

Island Pharmaceuticals Limited
(Formerly known as Island Pharmaceuticals Pty Ltd)
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	Island Pharmaceuticals Limited
ABN:	48 641 183 842
Reporting period:	For the year ended 30 June 2021
Previous period:	For the year ended 30 June 2020

2. Results for announcement to the market

				\$
Revenues from ordinary activities	down	-	to	-
Loss from ordinary activities after tax attributable to the owners of Island Pharmaceuticals Limited	up	323,115%	to	(2,126,755)
Loss for the year attributable to the owners of Island Pharmaceuticals Limited	up	323,115%	to	(2,126,755)

Dividends

There were no dividends paid, recommended or declared during the current financial period.

Comments

The loss for the Group after providing for income tax amounted to \$2,126,755 (30 June 2020: \$658).

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>7.90</u>	<u>(65,700.00)</u>

4. Control gained over entities

On 7 April 2021, Island Pharmaceuticals Limited acquired 100% of the share capital of Isla Pharmaceuticals Inc through a Share Swap Agreement. All shareholders in Isla Pharmaceuticals Inc were issued share capital of Island Pharmaceuticals Limited in exchange for their shares in Isla Pharmaceuticals Inc.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

There were no dividends paid, recommended or declared during the current financial period.

Island Pharmaceuticals Limited
(Formerly known as Island Pharmaceuticals Pty Ltd)
Appendix 4E
Preliminary final report

Previous period

There were no dividends paid, recommended or declared during the previous financial period.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements have been audited and an unmodified opinion has been issued.

11. Attachments

Details of attachments (if any):

The Annual Report of Island Pharmaceuticals Limited for the year ended 30 June 2021 is attached.

Authorised for release by the Board.

12. Signed

Signed 
Paul MacLeman – Executive Chair

Date: 26 August 2021

Island Pharmaceuticals Limited

(Formerly known as Island Pharmaceuticals Pty Ltd)

ABN 48 641 183 842

Annual Report - 30 June 2021

For personal use only

Island Pharmaceuticals Limited
(Formerly known as Island Pharmaceuticals Pty Ltd)
Contents
30 June 2021

Corporate directory	2
Chair and CEO and Managing Director's Letter	3
Directors' report	4
Auditor's independence declaration	15
Consolidated statement of profit or loss and other comprehensive income	16
Consolidated statement of financial position	17
Consolidated statement of changes in equity	18
Consolidated statement of cash flows	19
Notes to the consolidated financial statements	20
Directors' declaration	36
Independent auditor's report to the members of Island Pharmaceuticals Limited	37
Shareholder information	40

For personal use

Island Pharmaceuticals Limited
(Formerly known as Island Pharmaceuticals Pty Ltd)
Corporate directory
30 June 2021

Directors	Dr Paul MacLeman - Executive Chairman Dr David Foster - Executive Director Dr David Brookes - Non-Executive Director Mr Albert Hansen - Non-Executive Director Dr Anna Lavelle - Non-Executive Director
Company secretary	Peter Webse
Registered office	c/- Bio101 Financial Advisory Pty Ltd Suite 201 697 Burke Road Camberwell, VIC 3124
Principal place of business	Suite 201 697 Burke Road Camberwell VIC 3124
Share register	Automic Pty Ltd Deutsche Bank, Tower Level 5 126 Phillip Street Sydney NSW 2000
Auditor	Grant Thornton Audit Pty Ltd Tower 5, Collins Square 727 Collins Street Melbourne VIC 3008
Solicitors	K&L Gates Level 25 525 Collins Street Melbourne Victoria 3000
Stock exchange listing	Island Pharmaceuticals Limited shares are listed on the Australian Securities Exchange (ASX code: ILA)
Website	www.islandpharmaceuticals.com

CHAIR and CEO LETTER

This year has been marked by significant milestones for Island Pharmaceuticals Ltd. (Island). While navigating the Covid-19 crisis, Island successfully listed on the Australian Securities Exchange (ASX) in a substantially oversubscribed IPO, raising \$7.5million. We are grateful for the support we received and look forward to moving the Company forward as we advance our lead program toward clinical trials as well as add to our pipeline via Research Collaborations we have executed with Monash University and more recently Griffith University.

Since listing, the Company has made advances on many fronts. First, we have made considerable progress on our lead program, Isla-101, as we advance toward the planned Phase 2a clinical trial. We have executed an agreement to acquire active pharmaceutical ingredient (API) from a pre-existing supply, saving the Company significant time and money. In addition, we are in the final stages of negotiating a clinical trial agreement with our clinical site, The State University of New York Upstate Medical University (SUNY Upstate). We continue to work on the Investigational New Drug (IND) application, which is expected to be filed with the US FDA later this year.

In addition we have expanded our intellectual property portfolio following the issuance of patents in the United States and Australia. These patents, stemming from a patent portfolio licensed from Monash University, are directed to methods of treating and preventing mosquito borne viruses, such as dengue and others, using Isla-101.

Looking ahead we are excited by the opportunities the next year brings. We look to finalize manufacturing of the clinical product for use in the clinical trials. In addition, we expect to file the IND and start initiating the clinical trial late this calendar year. In early 2022 it is anticipated that the Phase 2a clinical trial will begin dosing subjects.

We have executed Research Collaborations with Monash University and Griffith University. Under these collaboration agreements the Company will support efforts in our Rational Repurposing strategy to screen libraries of molecules with clinical history against viruses with unmet medical need and for which relevant biological assays can be employed.

While maintaining a keen focus on our lead Isla-101 program in dengue, Island also aims to expand the pipeline of anti-viral molecules in development. We have seen the devastating effect that a viral pandemic can have on economies, countries, families and individuals. It is our goal to contribute to a new paradigm in antiviral drug development in which we are able to rapidly develop anti-virals against known viral threats or viral threats yet to emerge.

We are grateful to the Board and Advisors who have contributed to our advances over the last year including the IPO. We thank our shareholders for their support and encouragement as we continue on this journey.



Paul MacLeman

Executive Chair



David C. Foster

Chief Executive Officer and Managing Director

Island Pharmaceuticals Limited
(Formerly known as Island Pharmaceuticals Pty Ltd)
Directors' report
30 June 2021

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group' or 'Island') consisting of Island Pharmaceuticals Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2021.

Directors

Dr Paul MacLeman

Executive Chairman - Appointed 25 May 2020

Member of the Remuneration and Nomination Committee and Member of the Audit and Risk Committee

Dr MacLeman has over 25 years' experience across all phases of the life sciences sector. With a career-spanning veterinary practice, pharmaceutical development and manufacturing, biotechnology, diagnostics and finance, Dr MacLeman has expertise in capital raising, business development, technology commercialisation and sales & marketing globally. Dr MacLeman has launched products using both in-house and outsourced sales staff in Australia and the US. He has founded life sciences start-ups in the biologics area and worked in investment banking focusing on the analysis and financing of technology companies. Dr MacLeman has previously served as Chairman, Director or Managing Director/CEO of several VC funded, ASX, NASDAQ, CSE and TSX listed companies. Dr MacLeman is currently Chairman of AdAlta Limited (1AD:ASX), Chairman of SuperTrans Medical Limited and nonexecutive director of Upkara Inc. & Upkara Asia Pacific Pty Ltd. Dr MacLeman Chairs the Industry Review Committee for the Pharmaceutical Manufacturing National Training Package for the AISC. He is an expert advisor to PharmaVentures (Oxford, UK) and Mind Medicine. Dr MacLeman also serves on a number of other NFP and government advisory groups. Dr MacLeman holds a degree in veterinary science, post-graduate engineering and governance qualifications, and an MBA from MGSM.

Dr David Foster

Executive Director - Appointed 1 October 2020

Dr Foster has vast experience in the life science industry including 20+ years representing diverse companies, such as pharmaceutical, biotherapeutic and diagnostic companies while in private legal practice. In addition, he served as intellectual property counsel at Medarex, a mid-sized biotherapeutics company, acquired by Bristol-Myers Squibb. Dr Foster co-founded Roberts Foster LLP- a technology focused law firm, bionorthTx- a regional life science trade association, and multiple private biotechnology companies. He is a Board member of bionorthTx and private biotechnology companies. Dr Foster has expertise in formulating intellectual property and business strategies to protect and develop therapeutic assets. He holds a Ph.D. from The University of Texas Southwestern Medical Center, a J.D. from Golden Gate University School of Law and is a Member of the Australian Institute of Company Directors.

Dr Anna Lavelle

Non-Executive Director - Appointed 1 October 2020

Chair of Remuneration and Nomination Committee and Member of the Audit and Risk Committee

Dr Lavelle is an experienced Non-Executive Director serving for over 25 years on the boards of not for profit, government and for profit entities. As Executive Director or Non-Executive Director she has a lengthy track record in healthcare delivery, technology development and negotiating government policy. Dr Lavelle has a PhD in Genetics from the University of Melbourne and is a Graduate of the Australian Institute of Company Directors (GAICD). Dr Lavelle is a Fellow of the Academy of Technology Science and Engineering (FTSE) and is also a Fellow of the Leadership Victoria Program. In 2015 Nature Scientific America, World View ranked Dr Lavelle in the global top 100 "World Visionaries" in biotechnology. Dr Lavelle was the only Australian to be named.

From 2005 to 2016, Dr Lavelle was the CEO of AusBiotech; the national industry association for the biotechnology, pharmaceutical and medical devices sectors. Dr Lavelle is now serving on several boards including - Independent Chair, Medicines Australia Ltd, Independent Chair, Avatar Brokers Pty Ltd, Non- Executive Director Hemideina Pty Ltd, Non-Executive Director Cyban Pty Ltd.

Island Pharmaceuticals Limited
(Formerly known as Island Pharmaceuticals Pty Ltd)
Directors' report
30 June 2021

Dr David Brookes

Non-Executive Director - Appointed 1 October 2020
 Chair of Audit and Risk Committee

Dr D Brookes has extensive experience in the health and biotechnology industries and has held Board positions in a number of ASX listed biotechnology companies, including as Chairman of genomics solutions company, RHS Ltd, which was acquired by PerkinElmer Inc (NYSE:PKI) in June 2018. He is currently the non-executive Chairman of ASX listed Factor Therapeutics Ltd and of Anantara Lifesciences Ltd . He is currently a non-executive director of ASX listed company TALi Digital Ltd and is the chair of the Audit & Risk committee. Dr Brookes has graduated MBBS (Adelaide) and is a FACRRM (Fellow of the College of Rural & Remote Medicine) and a FAICD.

Mr Albert Hansen

Non-Executive Director - Appointed 1 October 2020
 Member of Remuneration and Nomination Committee.

Mr Hansen is currently President of KESA Partners, Inc. ("KESA") a family investment office focused on seed investing in life science-related startups. KESA provides capital and strategic management to its portfolio companies. Mr. Hansen serves as President of one of KESA's portfolio companies, Clearlight Biotechnologies, Inc., which has licensed imaging technology for tissue analysis from Stanford University. From 2001 to 2012, Mr. Hansen was a Managing Director of Signet Healthcare Partners, a growth capital private equity firm focused on emerging life science companies. Mr. Hansen has over 25 years of private equity investment experience, with almost 20 years in the life sciences/pharmaceutical field. He is a former Chairman and interim CEO of Questcor Pharmaceuticals, Inc (later acquired for US\$5 billion), a former Chairman and interim CEO of Cedarburg Pharmaceuticals Inc. (acquired for US\$40 million) and former Chairman of Molecular Medicine Corporation (acquired for US\$24 million). KESA Partners, Inc acquired a failing company, Bioserv Corporation, for US\$25,000 from NextPharma, Ltd in November 2012. He has also been a director of over ten other private companies. Prior to Signet, Mr. Hansen was a principal of Darby Overseas, since acquired by Franklin Templeton. He was also a political appointee as Director of Corporate Finance at the U.S. Treasury Department in 1992. Earlier in his career, Mr. Hansen was an investment banker with Dillon Read & Co. Inc., focusing on mergers and acquisitions. He was also an investment banker at E.F. Hutton & Co. Mr. Hansen also served in the U.S. Army as an Infantry and Special Forces officer. Mr. Hansen has a B.A. from Princeton University and an M.B.A. (with distinction) from the Wharton School, University of Pennsylvania.

Company secretary

Peter Webse

Appointed 3 July 2020

Peter Webse of Governance Corporate Pty Ltd has been engaged by the Company on a monthly basis to provide corporate secretarial services. In addition to the remuneration payable to him, Peter Webse has also received 400,000 options pursuant to the Equity Incentive Plan.

Mr Webse has over 28 years' company secretarial experience and is a director of Governance Corporate Pty Ltd, a company specialising in providing company secretarial, corporate governance and corporate advisory services. B.Bus, FGIA FCG, FCPA, MAICD.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2021, and the number of meetings attended by each director were:

	Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Paul MacLeman	5	5	1	1	1	1
Albert Hansen	5	5	-	-	1	1
Anna Lavelle	5	5	1	1	1	1
David Brookes	5	5	1	1	-	-
David Foster	5	5	-	-	-	-

Island Pharmaceuticals Limited
(Formerly known as Island Pharmaceuticals Pty Ltd)
Directors' report
30 June 2021

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Directors' interests

The relevant interest of each director in the share capital of the Company, as notified by the Company to the ASX in accordance with S205G (1) of the Corporations Act 2001, as at the date of this report is as follows:

Director	Number of ordinary shares	Number of options to acquire ordinary shares
Paul MacLeman	85,054	2,325,000
David Foster	5,211,393	533,333
Anna Lavelle ¹	-	400,000
David Brookes ¹	-	400,000
Albert Hansen ¹	10,837,367	423,030

¹ Per Non-Executive Directors (NEDs) service agreements, NEDs were to be remunerated for their services for the period from appointment to the date of listing (1 October 2020 - 13 April 2021) via cash settlements. At the end of the financial year the settlements of for these services had not occurred. Subsequently the Company intends to issue securities subject to shareholder approval to the Non-Executive Directors for their services for the period from appointment to the date of listing. The Company intends to issue securities based on the accrued pro-rata director fee for the period of appointment to the date of listing, at a price to be determined. The proposed issuance of securities will require shareholder approval at the Annual General Meeting. The Company believes this is in line with shareholder interests to preserve cash for R&D projects.

Principal activities

Island Pharmaceuticals Limited is a mid-clinical stage biotechnology company listed on the Australian Securities Exchange (ASX: ILA). Island is a drug research and repurposing company. The Group strategy is to repurpose small molecules as antivirals, which may allow for rapid development of treatments or preventative measures against emerging viruses.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Operating and financial review

Group strategy

As outlined in the Prospectus in connection with the Initial Public Offer (IPO) in April 2021, the Group's lead product candidate is Isla101 for the treatment and/or prevention of mosquito borne viruses, such as dengue fever. Isla101 was identified from a library of small molecules that demonstrated activity in screens for molecules that prevented cells being infected by the dengue virus. Upon identifying the exciting biological activity against these viruses, it was recognised that Isla101 was a known compound, fenretinide, and had a well-known safety profile and substantial clinical history for use in indications such as cancer, among others. However, it has never been approved for these indications. Isla101 has now been shown to have activity against all four strains of dengue virus as well as other flaviviruses such as Zika virus, West Nile virus, and Yellow Fever virus as well as Chikungunya virus.

In view of the activity against these arboviruses, a patent portfolio was established by Monash University. This has been licensed by Island. The portfolio is directed to methods of treating or preventing infections by these viruses with fenretinide. Patent applications are pending in Australia, the United States, Canada, Brazil and Singapore. Patents have been issued in Australia, Brazil and the United States.

Beyond mosquito borne viruses the Group has also established a research collaboration agreement with Monash University. The strategy of the collaboration is to screen libraries of compounds with clinical history in assays developed at Monash University with a goal of identifying molecules that can be repurposed as anti-virals.

Significant milestones achieved during the reporting period

Initial Public Offering (IPO)

Island Pharmaceuticals Limited listed on the ASX following an oversubscribed A\$7.5m IPO on 13 April 2021. Funds raised under the IPO will enable Island to conduct a Phase II study of its lead drug candidate ISLA-101 and provide working capital for research and development. ISLA-101 is a drug with a very well-known safety profile, being repurposed as a potential preventative for dengue fever. The funds raised will enable Island's drug repurposing strategy to develop at speed.

Island is well positioned to execute a rapid path to the clinic for ISLA-101. Since listing, the Group has been focused on executing on the structured delivery of its ISLA-101 clinical trial. Island is able to leverage the significant pre-existing body of clinical data for ISLA-101 as well as data from previously filed INDs in the US to expedite its path into the clinic.

Island is collaborating with the State University of New York (SUNY) Upstate in Syracuse for the ISLA-101 Phase II Clinical Trial. The Group has maintained frequent communication with collaborators at SUNY Upstate to continue the planning for the dengue human infection model (DHIM) Phase II clinical trial. Island is currently working towards completion of a clinical trials agreement. An update on this agreement is expected in October 2021.

In addition, the Group has been working with regulatory consultants to finalise its Investigational New Drug (IND) application, which will be submitted following completion of clinical product manufacturing.

Scientific Advisory Board progress

The Group has established an experienced and esteemed Scientific Advisory Board (SAB) with significant relevant experience in drug development. An initial meeting of the SAB took place during the quarter, focused on establishing plans for Island's pipeline expansion projects, including the collaboration with Monash University.

Intellectual property

The US patent grant for ISLA-101, entitled, "Method of Viral Inhibition" was issued on 18 May 2021 (US time) under US Patent No US 11,007,160 and has an expiration date of 16 April 2034. Island has licensed the IP portfolio, generated by Monash University.

The grant of the US patent is a significant development for Island. Mosquito borne viruses, such as dengue, Zika and others represent major unmet medical needs throughout the world and about 3 billion people – or 40% of the world's population – live in areas with a risk of dengue¹. Having an allowed patent that protects Island's lead program in this large market provides protection for the development of ISLA-101 and further underpins our ability to advance the program in the US – a key target market.

Business development/other

In addition to the Group's lead program Isla101, which is focused upon clinical development of the lead against a range of Flaviviruses with an initial focus on dengue fever, the Group has research collaborations aimed at developing a robust anti-viral drug repurposing pipeline. Not restricted to the mosquito borne viruses, this will generate new clinical phase assets against other viral diseases that will add value and de-risk the Group's activities and investment profile.

Prof. David Jans' biochemistry and molecular biology laboratories at the Monash Biomedical Discovery Institute have specific expertise around a class of host (human) target proteins that allow viral replication in a range of diseases. Under a Research Collaboration Agreement, the Group will engage Monash University to screen known drugs against these host targets in Monash University's established functional assays. This builds upon the fenretinide discovery that emanated from these laboratories that the Group has licensed for use against Flaviviruses. This will include biologic screens and ultimately testing in human cells and animal models for efficacy.

Summary of operating results

The Group reported a loss for the year ended 30 June 2021, after accounting for income tax benefit, of \$2,126,755 (2020: \$658). The year ended 30 June 2021 operating results are attributed to the following:

- Research and developments costs of \$2,588 (2020: \$nil);
- Share based payment expense of \$1,155,394 (2020: \$nil);
- Corporate and administration expenses of \$668,645 (2020: \$658)
- Professional services expenses of \$234,698 (2020: \$nil); and
- Employment benefit expense of \$77,618 (2020: \$nil).

Island Pharmaceuticals Limited
(Formerly known as Island Pharmaceuticals Pty Ltd)
Directors' report
30 June 2021

Financial liquidity and capital resources

On 13 April 2021 the Company successfully listed on the ASX after raising \$7.5million issuing 30,000,000 shares at an issue price of \$0.25 per share.

Island ended the financial year with cash of \$6,460,644 (2020: \$1).

As a result, the Directors believe the Company is in a strong and stable financial position.

Future developments, prospects and business strategies

Looking forward the Company will advance the Isla-101 program into clinical trials. Upcoming milestones include:

- Execution of clinical trials agreement;
- Engagement of CRO;
- Manufacturing of clinical product;
- Submission of Investigational New Drug (IND) application with US FDA;
- Initiation of enrolment of clinical trial; and
- Dosing first subject in clinical trial.

In addition the Company will initiate projects under the Monash Research Collaboration.

Significant changes in the state of affairs

In accordance with the Certificate of Registration on Conversion to a Public Company issued by the Australia Securities and Investment Commission on 18 December 2020, Island Pharmaceuticals Pty Ltd converted to a public company on 17 December 2020 and changed its name to Island Pharmaceuticals Limited.

On 7 April 2021, the Company undertook a restructure where it issued Ordinary shares to the shareholders of Isla Pharmaceuticals Inc in exchange for 100% of its share capital.

On 13 April 2021, the Company successfully listed on the ASX following the issue of 30,000,000 Ordinary shares at an issue price of \$0.25 per share to raise A\$7,500,000.

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

Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Likely developments and expected results of operations

Disclosure of information regarding likely developments in the operations of the Company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Company. Information on future developments, prospects and business strategies have only been referred to in the Chairman's letter and CEO report. For further information on the Company's business strategies and material risks, refer also to the Prospectus which is available on the Company website or ASX Announcements.

Island Pharmaceuticals Limited
(Formerly known as Island Pharmaceuticals Pty Ltd)
Directors' report
30 June 2021

Options granted

During the financial year, the following options were granted:

No. of Options	Grant date	Expiry date	Vesting and first exercising date	Exercise price	Grant date fair value
58,389	7/4/2021	7/4/2024	13/4/2023	\$0.2130	\$0.1612
67,866	7/4/2021	4/4/2023	7/4/2021	\$0.3730	\$0.1058
3,925,000	7/4/2021	30/4/2024	13/4/2023	\$0.3625	\$0.1366
177,778	7/4/2021	30/4/2024	13/4/2023	\$0.3125	\$0.1440
177,778	7/4/2021	30/4/2024	13/4/2023	\$0.3750	\$0.1349
177,777	7/4/2021	30/4/2024	13/4/2023	\$0.4375	\$0.1271
3,669,744	7/4/2021	13/4/2024	7/4/2021	\$0.3125	\$0.1430
4,178,005	7/4/2021	4/4/2023	7/4/2021	\$0.3730	\$0.1058
1,808,743	7/4/2021	1/12/2023	1/12/2021 ¹	\$0.2000	\$0.1576
203,802	7/4/2021	1/1/2025	7/4/2021	\$0.2130	\$0.1733

¹ 1,498,221 options vested on 7 April 2021. The remaining 310,522 options vest equally each month (38,815 per month). All options will be vested on 1 December 2021.

Shares under option

Unissued ordinary shares of Island Pharmaceuticals Limited under option at the date of this report are as follows:

No. of options	Grant date	Expiry date	Exercise price	Grantee
58,389	7/4/2021	7/4/2024	\$0.2130	Vendor options
67,866	7/4/2021	4/4/2023	\$0.3730	Replacement warrant options
3,925,000	7/4/2021	30/4/2024	\$0.3625	Directors & Company Secretary
177,778	7/4/2021	30/4/2024	\$0.3125	Executive Director
177,778	7/4/2021	30/4/2024	\$0.3750	Executive Director
177,777	7/4/2021	30/4/2024	\$0.4375	Executive Director
4,108,005	7/4/2021	4/4/2023	\$0.3730	Replacement warrant options
1,808,743	7/4/2021	1/12/2023	\$0.2000	Replacement employee share scheme options
203,802	7/4/2021	1/1/2025	\$0.2130	Replacement employee share scheme options
3,669,744	7/4/2021	13/4/2024	\$0.3125	Broker options

Shares issued on the exercise of options

There were no ordinary shares of Island Pharmaceuticals Limited issued on the exercise of options during the year ended 30 June 2021 and up to the date of this report.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Indemnity and insurance of officers

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Proceedings on behalf of the company

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

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 19 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 19 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

Corporate Governance Statement

The Company's corporate governance statement is located at the Company's website:

<https://www.islandpharmaceuticals.com/site/about/corporate-governance>

Matters subsequent to the end of the financial year

On 22 July 2021, the Company announced it had entered into two agreements related to the manufacturing of drug substance for its upcoming Phase IIa clinical trial, including a one-off purchase agreement with CerRx, Inc. to acquire up to 5kg of Active Pharmaceutical Ingredient (API), and the engagement of Curia which will process the API on a one-off basis.

Upon obtaining the final API which will be manufactured under Good Manufacturing Practice (GMP) conditions, the drug substance will be formulated into patient-ready drug product for use in the upcoming Phase II clinical trial. This solution has enabled Island to advance an efficient GMP manufacturing campaign more quickly and at substantially lower cost than initially anticipated. Based on current timelines, the Company remains on track to initiate a Phase II dengue fever trial later in 2021.

On 18 August 2021, the Company announced it had been granted an Australian patent for Isla-101.

On 23 August 2021, the Company announced a research and development collaboration with Griffith University to screen for active anti-viral molecules in a rational repurposing strategy.

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Remuneration report (audited)

This remuneration report, which forms part of the Directors' report, sets out information about the remuneration of Island Pharmaceutical's key management personnel for the financial year ended 30 June 2021 in accordance with the requirements of the Corporations Act 2001 and its Regulations.

The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise) of the Company.

The prescribed details for each person covered by this report are detailed below under the following headings:

- key management personnel
- relationship between the remuneration policy and Company performance
- details of remuneration
- key management personnel equity holdings

Key management personnel

The prescribed details for each person covered by this report are detailed below under the following headings:

The directors and other key management personnel of the Group during the financial year were:

Non-Executive Directors

	Position	Appointed
Anna Lavelle	Non-Executive Director	1 October 2020
David Brookes	Non-Executive Director	1 October 2020
Albert Hansen	Non-Executive Director	1 October 2020

Executive Directors

	Position	Appointed
Paul MacLeman	Executive Chair	25 May 2020
David Foster	Executive Director	1 October 2020

Remuneration policy and relationship with company performance

The Company has a Remuneration and Nomination Committee, which consists of Anna Lavelle (Chair of Remuneration Committee), David Brookes and Paul MacLeman. The remuneration policy, which is set out below, is designed to promote superior performance and long-term commitment to the Company. An overview of the Remuneration & Nomination Committee is outlined below.

The Remuneration & Nomination Committee establishes, amends, reviews and approves the compensation and equity incentive plans with respect to senior management and employees of the Company, including determining individual elements of total compensation of the Executive Director and other members of senior management. The Remuneration & Nomination Committee is also responsible for reviewing the performance of the Company's executive officers with respect to these elements of compensation. It recommends the Director nominees for each annual general meeting and ensures that the Audit & Risk Committee and Remuneration & Nomination Committee have the benefit of qualified and experienced directors.

Long Term Incentive (LTI)

From time to time Board approval may be sought for the issue of securities (performance rights or options) to staff and executives as a means of providing a medium to long term incentive for performance and loyalty. Any such performance rights are issued under the Island Pharmaceuticals Limited Employee Incentive Plan.

Details of options over ordinary shares in the Company that were granted as compensation to each of the key management personnel are set out below.

Island Pharmaceuticals Limited
(Formerly known as Island Pharmaceuticals Pty Ltd)
Directors' report
30 June 2021

Key management personnel	Number granted	Grant date	Value per option at grant date	Exercise price	Vesting and first exercise date	Number vested	Expiry date
Anna Lavelle	400,000	7/4/2021	\$0.1366	\$0.3625	13/4/2023	-	30/4/2024
David Brookes	400,000	7/4/2021	\$0.1366	\$0.3625	13/4/2023	-	30/4/2024
Albert Hansen	400,000	7/4/2021	\$0.1366	\$0.3625	13/4/2023	-	30/4/2024
Albert Hansen	23,030	7/4/2021	\$0.1058	\$0.3730	7/4/2021	23,030	4/4/2023
David Foster	177,778	7/4/2021	\$0.1440	\$0.3125	13/4/2023	-	30/4/2024
David Foster	177,778	7/4/2021	\$0.1349	\$0.3750	13/4/2023	-	30/4/2024
David Foster	177,777	7/4/2021	\$0.1271	\$0.4375	13/4/2023	-	30/4/2024
Paul MacLeman	2,325,000	7/4/2021	\$0.1366	\$0.3625	13/4/2023	-	30/4/2024

The options were provided at no cost to the recipients. All options expire on the earlier of the expiry date or termination of the individual's employment. There are no other service or performance conditions applicable.

An amount of \$1,155,394 (2020: nil) has been recognised in the consolidated statement of profit and loss and other comprehensive income for the financial year ended 30 June 2021 by way of shared based payment expense as disclosed in note 13.

Director compensation

Arrangements with key management personnel:

Position	Annual salary (inclusive of superannuation)
Executive Chair	\$150,000
Executive Director	\$250,000
Non-Executive Director	\$45,000
Non-Executive Director & Chair of Committee	\$50,000

Executive Chair remuneration

Paul MacLeman is employed in the position of Executive Chair of the Company on the following material terms:

- (1) Effective 13 April 2021 being the date that the Company is admitted to the Official List of ASX, a salary of \$150,000 inclusive of statutory superannuation.
- (2) Effective 13 April 2021 either party is entitled to terminate the employment contract by giving 12 weeks' notice.

Executive Director remuneration

David Foster is employed in the position of CEO and Managing Director of the Company on the following material terms:

- (1) Effective 13 April 2021 being the date that the Company is admitted to the Official List of ASX, a salary of \$250,000 inclusive of any statutory superannuation.
- (2) A short-term cash incentive of up to 20% and a short-term stretch target cash incentive of up to 10% of the annual salary subject to achieving key performance objectives as set by the Board from time to time.
- (3) Long Term Incentives (LTI) will be made available through the Company's Share Option Plan. The terms will be at the sole discretion of the Board and determined by the Board after the first six months and thereafter on the anniversary of David's commencement.
- (4) Effective 13 April 2021 either party is entitled to terminate the employment contract by giving 12 weeks' notice.

Non-Executive Directors (NEDs) remuneration

The Constitution and the ASX Listing Rules specify that the aggregate compensation of NEDs shall be determined from time to time by a general meeting. An amount not exceeding the amount approved by shareholders is then divided between the directors as agreed by the Board. An amount of \$500,000 was approved by the Company's shareholder in October 2020. The Board does not intend to seek any increase for the NEDs maximum aggregate fee pool at the 2021 AGM.

The board seeks to set NEDs fees at a level which provides the Group with the ability to attract and retain NEDs of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

The fee structure will be reviewed annually against fees paid to NEDs of comparable companies in similar industries.

Island Pharmaceuticals Limited
(Formerly known as Island Pharmaceuticals Pty Ltd)
Directors' report
30 June 2021

NEDs may be reimbursed for expenses reasonably incurred in attending to the Group's affairs. NEDs do not receive retirement benefits.

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the Group are set out in the following tables.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	
2021	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Anna Lavelle ¹	36,932	-	-	-	-	6,236	43,168
David Brookes ¹	36,546	-	-	953	-	6,236	43,735
Albert Hansen ¹	33,748	-	-	-	-	6,236	39,984
<i>Executive Directors:</i>							
Paul MacLeman ²	57,595	-	-	2,859	-	36,247	96,701
David Foster ^{3,4}	77,939	-	-	-	-	8,237	86,176
	242,760	-	-	3,812	-	63,192	309,764

¹ Per Non-Executive Directors (NEDs) service agreements, NEDs were to be remunerated for their services for the period from appointment to the date of listing (1 October 2020 - 13 April 2021) via cash settlements. At the end of the financial year the settlements of for these services had not occurred. Subsequently the Company intends to issue securities subject to shareholder approval to the Non-Executive Directors for their services for the period from appointment to the date of listing. The Company intends to issue securities based on the accrued pro-rata director fee for the period of appointment to the date of listing, at a price to be determined. The proposed issuance of securities will require shareholder approval at the Annual General Meeting. The Company believes this is in line with shareholder interests to preserves cash for R&D projects. Under accounting rules, expenses related to the issuance of securities for the current financial year have been expensed based on the provisional grant date being the date of IPO.

² Paul was remunerated \$27,500 for Director services performed for the period October 2020 to IPO (the effective date of his position as Executive Chair).

³ David was remunerated \$23,014 by the Company for services prior to the IPO (the effective date of his role as Executive Director) as per previous agreement held with Isla Pharmaceuticals Inc.

⁴ Bonus component forms part of David Foster's remuneration, however nil bonus was paid during the year (0%) and nil bonus forfeited (0%). Bonus component is to be reviewed annually by the Board.

No director received any form of remuneration during the financial year ended 30 June 2020.

Island Pharmaceuticals Limited
(Formerly known as Island Pharmaceuticals Pty Ltd)
Directors' report
30 June 2021

Key management personnel equity holdings

Shareholding

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

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals / other	Balance at the end of the year
<i>Ordinary shares</i>					
Anna Lavelle	-	-	-	-	-
David Brookes	-	-	-	-	-
Albert Hansen	-	-	10,837,367	-	10,837,367
Paul MacLeman	1	-	85,053	-	85,054
David Foster	-	-	5,211,393	-	5,211,393
	<u>1</u>	<u>-</u>	<u>16,133,813</u>	<u>-</u>	<u>16,133,814</u>

Option holding

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

	Balance at the start of the year	Granted as part of remuneration	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Anna Lavelle	-	400,000	-	-	400,000
David Brookes	-	400,000	-	-	400,000
Albert Hansen	-	400,000	-	23,030	423,030
Paul MacLeman	-	2,325,000	-	-	2,325,000
David Foster	-	533,333	-	-	533,333
	<u>-</u>	<u>4,058,333</u>	<u>-</u>	<u>23,030</u>	<u>4,081,363</u>

This concludes the remuneration report, which has been audited.

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

On behalf of the directors



Paul MacLeman
 Executive Chair

26 August 2021
 Melbourne



Collins Square, Tower 5
727 Collins Street
Melbourne VIC 3008

Correspondence to:
GPO Box 4736
Melbourne VIC 3001

T +61 3 8320 2222
F +61 3 8329 2200
E info.vic@au.gt.com
W www.grantthornton.com.au

Auditor's Independence Declaration

To the Directors of Island Pharmaceuticals Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Island Pharmaceuticals Limited for the year ended 30 June 2021, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read "Grant Thornton", written over a light grey rectangular background.

Grant Thornton Audit Pty Ltd
Chartered Accountants

A handwritten signature in black ink, appearing to read "M A Cunningham", written over a light grey rectangular background.

M A Cunningham
Partner – Audit & Assurance

Melbourne, 26 August 2021

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

www.grantthornton.com.au

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Ltd is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 and its Australian subsidiaries and related entities. GTIL is not an Australian related entity to Grant Thornton Australia Limited.

Liability limited by a scheme approved under Professional Standards Legislation.

Island Pharmaceuticals Limited
(Formerly known as Island Pharmaceuticals Pty Ltd)
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2021

	Note	2021 \$	2020 \$
Revenue			
Total revenue		-	-
Expenses			
Employee benefits expense		(77,618)	-
Share based payment expense	13	(1,155,394)	-
Research and development costs		(2,588)	-
Professional services expenses		(234,698)	-
Corporate and administration expenses		(668,645)	(658)
Effect of changes in foreign exchange rates		12,188	-
Total expenses		(2,126,755)	(658)
Loss before income tax expense		(2,126,755)	(658)
Income tax expense		-	-
Loss after income tax expense for the year attributable to the owners of Island Pharmaceuticals Limited		(2,126,755)	(658)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of Island Pharmaceuticals Limited		<u>(2,126,755)</u>	<u>(658)</u>
		Cents	Cents
Basic earnings per share	5	(11.41)	(65,800.00)
Diluted earnings per share	5	(11.41)	(65,800.00)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Island Pharmaceuticals Limited
(Formerly known as Island Pharmaceuticals Pty Ltd)
Consolidated statement of financial position
As at 30 June 2021

	Note	2021 \$	2020 \$
Assets			
Current assets			
Cash and cash equivalents	7	6,460,644	1
Trade and other receivables	8	59,147	16
Other	9	116,119	-
Total current assets		<u>6,635,910</u>	<u>17</u>
Total assets		<u>6,635,910</u>	<u>17</u>
Liabilities			
Current liabilities			
Trade and other payables	10	230,483	674
Employee benefits	11	6,347	-
Total current liabilities		<u>236,830</u>	<u>674</u>
Total liabilities		<u>236,830</u>	<u>674</u>
Net assets/(liabilities)		<u>6,399,080</u>	<u>(657)</u>
Equity			
Issued capital	12	19,825,792	1
Reserves	13	(11,299,298)	-
Accumulated losses		<u>(2,127,414)</u>	<u>(658)</u>
Total equity/(deficiency)		<u>6,399,080</u>	<u>(657)</u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

Island Pharmaceuticals Limited
(Formerly known as Island Pharmaceuticals Pty Ltd)
Consolidated statement of changes in equity
For the year ended 30 June 2021

	Issued capital \$	Foreign exchange reserve \$	Share-based payment reserve \$	Restructure reserve \$	Accumulated losses \$	Total deficiency in equity \$
Balance at 1 July 2019	-	-	-	-	-	-
Loss after income tax expense for the year	-	-	-	-	(658)	(658)
Other comprehensive income for the year, net of tax	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	(658)	(658)
<i>Transactions with owners in their capacity as owners:</i>						
Issue of ordinary shares	1	-	-	-	-	1
Balance at 30 June 2020	1	-	-	-	(658)	(657)
	Issued capital \$	Foreign exchange reserve \$	Share-based payment reserve \$	Restructure reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2020	1	-	-	-	(658)	(657)
Loss after income tax expense for the year	-	-	-	-	(2,126,755)	(2,126,755)
Other comprehensive income for the year, net of tax	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	(2,126,755)	(2,126,755)
<i>Transactions with owners in their capacity as owners:</i>						
Share-based payments	-	-	1,349,796	-	-	1,349,796
Issue of ordinary shares	7,500,000	-	-	-	-	7,500,000
Restructure reserve allocation	12,742,116	-	-	(12,647,904)	-	94,212
Share issue transaction costs	(416,326)	-	-	-	-	(416,326)
Foreign exchange reserve movements	-	(1,190)	-	-	-	(1,190)
Balance at 30 June 2021	19,825,791	(1,190)	1,349,796	(12,647,904)	(2,127,413)	6,399,080

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

Island Pharmaceuticals Limited
(Formerly known as Island Pharmaceuticals Pty Ltd)
Consolidated statement of cash flows
For the year ended 30 June 2021

	Note	2021 \$	2020 \$
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of GST)		(938,236)	-
Net cash used in operating activities	15	(938,236)	-
Cash flows from investing activities			
Cash of Isla Pharmaceuticals Inc consolidated from the restructure	13	77,371	-
Net cash from investing activities		77,371	-
Cash flows from financing activities			
Proceeds from issue of shares	12	7,500,000	-
Share issue transaction costs	12	(221,925)	-
Advance from a related party	13	19,954	-
Net cash from financing activities		7,298,029	-
Net increase in cash and cash equivalents		6,437,164	-
Cash and cash equivalents at the beginning of the financial year		1	1
Effects of exchange rate changes on cash and cash equivalents		23,479	-
Cash and cash equivalents at the end of the financial year	7	<u>6,460,644</u>	<u>1</u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

Island Pharmaceuticals Limited
(Formerly known as Island Pharmaceuticals Pty Ltd)
Notes to the consolidated financial statements
30 June 2021

Note 1. General information

The financial statements cover Island Pharmaceuticals Limited as a consolidated entity consisting of Island Pharmaceuticals Limited and the entities it controlled at the end of, or during, the year ("the Group"). The financial statements are presented in Australian dollars, which is the Group's functional and presentation currency.

Island Pharmaceuticals Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

c/- Bio101 Financial Advisory Pty Ltd
Suite 201
697 Burke Road
Camberwell, VIC 3124

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 26 August 2021. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

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

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

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

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

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Going concern

For the period ended 30 June 2021 the entity has incurred a loss after tax of \$2,126,755 (2020: \$658) and incurred a net cash outflow from operating activities of \$938,236 (2020: \$nil). As at 30 June 2021, the entity has had net assets of \$6,399,080 (2020: deficiency of \$657) and cash reserves of \$6,460,644 (2020: \$1).

The directors are satisfied that at the date of the signing of the financial report, there are reasonable grounds to believe that the company will be able to meet its debts as and when they fall due and that it is appropriate for the financial report to be prepared on a going concern basis.

Note 2. Significant accounting policies (continued)

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 17.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Island Pharmaceuticals Limited ('company' or 'parent entity') as at 30 June 2021 and the results of all subsidiaries for the year then ended. Island Pharmaceuticals Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group 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 Group.

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.

Where the Group 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 Group 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.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Island Pharmaceuticals Limited's functional and presentation currency. Island Pharmaceuticals Inc's functional currency is United State dollars.

Foreign currency transactions

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

Foreign operations

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

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

Income tax

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

Note 2. Significant accounting policies (continued)

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

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

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

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

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

Current and non-current classification

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Note 2. Significant accounting policies (continued)

Financial assets at amortised cost

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

Trade and other payables

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

Research and development expenditure

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources and intent to complete the development; and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit.

Employee benefits

Short-term employee benefits

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

Other long-term employee benefits

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

Share-based payments

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

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

Note 2. Significant accounting policies (continued)

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 Group 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.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group 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.

Fair value measurement

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

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

Issued capital

Ordinary shares are classified as equity.

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

Note 2. Significant accounting policies (continued)

Business restructures

Any business restructure that falls outside of AASB3 Business Combinations, is brought into account by applying the pooling of interests method.

The pooling of interest method accounts for the transaction of the combining parties as follows:

- The assets and liabilities of the combining parties are reflected at their carrying amounts;
- No adjustments are made to reflect fair values, or recognise any new assets or liabilities;
- No new goodwill is recorded in relation to the combination;
- The only goodwill that is recognised is any existing goodwill relating to either of the combining entities. Any difference between the consideration transferred and the acquired net assets is reflected within equity as a merger reserve; and
- The income statement reflects the results of the combining entities from the date of restructure.

Presentation of financial information

Where the pooling of interest method has been applied, the financial information is presented using the prospective method. Financial information is presented on the basis that prior to the transaction the combination did not exist. Therefore any retained or current earnings of the acquired party prior to the transaction is recorded in equity.

Earnings per share

Basic earnings per share

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

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with 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.

Goods and Services Tax ('GST') and other similar taxes

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

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

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group 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 Group 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 Group unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Share-based payment transactions

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

Initial Public Offering (IPO) costs

The Group undertook an IPO to list on the ASX during the year. Costs incurred that are directly attributable and incremental to the issuance of new equity (net of tax) have been recognised in equity as an offset to the proceeds of capital raised. Management exercised judgement in determining an allocation methodology (between equity and expense) for costs which relate to both the issuance of new equity and other activities. The Group's methodology was determined with reference to the ratio of the number of new shares issued in raising capital to the number of the existing shares prior to IPO, and the nature and purpose of services rendered in incurring costs. All other costs were expenses in the statement of profit or loss and other comprehensive income during the year.

Note 4. Operating segments

From the period beginning 1 July 2020 the Board considers that the Company has only operated in one Segment. The financial information presented in the statement of financial performance and statement of financial position represents the information for the business segment.

Note 5. Loss per share

	2021 \$	2020 \$
Loss after income tax attributable to the owners of Island Pharmaceuticals Limited	<u>(2,126,755)</u>	<u>(658)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>18,633,840</u>	<u>1</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>18,633,840</u>	<u>1</u>
	Cents	Cents
Basic earnings per share	(11.41)	(65,800.00)
Diluted earnings per share	(11.41)	(65,800.00)

Note 6. Income tax expense

	2021 \$	2020 \$
<i>Income tax expense</i>		
Current tax	-	-
Deferred tax	-	-
Aggregate income tax expense	<u>-</u>	<u>-</u>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	<u>(2,126,755)</u>	<u>(658)</u>
Tax at the statutory tax rate of 26% (2020: 27.5%)	(552,956)	(181)
Change in unrecognised temporary differences	17,946	-
Increase in income tax expense due to: Non-deductible expenses	319,424	-
Increase in income tax expense due to: Use of tax losses not recognised	219,390	181
Decrease in income tax expense due to: Items deductible for tax purposes	<u>(3,804)</u>	<u>-</u>
Income tax expense	<u>-</u>	<u>-</u>

The Company has revenue losses of approximately \$2,127,413 for which no deferred tax asset has been recognised.

Isla Pharmaceuticals Inc has carried forward tax losses of US\$1,483,501. Of these losses US\$37,454 have a carryover limitation until 2037.

The Company has no franking credits currently available for future offset.

Note 7. Current assets - cash and cash equivalents

	2021 \$	2020 \$
Cash at bank	<u>6,460,644</u>	<u>1</u>

Note 8. Current assets - trade and other receivables

	2021 \$	2020 \$
GST receivable	<u>59,147</u>	<u>16</u>

Note 9. Current assets - other

	2021 \$	2020 \$
Prepayments	<u>116,119</u>	<u>-</u>

Island Pharmaceuticals Limited
(Formerly known as Island Pharmaceuticals Pty Ltd)
Notes to the consolidated financial statements
30 June 2021

Note 10. Current liabilities - trade and other payables

	2021 \$	2020 \$
Trade payables	81,957	-
Accrued expenses	136,779	-
Other payables	11,747	674
	<u>230,483</u>	<u>674</u>

Refer to note 16 for further information on financial instruments.

Note 11. Current liabilities - employee benefits

	2021 \$	2020 \$
Annual leave	<u>6,347</u>	<u>-</u>

Note 12. Equity - issued capital

Ordinary shares

	2021 Shares	2020 Shares	2021 \$	2020 \$
Ordinary shares - fully paid	<u>80,968,468</u>	<u>1</u>	<u>19,825,792</u>	<u>1</u>

Movements in ordinary share capital

	2021 Shares	2020 Shares	2021 \$	2020 \$
At the beginning of reporting period	1	1	1	1
Issuance of Ordinary Shares upon conversion of the Convertible Notes ^{1,2}	968,465	-	242,116	-
Issuance of Ordinary Shares in exchange for all existing Ordinary Shares issued in Isla Pharmaceuticals Inc ¹	50,000,002	-	12,500,001	-
Issue of Ordinary Shares	30,000,000	-	7,500,000	-
Less: Share placement costs ³	-	-	(416,326)	-
At the end of the reporting period	<u>80,968,468</u>	<u>1</u>	<u>19,825,792</u>	<u>1</u>

¹ On 7 April 2021, Island Pharmaceuticals Limited undertook a restructure where it acquired 100% of the share capital of Isla Pharmaceuticals Inc through a Share Swap Agreement (note 13).

² At the date of the restructure US\$150,000 convertible notes were on issue in Isla Pharmaceuticals Inc. Convertible notes were accruing 8% interest and converted at a discount of 80%. The notes converted to shares in Isla Pharmaceuticals Inc on 7 April 2021 (prior to the share swap with Island Pharmaceuticals Limited) upon securing qualified finance of at least \$7,500,000 in Island Pharmaceuticals Limited.

³ Directly attributable costs incurred in the relation to the Initial Public Offering (IPO) are apportioned between statement of profit and loss and reduction in equity. The costs are apportioned based on the ratio of new to existing shares issued as part of the IPO. Cost that are a reduction of equity include \$194,401 share based payment in relation to options issued to Lead manager of Initial Public Offering (IPO) and \$221,925 of other IPO related expenditure.

Island Pharmaceuticals Limited
(Formerly known as Island Pharmaceuticals Pty Ltd)
Notes to the consolidated financial statements
30 June 2021

Note 12. Equity - issued capital (continued)

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

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

Options and warrants on issue

The following share-based payment arrangements were in existence at the end of the current reporting period:

No. of Options	Grant date	Expiry date	Grant date fair value	Vesting date	Exercise price
58,389	7/4/2021	7/4/2024	\$0.1612	13/4/2023	\$0.2130
67,866	7/4/2021	4/4/2023	\$0.1058	7/4/2021	\$0.3730
3,925,000	7/4/2021	30/4/2024	\$0.1366	13/4/2023	\$0.3625
177,778	7/4/2021	30/4/2024	\$0.1440	13/4/2023	\$0.3125
177,778	7/4/2021	30/4/2024	\$0.1349	13/4/2023	\$0.3750
177,777	7/4/2021	30/4/2024	\$0.1271	13/4/2023	\$0.4375
3,669,744	7/4/2021	13/4/2024	\$0.1430	7/4/2021	\$0.3125
4,178,005	7/4/2021	4/4/2023	\$0.1058	7/4/2021	\$0.3730
1,808,743	7/4/2021	1/12/2023	\$0.1576	1/12/2021 ¹	\$0.2000
203,802	7/4/2021	1/1/2025	\$0.1733	7/4/2021	\$0.2130

¹ 1,498,221 options vested on 7 April 2021. The remaining 310,522 options vest equally each month (38,815 per month). All options will be vested on 1 December 2021.

As at 30 June 2021, the range of exercise price of options is between \$0.20 and \$0.44 with the weighted average exercise price of \$0.33. The weighted average remaining contractual life of options outstanding at the end of the financial year was 2.36 years.

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

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate
7/4/2021	Various see table above	\$0.25 ¹	Various see table above	100%	0%	0.10%

¹ Share price is the Offer price under the Prospectus dated 26 February 2021.

There is no current on-market share buy-back.

Note 13. Equity - reserves

	2021 \$	2020 \$
Foreign currency reserve	(1,190)	-
Share-based payments reserve	1,349,796	-
Restructure reserve	(12,647,904)	-
	<u>(11,299,298)</u>	<u>-</u>

Note 13. Equity - reserves (continued)

Foreign exchange reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

	2021 \$	2020 \$
Reconciliation:		
Balance at beginning of year	-	-
Translation of subsidiary	(1,190)	-
	<u>(1,190)</u>	<u>-</u>
Balance at end of year	<u>(1,190)</u>	<u>-</u>

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

	2021 \$	2020 \$
Reconciliation:		
Balance at beginning of period	-	-
Share based payment expense ¹	1,349,796	-
	<u>1,349,796</u>	<u>-</u>
Balance at end of period	<u>1,349,796</u>	<u>-</u>

¹ The total share-based payment expense recognised in the statement of profit and loss for the year ended 30 June 2021 was \$1,155,394. The total share-based payment recognised as a cost of raising capital brought directly to the statement of changes in equity was \$194,402.

The total share-based payment for advisory options issued during the year as part of the Initial Public Offering (IPO) was \$524,680. The share-based payment was apportioned based on the ratio of new to existing shares issued as part of the IPO. The total share-based payment recognised as a cost of raising capital and deducted from equity was \$194,401. The total share-based payment expense recognised in the statement of profit and loss was \$330,279.

Restructure reserve

The restructure reserve relates to the deemed fair value of the equity conversion of Isla Pharmaceuticals Inc as part of the restructure in April 2021.

	2021 \$	2020 \$
Reconciliation:		
Balance at beginning of period	-	-
Restructure allocation	(12,647,904)	-
	<u>(12,647,904)</u>	<u>-</u>
Balance at end of period	<u>(12,647,904)</u>	<u>-</u>

The restructure allocation is a result of the Company's restructure with Isla Pharmaceuticals Inc which occurred on 7 April 2021 (the "date of restructure"). Island Pharmaceuticals Limited acquired 100% of the share capital of Isla Pharmaceuticals Inc through a Share Swap Agreement. All shareholders in Isla Pharmaceuticals Inc were issued share capital of Island Pharmaceuticals Limited in exchange for their shares in Isla Pharmaceuticals Inc.

Island Pharmaceuticals Limited
(Formerly known as Island Pharmaceuticals Pty Ltd)
Notes to the consolidated financial statements
30 June 2021

The restructure was accounted for by applying the pooling of interests method. Under the pooling of interests method;

- The assets and liabilities of the combining parties are reflected at their carrying amounts.
- No adjustments are made to reflect fair values, or recognise any new assets or liabilities.
- No new goodwill is recorded in relation to the combination.
- The only goodwill that is recognised is any existing goodwill relating to either the combining entities. Neither entity had any existing goodwill. Any difference between the consideration¹ transferred and the acquired net assets is reflected within equity.
- The income statement reflects the results of the combining entities from the date of the restructure.

¹ Consideration transferred was calculated as the Company's Offer price under the Prospectus dated 26 February 2021 being \$0.25 multiplied by shares issued to equity holders of Isla Pharmaceuticals Inc.

The details of net assets acquired in the restructure

	\$
Cash and cash equivalents	77,371
Other assets	19,954
Total assets	<u>97,325</u>
Total liabilities	<u>(2,964)</u>
Net assets	<u><u>94,361</u></u>

Note 14. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Note 15. Reconciliation of loss after income tax to net cash used in operating activities

	2021 \$	2020 \$
Loss after income tax expense for the year	(2,126,755)	(658)
Adjustments for:		
Share-based payments	1,155,394	-
Foreign exchange differences	(27,780)	-
Change in operating assets and liabilities:		
Increase in trade and other receivables	(59,131)	(16)
Increase in other current assets	(116,119)	-
Increase in trade and other payables	229,808	674
Increase in employee benefits	6,347	-
Net cash used in operating activities	<u><u>(938,236)</u></u>	<u><u>-</u></u>

Note 16. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

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

Market risk

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

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from 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.

The Group undertakes transactions denominated in foreign currencies, mainly in US dollars; consequently, exposures to exchange rate fluctuations arise. At 30 June 2021, the Company has cash denominated in US dollars of US\$2,003,751 (2020: US\$ nil). The A\$ equivalent at 30 June 2021 is \$2,672,983 (2020: \$nil). A 5% movement in foreign exchange rates would increase or decrease the Group's loss before tax by approximately \$127,284 (2020: nil).

Interest rate risk

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end on the reporting period.

Interest rate sensitivity analysis.

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end on the reporting period. If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 30 June 2021 would not change.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major counterparties. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Note 16. Financial instruments (continued)

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity by maintaining adequate banking facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

	Carrying amount	Less than 1 month	1-3 months	3-12 months	1 year to 5 years	Total contractual cash flows
2021 contractual cash flows	\$	\$	\$	\$	\$	\$
Trade and other payables	230,483	230,483	-	-	-	230,483

Note 17. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2021	2020
	\$	\$
Loss after income tax	(2,038,738)	(658)
Total comprehensive income	(2,038,738)	(658)

Statement of financial position

	Parent	
	2021	2020
	\$	\$
Total current assets	6,630,905	17
Total assets	19,130,906	17
Total current liabilities	236,829	674
Total liabilities	236,829	674
Equity		
Issued capital	19,583,677	1
Share-based payments reserve	1,349,796	-
Accumulated losses	(2,039,396)	(658)
Total equity/(deficiency)	18,894,077	(657)

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2021.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2021.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2021.

Note 17. Parent entity information (continued)

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 18. Related party transactions

Key Management personnel

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered key management personnel.

Directors and Key Management Personnel compensation

The Directors and Key Management Personnel compensation included in “employee expenses” are as follows:

<i>Nature of compensation</i>	2021 \$	2020 \$
Short-term employee benefits	242,760	-
Post-employment benefits	3,812	-
Share-based payments	63,192	-
	<u>309,764</u>	<u>-</u>

Subsidiaries

Interests in subsidiaries are set out in note 20.

Other related party transactions

Transactions with related parties

There were no transactions with related parties during the current and previous financial year.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Note 19. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Grant Thornton Audit Pty Ltd, the auditor of the company:

	2021 \$	2020 \$
<i>Audit services - Grant Thornton Audit Pty Ltd</i>		
Audit or review of the financial statements	55,000	-
<i>Other services - Grant Thornton Audit Pty Ltd</i>		
Due diligence ¹	10,000	-
	<u>65,000</u>	<u>-</u>

Note 19. Remuneration of auditors (continued)

¹ Due diligence fees were in respect of the investigative accounting report for the Prospectus. Additional non-audit services in relation to the Prospectus and other matters were incurred by Isla Pharmaceuticals Inc prior to the restructure. The additional fees for the financial year ended 30 June 2021 were \$161,448 (2020: \$6,642).

Note 20. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2021 %	2020 %
Isla Pharmaceuticals Inc. ¹	United States of America	100.00%	-

¹ On 7 April 2021, Island Pharmaceuticals Limited acquired 100% of the share capital of Isla Pharmaceuticals Inc through a Share Swap Agreement. All shareholders in Isla Pharmaceuticals Inc were issued share capital of Island Pharmaceuticals Limited in exchange for their shares in Isla Pharmaceuticals Inc.

Note 21. Commitments and contingencies

There are no significant commitments and contingencies at balance date in the current or prior reporting periods.

Note 22. Events after the reporting period

On 22 July 2021, the Company announced it had entered into two agreements related to the manufacturing of drug substance for its upcoming Phase IIa clinical trial, including a one-off purchase agreement with CerRx, Inc. to acquire up to 5kg of Active Pharmaceutical Ingredient (API), and the engagement of Curia which will process the API on a one-off basis.

Upon obtaining the final API which will be manufactured under Good Manufacturing Practice (GMP) conditions, the drug substance will be formulated into patient-ready drug product for use in the upcoming Phase II clinical trial. This solution has enabled Island to advance an efficient GMP manufacturing campaign more quickly and at substantially lower cost than initially anticipated. Based on current timelines, the Company remains on track to initiate a Phase II dengue fever trial later in 2021.

On 18 August 2021, the Company announced it had been granted an Australian patent for Isla-101.

On 23 August 2021, the Company announced a research and development collaboration with Griffith University to screen for active anti-viral molecules in a rational repurposing strategy.

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Island Pharmaceuticals Limited
(Formerly known as Island Pharmaceuticals Pty Ltd)
Directors' declaration
30 June 2021

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the international Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



Paul MacLeman
Executive Chair

26 August 2021
Melbourne



Collins Square, Tower 5
727 Collins Street
Melbourne VIC 3008

Correspondence to:
GPO Box 4736
Melbourne VIC 3001

T +61 3 8320 2222
F +61 2 8329 2200
E info.vic@au.gt.com
W www.grantthornton.com.au

Independent Auditor's Report

To the Members of Island Pharmaceuticals Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Island Pharmaceuticals Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated 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 2021 and of its performance for the year ended on that date; 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.

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

www.grantthornton.com.au

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Ltd is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 and its Australian subsidiaries and related entities. GTIL is not an Australian related entity to Grant Thornton Australia Limited.

Liability limited by a scheme approved under Professional Standards Legislation.

#5633459v2



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.

Key audit matter	How our audit addressed the key audit matter
<p>Share-based payments transactions (Refer to Note 3, 12 and 13)</p> <p>The Group provided benefits to employees, officers and other service providers in the form of share-based payment transactions for their services. These share-based payment transactions are accounted for as equity-settled share-based payments according to AASB 2 <i>Share-based Payments</i>.</p> <p>The accounting for share-based payments is a key audit matter because of management judgement involved in the option valuation and the financial significance.</p> <p>The Group valued the options using the Black Scholes model where inputs including share price, volatility, and risk-free rate require judgement.</p> <p>The total share-based payment expense of \$1,155,394 were recognised in the statement of profit and loss and of \$194,402 were recognised as a cost of raising capital brought directly to the statement of changes in equity during the year.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • Comparing the terms and conditions for a sample of the options issued during the year included in the share-based payment calculations with the supporting documents such as the relevant Board minutes and option letters to employees; • Evaluating the appropriateness of the accounting treatment of the share-based payments transactions according to AASB 2; • Agreeing the issue of options to the relevant Company registers; • Obtaining the Group's valuation schedules prepared by management in order to: <ul style="list-style-type: none"> ○ Assess the reasonableness of key assumptions, including share price, volatility, and risk-free rate, used in valuation of the share options against available supporting data; ○ Assess the mathematical accuracy of fair value of options granted using Black Scholes model; • Assessing the accuracy of share-based payments recognised during the year in according with the vesting conditions specified in the supporting documents; and • Evaluating the adequacy of disclosures made in the financial report.

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 2021, 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 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.

For personal use only



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 Group's ability 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 the Australian Auditing Standards will always detect a 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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Island Pharmaceuticals Ltd, for the year ended 30 June 2021 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.

A stylized signature in black ink that reads "Grant Thornton".

Grant Thornton Audit Pty Ltd
Chartered Accountants

A stylized signature in black ink that reads "M A Cunningham".

M A Cunningham
Partner – Audit & Assurance

Melbourne, 26 August 2021

Island Pharmaceuticals Limited
(Formerly known as Island Pharmaceuticals Pty Ltd)
Shareholder information
30 June 2021

The shareholder information set out below was applicable as at 13 August 2021.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

Holding ranges	Holders	Total units	% Issued Share Capital
Above 0 up to and including 1,000	46	29,261	0.04%
Above 1,000 up to and including 5,000	293	784,236	0.97%
Above 5,000 up to and including 10,000	178	1,489,088	1.84%
Above 10,000 up to and including 100,000	310	10,342,773	12.77%
Above 100,000	80	68,323,110	84.38%
	907	80,968,468	

There are 1 shareholdings held with less than a marketable parcel, totalling 70,940 shares or 0.09% of the total share capital.

Equity security holders

Voting rights - Ordinary shares

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

Voting Rights – Options

There are no voting rights attached to options.

Position	Holder	Holding	% held
1	DR WILLIAM JAMES GARNER	21,090,605	26.05%
2	KESA PARTNERS INC	10,837,367	13.38%
3	DR DAVID C FOSTER	5,146,829	6.36%
4	MR JASON ALAN CARROLL	4,050,000	5.00%
5	MANCHESTER EXPLORER LP	3,774,139	4.66%
6	MR ANDRE FRAGA FIGUEIREDO	1,747,947	2.16%
7	JEB PARTNERS LP	1,511,322	1.87%
8	MR PHILLIP RICHARD PERRY	1,210,000	1.49%
9	BNP PARIBAS NOMINEES PTY LTD- IB AU NOMS RETAILCLIENT DRP	971,007	1.20%
10	MR RICHARD M HEMRY	679,340	0.84%
11	MRS PATRICIA FERNANDES DIAS DE ALMEIDA	660,861	0.82%
12	CITICORP NOMINEES PTY LIMITED	625,441	0.77%
13	MR ALISTAIR ROBERT BAKER	557,537	0.69%
14	DR WILLIAM JAMES GARNER	556,397	0.69%
15	MRS AZAM MOHSENIN-MOSHIRI	500,000	0.62%
16	DR DANIEL TILLET	495,918	0.61%
17	NATIONAL NOMINEES LIMITED	475,000	0.59%
18	PAC PARTNERS SECURITIES PTY LTD	440,000	0.54%
19	GOR ZHIRAR KARAPETYAN	407,604	0.50%
20	AYERS CAPITAL PTY LTD	405,283	0.50%
	Total	56,142,597	69.34%
	Total issued capital	80,968,468	100.00%

Island Pharmaceuticals Limited
(Formerly known as Island Pharmaceuticals Pty Ltd)
Shareholder information
30 June 2021

Substantial shareholders

The names of substantial shareholders in accordance with section 671B of the Corporations Act 2001 are:

Position	Shareholder	Holding	IC %
1	DR WILLIAM JAMES GARNER	21,090,605	26.05%
2	KESA PARTNERS INC	10,837,367	13.38%
3	DR DAVID C FOSTER	5,146,829	6.36%
4	MR JASON ALAN CARROLL	4,050,000	5.00%

Unquoted securities

The Company has the following unquoted securities on issue:

4,178,005 options expiring 4 April 2023 @ \$0.3730 – 14 holders

	#	%
Holders with more than 20%		
Manchester Explorer LP	1,887,069	45.17%

67,866 options expiring 4 April 2023 @ \$0.373 – 2 holders

	#	%
Holders with more than 20%		
Dr William James Garner	44,826	66.07%
Kesa Partners Inc	23,030	33.93%

1,808,743 options expiring 1 December 2023 @ \$0.20 – 4 holders

	#	%
Holders with more than 20%		
Mr Rodrigo Masses	679,340	37.56%
Mr Larry Norder	509,505	28.17%
Mr Kevin Swiss	509,505	28.17%

203,802 options expiring 1 January 2025 @ \$0.2130 – 1 holder

	#	%
Holders with more than 20%		
Mr Joseph Green	203,802	100.00%

58,389 options expiring 7 April 2024 @ \$0.2130 – 1 holder

	#	%
Holders with more than 20%		
60P Australia Pty Ltd	58,389	100.00%

3,669,744 options expiring 13 April 2024 @ \$0.3125 – 1 holder

	#	%
Holders with more than 20%		
PAC Partners Securities Pty Ltd	3,669,744	100.00%

3,925,000 options expiring 30 April 2024 @ \$0.3625 – 5 holders

	#	%
Holders with more than 20%		
Dalroar Pty Ltd - MacLeman Investment A/C	2,325,000	59.25%

177,778 options expiring 30 April 2024 @ \$0.3125 – 1 holder

	#	%
Holders with more than 20%		
Dr David C Foster	177,778	100.00%

Island Pharmaceuticals Limited
(Formerly known as Island Pharmaceuticals Pty Ltd)
Shareholder information
30 June 2021

177,778 options expiring 30 April 2024 @ \$0.3750 – 1 holder

%

Holders with more than 20%
 Dr David C Foster

177,778 100.00%

177,777 options expiring 30 April 2024 @ \$0.4375 – 1 holder

%

Holders with more than 20%
 Dr David C Foster

177,777 100.00%

Use of funds

Since admission the Company has used its cash in a way consistent with its business objectives.

Restricted & Escrowed Securities

The Company has the following securities which are subject to restriction or escrow:

- 2,428 fully paid ordinary shares restricted until 10 February 2022;
- 565 fully paid ordinary shares restricted until 11 February 2022;
- 169 fully paid ordinary shares restricted until 17 February 2022;
- 38,022,140 fully paid shares restricted until 13 April 2023;
- 6,710,041 fully paid ordinary shares subject to voluntary until 13 October 2021;
- 67,866 options expiring 4 April 2023 @ \$0.3730, restricted until 13 April 2023;
- 58,389 options expiring 7 April 2024 @ \$0.2130, restricted until 13 April 2022;
- 3,669,744 options expiring 13 April 2024 @ \$0.3125, restricted until 13 April 2023;
- 3,925,000 options expiring 30 April 2024 @ \$0.3625, restricted until 13 April 2023;
- 177,778 options expiring 30 April 2024 @ \$0.3125, restricted until 13 April 2023;
- 177,778 options expiring 30 April 2024 @ \$0.3750, restricted until 13 April 2023; and
- 177,777 options expiring 30 April 2024 @ \$0.4375, restricted until 13 April 2023.

On-Market buy-back

There is no current on-market buy-back.

Corporate Governance Statement

The Company's corporate governance statement is located at the Company's website: www.islandpharmaceuticals.com