position as Officers of the Group, except where the liability arises out of conduct involving a lack of good faith, or indemnification is otherwise not permitted under the Corporations Act. The indemnity stipulates that the Group will meet the full amount of any such liabilities, including costs and expenses, and covers a period of seven years after ceasing to be an Officer of the Group.

The Group has also indemnified the current Directors and certain members of its senior management for all liabilities and loss (other than the Group or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving lack of good faith or indemnification is otherwise not permitted under the Corporations Act.

The Group has executed deeds of indemnity, access and insurance in favour of each Officer of the Group.

11.2 Directors' and Officers' insurance

The Group has paid insurance premiums for one year of cover in respect of Directors' and Officers' liability insurance contracts, for Officers of the Group. The insurance cover is on standard industry terms and provides cover for loss and liability for wrongful acts in relation to the relevant person's role as an Officer, except that cover is not provided for loss in relation to Officers gaining any profit or advantage to which they were not legally entitled, or Officers committing any criminal, dishonest, fraudulent or malicious act or omission, or any knowing or wilful violation of any statute or regulation. Cover is also only provided for fines and penalties in limited circumstances and up to a small financial limit.

In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the nature of the liabilities covered by the insurance, the limit of indemnity and the amount of the premium paid under the contract.

12. Non-Audit Services

During the year, HLB Mann Judd, the Group's auditor, did not perform other services in addition to its statutory duties.

13. Options and Unissued Shares Under Convertible Securities

At the date of this report, ordinary shares of the Group under option totalled 55,000,000 as per the following table (2019: 10,000,000 options exercisable \$0.06 on or before 30 May 2020, and 10,000,000 options exercisable at \$0.039 on or before 16 November 2021).

Number of options	Exercisable at \$0.039 Expiring on 16 Nov 2021	Exercisable at \$0.063 Expiring on 28 Feb 2023	Exercisable at \$0.06 Expiring on 28 Feb 2023	Exercisable at \$0.11 Expiring on 29 Jun 2023
Issued	10,000,000	20,000,000	15,000,000	10,000,000
Vested	10,000,000	6,666,667	5,000,000	-

These converting securities do not entitle the holder to participate in any share issue of the Group or any other body corporate.

14. Environmental Regulation and Performance

The Group complies with all laboratory practice regulations, including, Materials and Materials Handling Practice, Animal Handling Practice, and OGTR Approval.

15. Corporate Governance

The Group's corporate governance statement can be found on the Group's website www.pyctx.com.

16. Remuneration Report - Audited

Remuneration is referred to as compensation throughout this report.

16.1 Principles of compensation

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Group, including Directors of the Group and other executives. Key management personnel include all Directors, the Group secretaries and specific executives of the Group.

Compensation levels for key management personnel of the Group are set competitively to attract and retain appropriately qualified and experienced Directors and senior executives. The remuneration committee has researched information from companies of similar size or stage of development in the technology sector to assess the level of compensation which would be competitive, receiving this information by way of a report from independent remuneration consultants.

The compensation structures for executives are designed to attract suitably qualified candidates, reward the achievement of strategic objectives and achieve the broader outcome of the creation of value for shareholders. The compensation structures take into account the executives' capability and experience, level of responsibility and ability to contribute to the Group's performance, including, in particular, the establishment of revenue streams and growth in the Group's share price.

Compensation packages include a mix of fixed and variable compensation and short-and long-term performance-based incentives.

16.2 Fixed remuneration

Fixed compensation consists of a base salary (calculated on a total cost basis, including any fringe benefits tax related to employee benefits) as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the Board through a process that considers individual and Group achievement.

Directors' Report (Cont.)

For the year ended 30 June 2020

16.3 Performance linked remuneration

Performance linked compensation includes short term incentives (STI), in the form of cash bonuses paid upon the achievement of predetermined Key Performance Indicators (KPI), and long-term incentives (LTI) provided as options under the Employee Share Option Plan. In the case of Executive Directors, the number and conditions of the options are approved by the shareholders in general meeting.

16.4 Short term incentive bonus (STI)

The Board has set KPIs in conjunction with each of the Executive Directors and senior management. The KPI's are chosen to align the reward to the strategy and operational performance of the company. KPI's include progressing the lead drug program (RP11) in preparation for an IND submission and creation of a pipeline of discovery assets for retinal disease.

Short Term Incentives are usually in the form of cash bonuses calculated based on achievement of Key Performance Indicators (KPI's).

16.5 2020 Financial Year Short Term Incentives

No short-term incentive bonuses were paid to KMP in relation to the 2019 and the 2020 financial years.

16.6 Long term incentives (LTI)

Long term incentives for senior executives is through the grant of share options vesting over time. The options are granted free of charge and are exercisable at a fixed price.

16.7 Short-term and long-term incentive structure

The Group has not established a causal relationship between compensation structure and shareholder returns. The Directors consider that the Group's progress to date and external remuneration levels provide support for the premise that the compensation structure is appropriate, given the objectives set out earlier in this report.

16.8 Consequences of performance on shareholders' wealth

The Board has regard to a broad range of factors in considering the Group's performance and how best to generate shareholder value. These include financial factors, securing new drug discovery partnerships and others that relate to meeting the objectives of existing discovery alliances, scientific progress of the Group's in-house projects, grants awarded, staff development etc. The Board has some, but not absolute regard to the Group's result and cash consumption during the year. It does not utilise earnings per share as a performance measure nor does it contemplate consideration of any dividends in the short to medium term, given that efforts are being expended to build the business and generate self-sustaining revenue streams. The Group is of the view that any adverse movement in the Group's share price should not be taken into account in assessing the performance of employees, unless such a measure is agreed with the executive as a KPI.

16.9 Service agreements

At 30 June 2020, the senior executives of the Group who are full time employees, had conditions of employment as set out below.

Name	Dr Rohan Hockings
Position	Chief Executive Officer
Term Expiring	30 June 2021
Salary	\$395,000
STI	Payment of up to \$198,000. The performance criteria, assessment and timing are determined at the discretion of the Board.
Options	10,000,000
Termination Notice	If terminated by the Group twelve months' notice and two months' notice by the individual.

Name	Mr Douglas Huey
Position	Executive Director
Term Expiring	11 February 2022
Salary	USD 600,000 plus up to AUD 50,000 health benefits
Options	20,000,000
Termination Notice	If terminated by the Group four months' notice and two months' notice by the individual.

Directors' Report *(Cont.)*

For the year ended 30 June 2020

Company Secretarial services are provided by a contractor with no financial commitment by the Group other than a monthly fee, payable in arrears, for services rendered by employees of the service company, including the company secretary.

16.10 Non-executive Directors

The aggregate remuneration of all non-executive Directors was set at \$300,000 per annum at the annual general meeting held on 27 November 2014. The base fee for a non-executive Director has been \$40,000 per annum since 1 July 2011. The Group makes contributions at the statutory minimum rate to superannuation funds nominated by Directors, in addition to the base fee.

Directors' fees cover all main board activities and committee memberships.

Use of remuneration consultants

During the financial year ended 30 June 2020, the consolidated entity did not engage the services of remuneration consultants.

16.11 Equity instruments

16.11.1 Options

All options refer to options over ordinary shares of PYC Therapeutics Limited which are exercisable on a one-for-one basis.

(a) Options and rights over equity instruments granted as compensation

During the reporting period, 20,000,000 options over ordinary shares in the Group were granted as compensation to key management personnel (2019:10,000,000).

Key management person	Number of options outstanding at 30 June 2020	Grant date	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date	Number of options vested during 2020
CEO Douglas Huey	20,000,000	12 Feb 2020	\$0.03989	\$0.063	28 February 2023	6,666,667
CSO Rohan Hockings	10,000,000	16 Nov 2018	\$0.01263	\$0.039	16 November 2021	5,000,000

The methodology used to arrive at a fair value of the options issued during the current financial year is set out in Note 21 of the financial report.

(b) Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including options granted as compensation to a key management person) have been altered or modified by the Group during the reporting period or the prior period.

(c) Exercise of options granted as compensation

During the reporting period, no options previously granted as compensation were exercised (2019: Nil).

(d) Analysis of options and rights over equity instruments granted as compensation

Details of vesting profiles of the options granted as remuneration to executive Directors of the Group and the named Group executive are detailed as follows:

Key management person	Options granted		Vested in year (%)	Forfeited in year (%)	Financial years in which grant vests	Value yet to vest ⁽¹⁾	
	Number	Date				Minimum (\$)	Maximum (\$)
Mr D Huey	20,000,000	12 Feb 2020	33.3		2020	531,958	531,958
Dr R Hockings	10,000,000	16 Nov 2018	100	-	2020	-	-
Dr R Hayes	10,000,000	24 Nov 2017	100	98.5	-	-	-

(1) The unvested options vest 50% on 28 February 2021 and 50% on 28 February 2022.

Directors' Report *(Cont.)*
For the year ended 30 June 2020

(e) Analysis of Movements in options

Other than the above there were no movements during the reporting period of options over ordinary shares in the Group held by Group Directors and other Key Management Personnel.

16.12 Directors' and executive Officers' remuneration

Details of the nature and amount of each major element of remuneration of each Director and each of the executives of the Group (Key Management Personnel) are as set out on the following page.

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Directors' Report (Cont.)
For the year ended 30 June 2020

Year ended 30 June 2020	Note	Short Term Benefits	Long Term Benefits	Post-Employment Benefits	Share-Based Payments	Total	Performance based as proportion of Remuneration
		Salary & Fees \$	Long Service Leave \$	Superannuation \$	Value of Options \$		\$
Executive Director							
Dr Rohan Hockings		395,000	-	-	38,957	433,957	-
Mr Douglas Huey	1	377,524	-	-	408,552	786,076	-
Non-executive Directors							
Mr Alan Tribe		70,000	-	6,073	-	76,073	-
Dr Bernard Hockings		43,800	-	-	-	43,800	-
Total Key Management Personnel		886,324	-	6,073	447,509	1,339,906	-

Note

- Mr Douglas Huey was appointed Executive Director on 11 February 2020
- The Group pays an insurance premium for Group reimbursement and Directors' and Officers' liability insurance as a combined amount. The portion of the premium which relates to Directors and Officers has not been included as part of remuneration.

Year ended 30 June 2019	Note	Short Term Benefits	Long Term Benefits	Post-Employment Benefits	Share-Based Payments	Total	Performance based as proportion of Remuneration
		Salary & Fees \$	Long Service Leave \$	Superannuation \$	Value of Options \$		\$
Executive Director							
Dr Rohan Hockings	1	395,000	-	-	87,336	482,336	-
Non-executive Directors							
Mr Alan Tribe	2	61,139	-	5,808	-	66,947	-
Dr Bernard Hockings		43,800	-	-	-	43,800	-
Former Non-Executive Directors							
Mr Sahm Nasserri	3	26,513	-	-	-	26,513	-
Dr Robert Hayes	4	272,767	-	1,729	27,724	302,220	-
Total Key Management Personnel		799,219	-	7,537	115,060	921,816	-

Note

- Dr Rohan Hockings was appointed Chief Executive Officer on 11 April 2018 and Executive Director on 30 November 2018.
- Mr A Tribe was appointed Non-Executive Chairman on 11 April 2018
- Mr Sahm Nasserri was appointed Non-Executive Director on 20 October 2017 and resigned on 8 February 2019
- Dr Robert Hayes resigned on 30 November 2018
- The Group pays an insurance premium for Group reimbursement and Directors' and Officers' liability insurance as a combined amount. The portion of the premium which relates to Directors and Officers has not been included as part of remuneration.

Directors' Report (Cont.)

For the year ended 30 June 2020

16.13 Analysis of bonuses included in remuneration

No bonuses were awarded in relation to the 2020 financial year.

16.14 Movements in share and options holdings

Movements in Key Management Personnel equity holdings during the period are set out below.

16.14.1 Options over equity instruments

The movement during the reporting period in the number of options over ordinary shares in the Group held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

Year ended 30 June 2020

Key Management Personnel	Balance 1 July 2019	Granted as Compensation	Exercised	Other Changes ⁽ⁱ⁾	Balance 30 June 2020	Vested During the Year	Vested & Exercisable 30 June 2020
Directors							
Dr R Hockings	10,000,000	-	-	-	10,000,000	5,000,000	10,000,000
Mr D Huey	-	20,000,000	-	-	20,000,000	6,666,667	6,666,667
Mr A Tribe	-	-	-	-	-	-	-
Dr B Hockings	-	-	-	-	-	-	-
Former Directors							
Dr R Hayes	10,000,000	-	-	(10,000,000)	-	-	-

(i) Dr Hayes exercised 150,000 options during the period and the remainder expired unexercised.

Year ended 30 June 2019

Key Management Personnel	Balance 1 July 2018	Granted as Compensation	Exercised ⁽ⁱ⁾	Other Changes ⁽ⁱⁱ⁾	Balance 30 June 2019	Vested During the Year	Vested & Exercisable 30 June 2019
Directors							
Dr R Hockings	-	10,000,000	-	-	10,000,000	5,000,000	5,000,000
Mr A Tribe	-	-	-	-	-	-	-
Dr B Hockings	-	-	-	-	-	-	-
Former Directors							
Dr R Hayes	10,000,000	-	-	-	10,000,000	5,000,000	5,000,000
Dr Sahm Nasser	-	-	-	-	-	-	-

(i) Options exercised

(ii) Options expired unexercised

16.14.2 Shareholdings

The movement during the reporting period in the number of ordinary shares in the Group held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

Year ended 30 June 2020

Key Management Personnel	Balance 1 July 2019	Purchases	Other Changes	Granted as Compensation	Sales	Balance 30 June 2020
Directors						
Mr A Tribe	559,566,247	322,997,513	-	-	-	882,563,760
Mr D Huey	-	-	-	-	-	-
Dr R Hockings	-	-	-	-	-	-
Dr B Hockings	351,257,519	302,502	-	-	(87,900,000)	263,659,571

Directors' Report (Cont.) For the year ended 30 June 2020

Year ended 30 June 2019

Key Management Personnel	Balance 1 July 2018	Purchases	Other Changes	Granted as Compensation	Sales	Balance 30 June 2019
Directors						
Mr A Tribe	425,766,247	133,800,000(i)	-	-	-	559,566,247
Dr R Hockings	-	-	-	-	-	-
Dr B Hockings	317,924,185	33,333,334(ii)	-	-	-	351,257,519
Former Executives						
Dr R Hayes	-	-	-	-	-	-

(i) 124,500,000 shares purchased pursuant to the placement; 9,300,000 shares purchased on market.

(ii) 33,33,334 shares purchased pursuant to the placement.

16.15 Key management personnel transactions

Other than the above, there were no amounts paid or payable to key management personnel during the reporting period or at reporting date.

17. Proceedings on behalf of the Group

No person has applied for leave of court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

18. Auditor's Independence Declaration

The auditor's independence declaration is set out on page 13 and forms part of the Directors' report for the year ended 30 June 2020.

Signed in accordance with a resolution of the Directors:



Rohan Hockings
Executive Director
Chief Executive Officer
Perth
14th September 2020

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of PYC Therapeutics Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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



Perth, Western Australia
14 September 2020

B G McVeigh
Partner

hlb.com.au

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2020

	Note	2020 \$	2019 \$
Continuing Operations			
Net interest revenue		207,030	117,963
Other income		62,500	250
Contract research costs		(405,000)	(2,675,984)
Personnel expenses	7	(5,753,849)	(1,770,983)
Depreciation and amortisation	8	(547,113)	(130,556)
Professional services		(607,442)	(409,789)
Travel and accommodation		(105,901)	(50,550)
Interest on operating leases		(42,923)	-
Intellectual property maintenance		(31,118)	(78,323)
Laboratory consumables		(1,966,856)	(1,837,418)
Occupancy costs		(5,641)	(57,345)
Other operating expenses		(278,932)	(91,153)
Loss before income tax benefit		(9,475,245)	(6,983,888)
Income tax benefit	9	2,395,706	2,904,120
Net loss for the year		(7,079,539)	(4,079,768)
Net Loss for the Period attributable to:			
Owners of the parent		(6,822,215)	(4,079,768)
Non-controlling interests		(257,324)	-
		(7,079,539)	(4,079,768)
Other Comprehensive Income attributable to:			
Owners of the parent		-	-
Non-controlling interests		-	-
		-	-
Total comprehensive loss for the year attributable to:			
Owners of the parent		(6,822,215)	(4,079,768)
Non-controlling interests		(257,324)	-
		(7,079,539)	(4,079,768)
		Cents	Cents
Basic loss per share	25	(0.26)	(0.17)
Diluted loss per share	25	(0.26)	(0.17)

This consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements.

Consolidated Statement of Financial Position

As at 30 June 2020

	Note	2020 \$	2019 \$
Current assets			
Cash and cash equivalents	10	7,242,343	1,661,850
Trade and other receivables	11	82,665	10,827
Prepayments		50,359	26,143
Funds held in term deposits		18,185,752	4,519,553
Total current assets		25,561,119	6,218,373
Non-current assets			
Plant and equipment	12	355,912	482,869
Right-of-use assets	13	779,283	-
Intangible assets	14	4,850,000	-
Total non-current assets		5,985,195	482,869
Total assets		31,546,314	6,701,242
Current liabilities			
Trade and other payables	17	380,568	359,569
Employee benefits	18	172,070	42,305
Lease liabilities	19	152,967	-
Total current liabilities		705,605	401,874
Non-current liabilities			
Lease liabilities	19	645,178	-
Total non-current liabilities		645,178	401,874
Total liabilities		1,350,783	401,874
Net assets		30,195,531	6,299,368
Equity			
Issued capital	23(i)	87,206,822	61,951,088
Reserves	23(ii)	4,495,740	1,275,772
Accumulated losses		(63,749,707)	(56,927,492)
Equity attributable to owners of the parent		27,952,855	6,299,368
Non-controlling interests		2,242,676	-
Total equity		30,195,531	6,299,368

This consolidated statement of financial position is to be read in conjunction with the notes to the financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2020

	Note	2020 \$	2019 \$
Cash flows from operating activities			
Cash paid to suppliers and employees		(8,353,629)	(8,139,284)
R&D tax rebate		2,395,706	2,904,120
Interest received		202,441	109,751
Interest paid operating leases		(42,923)	-
Government grants received		50,000	-
Net cash used in operating activities	26	(5,748,405)	(5,125,413)
Cash flows from investing activities			
Proceeds from the sale of property, plant and equipment		-	250
Acquisition of property, plant and equipment		(106,097)	(457,539)
Funds transferred to term deposits		(13,666,199)	(4,519,553)
Net cash acquired in acquisition of controlled entity	29	-	-
Net cash used in investing activities		(13,772,296)	(4,976,842)
Cash flows from financing activities			
Proceeds from the issue of share capital	23(i)	26,880,723	9,120,000
Payment of transaction costs	23(i)	(1,624,989)	(503,201)
Repayment of lease liabilities		(145,196)	-
Net cash from financing activities		25,110,358	8,616,799
Net increase/(decrease) in cash and cash equivalents		5,589,837	(1,485,456)
Cash and cash equivalents at the beginning of the year		1,661,850	3,147,306
Foreign exchange effect on cash		(9,344)	-
Cash and cash equivalents at the end of the year		7,242,343	1,661,850

This consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2020

	Note	Issued Capital \$	Accumulated Losses \$	Share based payment reserve \$	Acquisition Reserve \$	Attributable to owners of the parent \$	NCI \$	Total \$
Balance at 1 July 2018		53,334,289	(52,847,724)	1,160,712	-	1,647,277	-	1,647,277
Net loss for the period		-	(4,079,768)	-	-	(945,554)	-	(945,554)
Other comprehensive loss for the period, net of tax		-	-	-	-	-	-	-
Total comprehensive loss for the period		-	(4,079,768)	-	-	(4,079,768)	-	(4,079,768)
Shares issued		9,120,000	-	-	-	9,120,000	-	9,120,000
Costs of share issue		(503,201)	-	-	-	(503,201)	-	(503,201)
Share based payments	22	-	-	115,060	-	115,060	-	115,060
Balance at 30 June 2019		61,951,088	(56,927,492)	1,275,772	-	6,299,368	-	6,299,368
Balance at 1 July 2019		61,951,088	(56,927,492)	1,275,772	-	6,299,368	-	6,299,368
Net loss for the period		-	(6,822,215)	-	-	(6,822,215)	(257,324)	(7,079,539)
Other comprehensive loss for the period, net of tax		-	-	-	-	-	-	-
Total comprehensive loss for the period		-	(6,822,215)	-	-	(6,822,215)	(257,324)	(7,079,539)
Shares issued		26,880,723	-	-	-	26,880,723	-	26,880,723
Transfer between owners		-	-	-	2,500,000	2,500,000	(2,500,000)	-
Costs of share issue		(1,624,989)	-	-	-	(1,624,989)	-	(1,624,989)
Share based payments	22	-	-	719,968	-	719,968	-	719,968
Non-controlling interest arising on acquisition		-	-	-	-	-	5,000,000	5,000,000
Balance at 30 June 2020		87,206,823	(63,749,707)	1,995,740	2,500,000	27,952,855	2,242,676	30,195,531

This consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements.

Notes to the Financial Statements

For the Year Ended 30 June 2020

1. Reporting Entity

PYC Therapeutics is a listed public Group incorporated and operating in Australia. The financial report of the Group for the financial year ended 30 June 2020 was authorised for issue by the Directors on 14 September 2020.

2. Basis of Preparation

(a) Statement of Compliance

The financial report is a general-purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASB's) which includes Australian equivalents to International Financial Reporting Standards (AIFRS) adopted by the Australian Accounting Standards Board (AASB), and the Corporations Act 2001. Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS's).

(b) Basis of measurement

The financial statements have been prepared on a historical cost basis and are presented in Australian dollars. All figures presented in the financial report are rounded to the nearest dollar.

(c) Use of estimates and judgements

The preparation of a financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The areas of estimation and uncertainty where judgement is used in applying accounting principles and where there may be an impact in the accounting revenue or expense are described in the following notes:

- Note 12 – useful lives of plant and equipment
- Note 14 – intangible assets
- Note 22 – share based payments

The fair value of options granted is measured using a valuation model taking into account the share price at the grant date, exercise price, expected option life and the expected volatility of the share price traded on the ASX.

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the company based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the company operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the company unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Notes to the Financial Statements

For the Year Ended 30 June 2020

(d) Going Concern

The financial report has been prepared on a going concern basis which assumes the settlement of liabilities and the realisation of assets in the normal course of business. For the year ended 30 June 2020 the Group has incurred a loss of \$7,079,539 (2019: loss of \$4,079,768) and at year end the Group had working capital of \$24,555,514 (2019: \$5,816,499) including a cash and cash equivalents balance of \$7,242,343 (2019: \$1,661,850) and \$18.1 million in investments being term deposits with terms of greater than 3 months (2019: \$4.5 million). Cash used in operating activities in 2020 was \$5,893,601 (2019: \$5,125,413).

The Directors believe that it is appropriate to prepare the financial report on a going concern basis. The Group expects to receive an R&D rebate during the first half of the 2021 financial year, and with the opening cash balance, the Directors are of the view that this will be sufficient to cover expenditure for the period of 12 months from the date of approval of this financial report. The Group also has the option of selectively reducing expenditure where necessary.

(e) Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 32.

(f) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of PYC Therapeutics Limited ('company' or 'parent entity') as at 30 June 2020 and the results of all subsidiaries for the year then ended. PYC Therapeutics 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.

3. Significant accounting policies

The accounting policies detailed below have been consistently applied to all years presented unless otherwise stated.

(a) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

3. Significant accounting policies *(Cont.)*

(b) Property, plant and equipment

(i) Recognition and measurement

The Group holds no property. Items of plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses - see note 3(h). Cost includes expenditures that are directly attributable to the acquisition of the asset.

(ii) Depreciation

Depreciation is charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment. The estimated useful lives in the current and comparative periods are as follows:

Office and research equipment 2-13 years

The residual value, depreciation method and useful lives if significant, are reassessed annually.

(c) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the statement of profit or loss and other comprehensive income as an expense as incurred. The Group does not currently undertake development activities as defined in AASB 138 Intangible Assets and therefore has not capitalised development expenditure.

(d) Trade and other receivables

Trade and other receivables are initially measured at fair value and are subsequently measured at their amortised cost less any impairment losses (see note 3(h)). Trade receivables are due for settlement in no more than 30 days and the nominal amount is deemed to reflect fair value.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity of three months or less.

(f) Financial assets

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- equity instruments at fair value through other comprehensive income (FVOCI)
- debt instruments at fair value through other comprehensive income (FVOCI)

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

3. Significant accounting policies *(Cont.)*

(g) Intangibles

Intangible assets acquired separately

Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

The following useful lives are used in the calculation of amortisation:

Patents for pharmaceuticals: 25 years

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

(h) Impairment

Non-Financial Assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. In respect of other assets, an impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the asset's carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

3. Significant accounting policies *(Cont.)*

(i) Loss per share

Basic loss per share (EPS) is calculated by dividing the loss attributable to the members of the Group for reporting period, after exclusion of any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the half year, adjusted for any bonus elements.

Diluted EPS adjusts the figures used in the determination of basic EPS to take into account the after-tax effect of interest recognised associated with the dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares adjusted for any bonus elements.

(j) Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax.

(k) Employee benefits

(i) Share based payment transactions

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.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

3. Significant accounting policies *(Cont.)*

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

(ii) Wages, salaries, annual leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

No provision is made for non-vesting sick leave as the anticipated pattern of future sick leave taken indicates that accumulated non-vesting sick leave will never be paid.

(iii) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the statement of profit or loss and comprehensive income as incurred.

(l) Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently measured at their amortised cost. These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and normally settled within 30 days of recognition.

(n) Finance income and expense

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Finance expenses comprise interest expense on borrowings and are recognised as an expense in the period in which they are incurred.

(o) Other Income

Government grant income is recognised in the statement of financial position initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised as revenue in the statement of profit or loss and other comprehensive income on a systematic basis in the same periods in which the related expenses are incurred.

(p) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributed to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

3. Significant accounting policies *(Cont.)*

(q) Income tax

Income tax in the statement of profit or loss and other comprehensive income for the periods presented comprises current and deferred tax. Income tax is recognised in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(r) Segment reporting

The Group comprises a single business segment comprising discovery and development of novel therapeutics and a single geographical location being Australia. During the year, an office in the US was established to drive investor relations, business development and regulatory engagement efforts there as PYC progresses into clinical drug development, but at this stage it is not considered a material segment separate from the Australian operations. The segment details are therefore fully reflected in the results and balances reported in the statement of comprehensive income and statement of financial position.

(s) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the statement of financial position.

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

(t) Interest in Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interests a joint operation:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the relevant standards and interpretations applicable to the particular assets, liabilities, revenues and expenses.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

3. Significant accounting policies *(Cont.)*

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

(u) Standards and Interpretations applicable to 30 June 2020

In the year ended 30 June 2020, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group and effective for the current annual reporting period.

Refer to (w) below for details of the changes due to the adoption of new standards.

(v) Standards and Interpretations in issue not yet adopted

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet adopted for the year ended 30 June 2020. As a result of this review the Directors have determined that there is no material impact of the Standards and Interpretations in issue not yet adopted on the Group.

(w) New standards adopted

AASB 16 Leases

AASB 16 Leases supersedes AASB 117 Leases and related Interpretations. The Group has adopted AASB 16 from 1 July 2019 which has resulted in changes in the classification, measurement and recognition of leases. The changes result in almost all leases where the Group is the lessee being recognised on the Statement of Financial Position and removes the former distinction between 'operating and 'finance' leases. The new standard requires recognition of a right-of-use asset (the leased item) and a financial liability (to pay rentals). The exceptions are short-term leases and leases of low value assets.

The Group has adopted AASB 16 using the modified retrospective approach under which the reclassifications and the adjustments arising from the new leasing rules are recognised in the opening Condensed Statement of Financial Position on 1 July 2019. Under this approach, there is no initial impact on retained earnings and comparatives have not been restated.

The Group leases various premises, plant and equipment. Prior to 1 July 2019, leases were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, where the Group is a lessee, the Group recognises a right-of-use asset and a corresponding liability at the date which the lease asset is available for use by the Group (i.e. commencement date). Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a consistent period rate of interest on the remaining balance of the liability for each period.

The lease liability is initially measured at the present value of the lease payments that are not paid at commencement date, discounted using the rate implied in the lease. If this rate is not readily determinable, the Group uses its incremental borrowing rate.

Lease payments included in the initial measurement if the lease liability consist of:

- Fixed lease payments less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at commencement date;
- Any amounts expected to be payable by the Group under residual value guarantees;
- The exercise price of purchase options, if the Group is reasonably certain to exercise the options; and
- Termination penalties of the lease term reflects the exercise of an option to terminate the lease.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

3. Significant accounting policies (Cont.)

Extension options are included in the property lease of the Group. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if, at commencement date, it is reasonably certain that the options will be exercised.

Subsequent to initial recognition, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The lease liability is remeasured (with a corresponding adjustment to the right-of-use asset) whenever there was a change in the lease term (including assessments relating to extension and termination options), lease payments due to changes in an index or rate, or expected payments under guaranteed residual values.

Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before commencement date, less any lease incentives received and any initial direct costs. These right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Where the terms of a lease require the Group to restore the underlying asset, or the Group has an obligation to dismantle and remove a leased asset, a provision is recognised and measured in accordance with AASB 137. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Right-of-use assets are depreciated on a straight-line basis over the term of the lease (or the useful life of the leased asset if this is shorter). Depreciation starts on commencement date of the lease.

Where leases have a term of less than 12 months or relate to low value assets, the Group has applied the optional exemptions to not capitalise these leases and instead account for the lease expense on a straight-line basis over the lease term.

Impact on adoption of AASB 16

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of AASB 117.

These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to lease liabilities on 1 July 2019 was 5%.

On initial application right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Statement of Financial Position as at 30 June 2019.

In the Condensed Consolidated Statement of Cash Flows, the Group has recognised cash payments for the principal portion of the lease liability within financing activities, cash payments for the interest portion of the lease liability as interest paid within operating activities and short-term lease payments and payments for lease of low-value assets within operating activities.

The adoption of AASB 16 resulted in the recognition of right-of-use assets of \$943,671 and lease liabilities of \$943,671 in respect of all operating leases, other than short-term leases and leases of low-value assets.

The net impact on accumulated losses on 1 July 2019 was \$nil.

Practical expedients applied

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- For existing contracts as at 1 July 2019, the Group has elected to apply the definition of lease contained in AASB 117 and Interpretation 4 and has not applied AASB 16 to contracts that were previously not identified as leases under AASB 117 and Interpretation 4;
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases, with no right-of-use asset nor lease liability recognised;
- Relying on historic assessments of whether leases were onerous instead of performing impairment reviews of right-of-use assets immediately prior to the date of initial application of AASB 16;
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

3. Significant accounting policies (Cont.)

Reconciliation of operating lease commitments previously disclosed and lease liabilities on 1 July 2019

Below is a reconciliation of total operating lease commitments as at 30 June 2019, as disclosed in the annual financial statements for the year ended 30 June 2019, and the lease liabilities recognised on 1 July 2019:

	\$'000
Operating lease commitments disclosed as at 30 June 2019	496,375
Discounted using the lessee's incremental borrowing rate at the date of initial application	476,649
Less: Short term leases recognised on a straight-line basis as an expense	-
Less: Low value leases recognised on a straight-line basis as an expense	-
Less: Contracts reassessed as service agreements	-
Add: Adjustment as a result of a different treatment of extension and termination options	466,694
Lease liabilities as at 1 July 2019	<u>943,343</u>

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.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

4. Financial risk management

Overview

The Group has exposure to the following risks from their use of financial instruments:

- * credit risk
- * liquidity risk
- * market risk

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

Further quantitative disclosures are included throughout this financial report. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework and for developing and monitoring risk management policies.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group receivables and cash investments.

Trade and other receivables

The Group had no material credit risk with respect to trade and other receivables at 30 June 2020 or 2019.

Cash investments

The Group limits its exposure to credit risk by banking only with Australia and New Zealand Banking Group. Given that bank's credit rating, management does not expect it to fail to meet its obligations.

Liquidity risk

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

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Group does not presently use financial derivatives as a risk management tool.

Currency risk

The Group is exposed to currency risk on some purchases that are denominated in a currency other than the functional currency of the Group, the Australian dollar (AUD). As the exposure is immaterial in value and of short-term duration, the Group does not employ any hedging strategies for foreign currency risk management.

Interest rate risk

The Group does not have any borrowings. The Group invests temporarily idle funds for terms of up to three months at variable interest rates.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

4. Financial risk management (Cont.)

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board's target is for employees and Directors of the Group to hold between five and ten percent of the Group's ordinary shares as performance incentives. At present employees hold approximately 2% of fully diluted issued capital, assuming that all outstanding share options are exercised.

There were no changes in the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

(i) Interest rate risk profile:

	2020	2019
	\$	\$
At reporting date, the interest rate profile of the Group's interest bearing financial instrument was:		
Variable rate instruments:		
- Financial assets	25,128,095	6,181,403

Fair value sensitivity analysis for fixed rate instruments:

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss.

Cash flow sensitivity analysis for variable rate instruments:

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below.

This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2019.

	2020		2019	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Variable rate instruments	251,281	(251,281)	61,814	(61,814)

(ii) Fair value

The financial assets and financial liabilities of the Group are all current and therefore fair value is equal to carrying value. Consequently, the Group does not make any adjustments through the statement of profit or loss and other comprehensive income or on the statement of financial position to restate the carrying value of the financial assets and liabilities.

(iii) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group undertakes due diligence prior to entering into any collaboration, co-development or licensing agreement with a counterparty that exposes the Group to credit risk.

No receivables are past due or considered impaired in 2020 or 2019.

(iv) Foreign exchange risk

The Group is exposed to foreign currency risk on purchases that are denominated in a currency other than the AUD, future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

4. Financial risk management (Cont.)

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

	Assets		Liabilities	
	2020	2019	2020	2019
US Dollars	329,573	-	931,823	-

The consolidated entity had net liabilities denominated in US Dollars of \$602,250 (assets of \$329,573 less liabilities of \$931,823) as at 30 June 2020 (2019: Nil).

Based on this exposure, had the Australian dollar weakened by 10%/strengthened by 5% against these foreign currencies with all other variables held constant, the consolidated entity's loss before tax for the year would have been \$60,225 lower/\$30,112 higher and equity would have been \$60,225 lower/\$30,112 higher.

The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 6 months each year and the spot rate at each reporting date. The actual foreign exchange loss for the year ended 30 June 2020 was \$9,344 (2019: nil).

(v) Capital management

The operations of the Group are not presently cash positive and the Group is reliant upon developing additional revenue and raising further capital. The Group's policy on capital management is set out in note 4.

(vi) Liquidity risk

The following are the contractual maturities of the Group's financial assets and liabilities.

	Carrying Amount \$	Contractual Cash Flows \$	6 months or less \$
At 30 June 2020			
Assets			
Cash and cash equivalents	7,242,343	7,242,343	7,242,343
Funds held in term deposits	18,185,752	18,185,752	18,185,752
Liabilities			
Trade and other payables	(552,639)	(552,639)	(552,639)
At 30 June 2019			
Assets			
Cash and cash equivalents	1,661,850	1,661,850	1,661,850
Funds held in term deposits	4,519,553	4,519,553	4,519,553
Liabilities			
Trade and other payables	(359,569)	(359,569)	(359,569)

5. Revenue

(i) Government grant income

Government COVID cash boost income of \$62,500 was recognised in the year ended 30 June 2020 (2019: Nil).

(ii) Commercial revenue

Commercial revenue is derived from contracts to fund research and is based upon a mixture of funding full time equivalent research salaries and milestone payments. No commercial income was recognised during the year ended 30 June 2020 (2019: Nil).

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

6. Research and development expenditure

The accounting standards do not permit the capitalisation of development expenditure in circumstances where the Group cannot demonstrate sustainable revenue generation derived from the results of the expenditure. Research expenditure must be expensed under accounting standards. The expenditure incurred in relation to obtaining and maintaining patent protection is allowed to be capitalised under the accounting standards but the Group has adopted a policy of expensing such expenditure as it is incurred.

7. Personnel expenses

	2020	2019
	\$	\$
Wages and salaries	4,291,041	1,475,406
Other associated staff costs	181,081	5,132
Contributions to defined contribution superannuation funds	365,262	71,630
Payroll tax	131,706	61,358
Increase/(Decrease) in annual leave accrual	64,791	42,397
Share based compensation - note 22	719,968	115,060
	<u>5,753,849</u>	<u>1,770,983</u>

8. Depreciation and amortisation

	2020	2019
	\$	\$
Depreciation of equipment	233,053	130,556
Depreciation of right-of-use assets	164,060	-
Amortisation of intangibles	150,000	-
	<u>547,113</u>	<u>130,556</u>

9. Income Tax

	2020	2019
	\$	\$
(i) Income tax benefit		
The prima facie tax on the operating loss is reconciled to the income tax provided in the accounts as follows:		
Prima facie tax benefit on operating loss before income tax at 30%	2,123,861	2,095,166
Tax effect of permanent differences	(13,346)	(58,721)
Current period tax losses and temporary differences not brought to account	(2,110,515)	(2,036,445)
R&D income tax incentive received relating to prior year	2,395,706	2,904,120
Income tax benefit	<u>2,395,706</u>	<u>2,904,120</u>

(ii) Unrecognised deferred tax asset

Deferred tax assets have not been recognised in respect of the following items:

Deductible/(Assessable) temporary differences	25,612	1,356
R&D refundable tax offset receivable in relation to current year	2,372,727	3,068,405
Tax losses	<u>11,438,210</u>	<u>11,132,085</u>
	<u>13,836,549</u>	<u>14,201,846</u>

Tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it cannot yet be considered probable that future taxable profit will be available against which the Group can utilise the benefits thereof.

10. Cash and cash equivalents

	2020	2019
	\$	\$
Cash and cash equivalents	<u>7,942,343(1)</u>	<u>1,661,850</u>
	7,942,343	1,661,850

(1) The Group has cash of \$300,000 (2019: Nil) not generally available for use as the balances are held by the Murdoch joint operation and may only be used in relation to joint operation expenditure.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

11. Trade and other receivables

	2020 \$	2019 \$
GST receivable	46,679	-
Accrued interest	27,916	10,827
Other receivables	8,070	-
	<u>82,665</u>	<u>10,827</u>

12. Plant and equipment

	2020 \$	2019 \$
Office and research equipment at cost	1,813,237	1,707,141
Accumulated depreciation	(1,457,425)	(1,224,272)
	<u>335,912</u>	<u>482,869</u>

Reconciliation:

	Note	2020	2019
Carrying amount at the beginning of the year		482,869	143,404
Acquisitions		106,126	470,021
Depreciation	8	(233,083)	(130,556)
Carrying amount at the end of the year		<u>335,912</u>	<u>482,869</u>

13. Right-of-use assets

	2020 \$	2019 \$
Cost	943,343	-
Accumulated depreciation	(164,060)	-
	<u>779,283</u>	<u>-</u>

Reconciliation

Recognised on 1 July 2019 on adoption of AASB 16		Premises 943,343
Depreciation expense		(164,060)
Closing balance		<u>779,283</u>

AASB 16 has been adopted during the current year. Refer to Note 3(w) for further information.

14. Intangible assets

	2020 \$	2019 \$
Intellectual property rights acquired through Vision Pharma Pty Ltd	5,000,000	-
Less accumulated depreciation	(150,000)	-
	<u>4,850,000</u>	<u>-</u>

15. Investment in Joint Operations

Details of the Group's interest in joint operations at the end of the reporting period is

	Principal Activity	Country of Incorporation	Ownership Interest 2020	2019
PYC Therapeutics / Murdoch University collaboration	Academic-Industry Collaboration	Australia	50%	-
Vision Pharma / Murdoch University	Academic-Industry Collaboration	Australia	50%	-

The Group has entered into academic-industry collaborations with Murdoch University to support drug discovery and development efforts in the field of neurodegenerative disorders including Motor Neurone Disease.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

16. Other financial assets

On 2 April 2015, PYC received 7,710 Class B shares in Phoremest Limited, a private Group registered in the UK, and not quoted on any market.

As there is no ready market available in relation to the sale of Phoremest shares and as PYC is currently unable to obtain any value from its shareholding from dividends, the value attributed to the B class shares held in Phoremest Limited is nil.

17. Trade and other payables

	2020 \$	2019 \$
Trade payables ⁽¹⁾	97,290	193,742
Accrued expenses	211,221	24,000
GST payable	-	38,945
Payroll tax	-	36,431
PAYG withholding	71,642	57,468
Other	415	8,983
	380,568	359,569

⁽¹⁾ Trade payables are non-interest bearing and are normally settled on 30-day terms.

18. Employee benefits

	2020 \$	2019 \$
Superannuation payable	285	-
Annual leave accrued	171,785	42,305
	172,070	42,305

19. Lease liabilities

Current liabilities	152,967	-
Non-current liabilities	645,178	-
	798,145	-

Reconciliation

Recognised on 1 July 2019 on adoption of AASB 16	Premises 943,343
Principal repayments	(145,198)
Closing Balance	798,145

AASB 16 has been adopted during the period, refer Note 3(u) for details.

The group has one operating lease for its premises, the lease term is three years with options to extend for three further terms of three years each.

Underlying assets serve as security for the related lease liabilities. A maturity analysis of future minimum lease payments is presented below.

	Lease payments due					
	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years
	\$	\$	\$	\$	\$	\$
Lease Payments	187,748	188,616	188,616	188,616	188,616	47,154
Interest	(39,256)	(31,783)	(23,759)	(15,325)	(6,459)	(1,674)
Net present values	697,254	533,194	369,134	205,075	41,015	-

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

20. Segment information

The Group comprises a single business segment being the provision of drug discovery services to the international pharmaceutical industry utilising the Group's Phylomer® peptide libraries and proprietary screening capabilities; and a single geographical location being Australia. During the year, an office in the US was established to drive investor relations, business development and regulatory engagement efforts there as PYC progresses into clinical drug development, but at this stage it is not considered a material segment separate from the Australian operations. The segment details are therefore fully reflected in the results and balances reported in the statement of comprehensive income and statement of financial position.

21. Events subsequent to balance date

The impact of the Coronavirus (COVID-19) pandemic is ongoing. The situation is rapidly developing and is dependent on measures imposed by the Australian Government, United States Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided. It is not practicable to estimate the potential impact, positive or negative, after the reporting date.

Other than the above, there are no matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group, in future financial years.

22. Share based payments

(a) ESOP

At the Annual General Meeting held in November 2014, the Company renewed an employee share option programme (ESOP) that entitles key management personnel and senior employees to purchase shares in the Company.

(b) Options issued during the year

45,000,000 options were issued to employees and key personnel during the year ended 30 June 2020 (2019: 10,000,000).

(c) Fair value and assumptions

All options refer to options over ordinary shares of PYC Therapeutics Ltd which are exercisable on a one for one basis.

The fair value of the options is calculated at grant date using a Black–Scholes pricing model and allocated to each reporting period in accordance with the vesting profile of the options.

The value recognised is the portion of the fair value of the options allocated to the reporting period.

The factors and assumptions used in determining the fair value on grant date of options issued during the financial year as follows:

Granted during the year:

Number of Options	Grant Date	Expiry Date	Fair Value per Option	Exercise Price	Share Price on Grant Date	Risk Free Interest Rate (%)	Estimated Volatility (%)	Number Vested as at 30 June 2020
20,000,000	17/02/2020	28/02/2023	\$0.0399	\$0.063	\$0.064	0.735	100	6,666,667
15,000,000	10/03/2020	28/02/2023	\$0.0334	\$0.06	\$0.056	0.48	100	5,000,000
10,000,000	29/06/2020	29/06/2023	\$0.5965	\$0.11	\$0.100	0.26	100	nil

No dividends have been assumed to be paid during the life of the options.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

22. Share based payments (cont'd)

(d) Number and weighted average exercise prices of share options

	Weighted Average Exercise Price \$	Number of options
30 June 2020		
Outstanding at the beginning of the year	0.05	20,000,000
Exercised during the year	0.06	(150,000)
Lapsed during the year	0.06	(9,850,000)
Granted during the year	0.072	45,000,000
Outstanding at the end of the year	0.066	55,000,000
Exercisable at the end of the year	0.037	21,666,667
30 June 2019		
Outstanding at the beginning of the year	0.059	10,000,000
Exercised during the year	-	-
Lapsed during the year	-	-
Granted during the year	0.039	10,000,000
Outstanding at the end of the year	0.05	20,000,000
Exercisable at the end of the year	0.059	10,000,000

The weighted average remaining contractual life of options outstanding at the end of the financial year was 2.49 years (2019: 1.25 years).

Number and exercise prices of share options issued.

Options on issue during the year	Number of Options 2020	Number of Options 2019
(a) Options exercisable at \$0.06 on or before 30 May 2020:		
Balance at beginning of year	10,000,000	10,000,000
Issued during the year	-	-
Exercised during the year	(150,000)	-
Lapsed / cancelled	(9,850,000)	-
Balance at end of year	-	10,000,000
(b) Options exercisable at \$0.039 on or before 16 Nov 2021:		
Balance at beginning of year	10,000,000	-
Issued during the year	-	10,000,000
Lapsed / cancelled	-	-
Balance at end of year	10,000,000	10,000,000
(c) Options exercisable at \$0.063 on or before 28 Feb 2023:		
Balance at beginning of year	-	-
Issued during the year	20,000,000	-
Exercised during the year	-	-
Lapsed / cancelled	-	-
Balance at end of year	20,000,000	-
(d) Options exercisable at \$0.063 on or before 28 Feb 2023:		
Balance at beginning of year	-	-
Issued during the year	15,000,000	-
Lapsed / cancelled	-	-
Balance at end of year	15,000,000	-
(e) Options exercisable at \$0.11 on or before 29 Jun 2023:		
Balance at beginning of year	-	-
Issued during the year	10,000,000	-
Lapsed / cancelled	-	-
Balance at end of year	10,000,000	-

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

22. Share based payments (cont'd)

Fair value:

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using the Black – Scholes option pricing formula.

23. Capital and accumulated losses

(i) Issued, unissued and paid up capital

	2020	2019
	\$	\$
2,931,577,991 (2019: 2,442,856,658) ordinary shares fully paid.	87,206,821	61,951,088

Movements in capital during the year:

	2020	2020	2019	2019
	Shares	\$	Shares	\$
Ordinary Shares				
Balance at the beginning of the year	2,442,856,658	61,951,088	2,138,856,650	53,334,289
Shares issued during the year:				
- Issued at \$0.055	259,934,395	14,296,392	-	-
- Issued at \$0.055	228,636,938	12,575,031	-	-
- Issued at \$0.06	150,000	9,000	-	-
- Issued at \$0.03	-	-	304,000,008	9,120,000
- Share issue costs	-	(1,624,690)	-	(503,201)
Balance at the end of the year	2,931,577,991	87,206,821	2,442,856,658	61,951,088

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 of the Group, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

The shares have no par value.

(ii) Reserves

Nature and purpose of reserves:

Share based payments reserve

This reserve is used to record the value of equity benefits provided to employees and Directors as part of their remuneration. Refer to Note 24 and the Remuneration Report for further details of these plans.

Acquisition reserve

This reserve reflects the additional consideration paid by the Company to acquire the additional non-controlling interests of the subsidiary during the year.

24. Share based payment expense

	2020	2019
	\$	\$
Equity – settled share-based payments issued:		
In FY 18	11,216	27,724
In FY 19	38,957	87,336
In FY 20	669,795	-
Total recognised as employee expense	719,968	115,060

25. Loss per share

(i) Loss attributable to ordinary shareholders

	2020	2019
	\$	\$
Loss for the year:		
Basic earnings	(7,079,539)	(4,079,768)
Diluted earnings*	(7,079,539)	(4,079,768)

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

25. Loss per share (Contd.)

(ii) Weighted average number of ordinary shares

	Number	Number
Weighted average number of shares used for basic earnings per share	2,746,156,156	2,343,458,483

*As the Group incurred a loss for the year ended 30 June 2020, the options on issue have an antidilutive effect, therefore the diluted earnings per share is equal to the basic earnings per share.

26. Note to the statement of cash flows

	2020 \$	2019 \$
Reconciliation of loss for the year to net cash used in operating activities:		
Loss for the year	(7,079,539)	(4,079,768)
Depreciation, amortisation & impairment	547,113	130,556
Share based payment expense	719,967	115,060
Proceeds from the sale of fixed assets	-	(250)
Increase/(decrease) in provisions for employee benefits	129,765	59,184
Increase/(decrease) in payables	20,999	(1,334,364)
(Increase)/decrease in receivables	(96,054)	(15,831)
Foreign exchange effect on cash	9,344	-
Net cash used in operating activities	(5,748,405)	(5,125,413)

Changes in liabilities arising from financing activities:

	Lease Liability
<i>Consolidated</i>	
Balance at 1 July 2019	-
Adoption of AASB16	943,341
Net cash (used in) financing activities	(145,196)
Balance at 30 June 2020	798,145

27. Commitments

Research Collaboration Commitment:

PYC has no collaboration commitments as at 30 June 2020 (2019 Nil)

28. Related parties

(i) Parent entity

The immediate parent and ultimate controlling party of the group is PYC Therapeutics Limited. Interests in subsidiaries are set out in Note 32.

(ii) Joint operations

Interests in joint operations are set out in Note 15.

(iii) Key management personnel

Executive Directors

Dr R Hockings Chief Executive Officer
Mr D Huey Executive Director - Appointed 11 February 2020

Non-executive Directors

Mr A Tribe Non-executive Chairman
Dr B Hockings Non-executive Director

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

28. Related parties *(Contd.)*

(iv) **Key management personnel compensation**

	2020 \$	2019 \$
The key management personnel compensation is as follows:		
- Short-term employee benefits	886,324	799,219
- Post-employment benefits	6,073	7,537
- Long term employee benefits	-	-
- Share based payments	447,509	115,060
Total compensation	1,339,906	921,816

(v) **Key management personnel transactions**

Apart from details disclosed in this note, no Director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year-end.

29: Acquisition of controlled entity

Acquisition

On 14 November 2019, PYC Therapeutics Limited acquired 90% of the voting shares of Vision Pharma Pty Ltd. The total cost of the combination was \$20,000,000 and comprised the assignment of Intellectual Property Rights and cash.

Consideration transferred

Acquisition date fair value of the consideration transferred

	\$'000
Intellectual Property assignment	5,000
Cash	15,000
Total consideration	20,000
Direct costs relating to the acquisition	-

Assets acquired and liabilities assumed at the date of acquisition

The Group has provisionally recognised the fair values of the identifiable assets and liabilities of Vision Pharma Pty Ltd based upon the best information available as of the reporting date.

Provisional business combination accounting is as follows:

	Fair value \$'000
Cash and cash equivalents	15,000
Intellectual Property	5,000
Provisional fair value of identifiable net assets	20,000
Total Consideration	20,000
Cash acquired	15,000
Cash consideration	(15,000)
Net cash acquired	-

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

30. Auditor's remuneration

	2020 \$	2019 \$
Audit services		
Audit and review of financial reports	41,338	36,470
Non-audit services	-	-
	41,338	36,470

31. Parent Entity Disclosures

As at, and throughout, the financial year ending 30 June 2020 the parent Company of the Group was PYC Therapeutics Limited.

	2020 \$
Result of the parent entity	
Profit for the year	1,095,945
Other comprehensive income	-
Total comprehensive income for the year	1,095,945
Financial position of the parent entity at year end	
Total current assets	12,379,505
Total assets	31,334,130
Total current liabilities	493,421
Total liabilities	1,138,599
Equity	
Issued capital	87,206,821
Share based payments reserves	1,995,740
Retained losses	(59,007,030)
Total equity	30,195,531

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2020.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in joint operations are accounted for at cost, less any impairment, in the parent entity.

32. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest 2020 %
PYC Therapeutics LLC	USA	100

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

32. Interests in subsidiaries (Contd.)

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary with non-controlling interests in accordance with the accounting policy described in note 1:

Name	Country of incorporation	Principal activities	Parent Ownership interest 2020 %	Non-controlling interest Ownership interest 2020 %
Vision Pharma Pty Ltd	Australia	Drug development	90	10

* the non-controlling interests hold 10% of the voting rights of Vision Pharma Pty Ltd

33. Subsidiaries with material non-controlling interests

The Group has the following subsidiary with a material non controlling interests:

	2020 \$	2019 \$
Proportion of ownership interest and voting rights held by non-controlling interests	10%	0%
Loss allocated to non-controlling interests	(257,324)	-
Non-controlling interest arising on acquisition	2,500,000	-
Accumulated non-controlling interests	2,242,676	-

No dividends were paid to the non-controlling interests during the year (2019: Nil)

Summarised financial information of subsidiary with a material non-controlling interest:

Summarised financial information for Vision Pharma Pty Ltd, before intragroup eliminations, is set out below:

Consolidated statement of profit or loss and other comprehensive income

	2020 \$	2019 \$
Revenue	92,998	-
Loss for the year	(2,666,238)	-
Attributable to owners of the parent	(2,325,916)	-
Attributable to non-controlling interest	(257,324)	-

Consolidated statement of financial position

	2020 \$	2019 \$
Current assets	12,969,384	-
Non-current assets	9,867,760	-
Current liabilities	(410,388)	-
Non-current liabilities	-	-
Net assets	22,426,756	-
Equity		
Attributable to owners of the parent	20,184,081	-
Attributable to non-controlling interests	2,242,675	-

Directors' Declaration

- 1 In the opinion of the Directors of PYC Therapeutics Limited and its controlled entities (the Group):
- a. The accompanying financial statements and notes are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the year then ended; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements;
 - b. there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
 - c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.
- 2 This declaration has been made after receiving the declarations required to be made to the Directors in accordance with the financial Section 295A of the Corporations Act 2001.

This declaration has been signed in accordance with a resolution of the Directors:

Dated at Perth this 14th day of September 2020



Mr Rohan Hockings
Executive Director
Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT

To the members of PYC Therapeutics Limited

Report on the Audit of the Financial Report

Opinion

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

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

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

Basis for opinion

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

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Key Audit Matter	How our audit addressed the key audit matter
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<p>Intangible assets Note 13 of the financial report</p>	<p>Our audit procedures included but were not limited to the following:</p> <ul style="list-style-type: none"> - Reviewed the acquisition of the Intangible asset, including the agreement with LEI, the accounting for this agreement and the resulting NCI; - Reviewed the appropriateness of management's assessment of the acquisition price during the year being representative of the assets fair value less costs to sell; - Confirming that that the recent transaction is the most representative indication of the intangibles fair value and there are no indications of impairment; and - Assessed the appropriateness of the disclosures included in the relevant notes to the financial report.
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Information other than the financial report and auditor's report thereon

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

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a

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material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included within the directors' report for the year ended 30 June 2020.

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

Responsibilities

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

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

Perth, Western Australia
14 September 2020



B G McVeigh
Partner

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