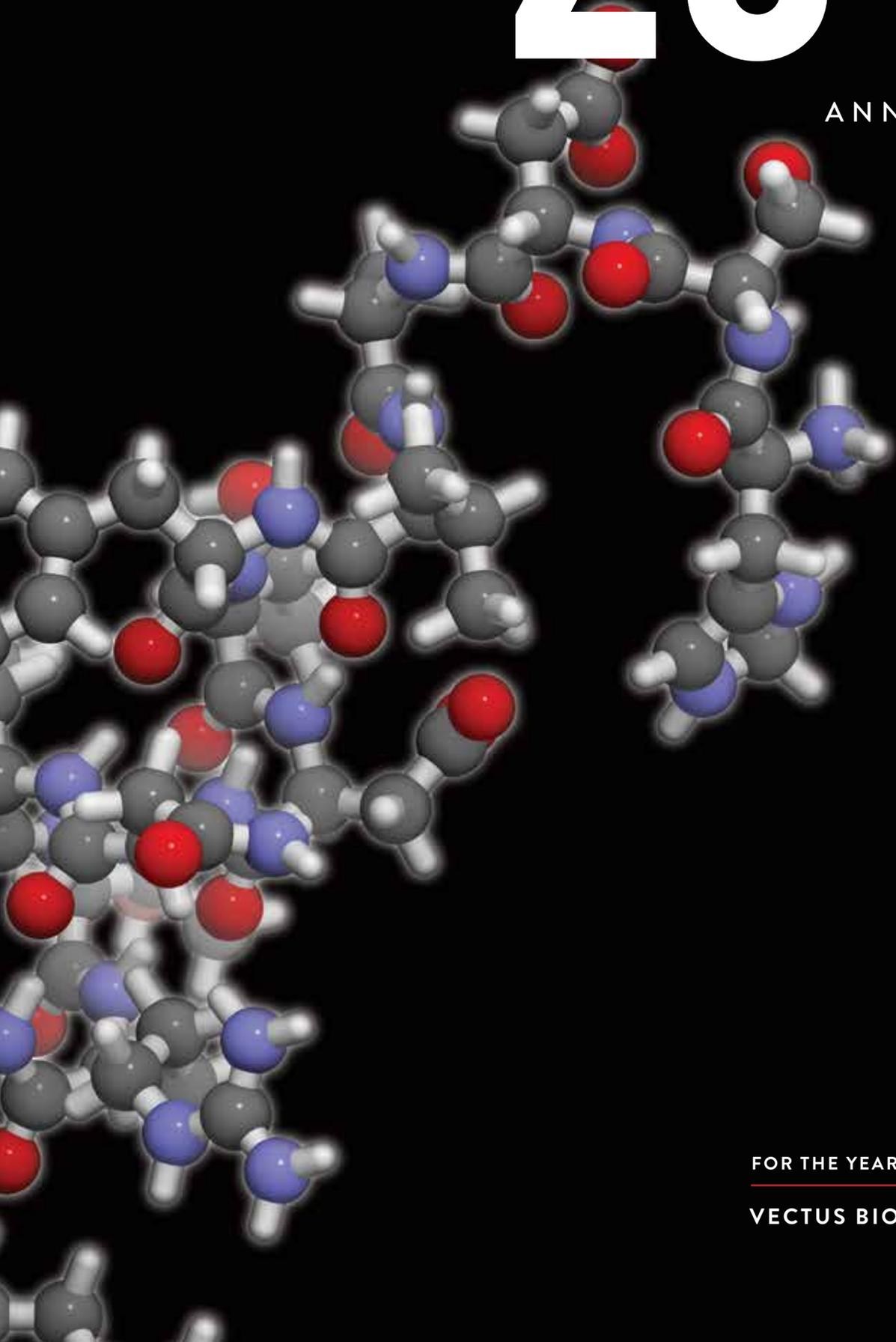


2019

ANNUAL REPORT



FOR THE YEAR ENDED 30 JUNE 2019

VECTUS BIOSYSTEMS LIMITED

AND CONTROLLED ENTITIES

ACN 117 526 137

GENERAL INFORMATION

The financial report covers Vectus Biosystems Limited as a consolidated entity consisting of Vectus Biosystems Limited and the entity it controls. The financial report is presented in Australian dollars, which is Vectus Biosystems Limited's functional and presentation currency.

The financial report consists of financial statements, notes to the financial statements and the Directors' declaration.

Vectus Biosystems Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and research facility are:

REGISTERED OFFICE
3-11 Primrose Avenue
Rosebery
NSW 2018

RESEARCH FACILITY
Riverside Corporate Park
Level 3, 11 Julius Avenue
North Ryde, NSW 2113

The financial report was authorised for issue, in accordance with a resolution of Directors on 18 September 2019.

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CHAIRMAN'S REPORT

I am pleased to report that Vectus Biosystems Limited has achieved material milestones during the year, with its lead compound, VB0004, now progressing from its pre-clinical and toxicology trials towards a Phase I human clinical trial. Additionally, the Company has progressed its growing library of highly innovative small molecules targeting some of the most prevalent and important disease states with significant unmet needs in liver, lung and kidney disease(s).

There is continuing demand for drugs that inhibit the process of fibrosis in organs damaged by disease. Fibrosis, a process whereby healthy tissues are replaced by non-functioning collagen fibres, is the main cause of organ failure in the hearts and kidneys of people with high blood pressure or diabetes, in the livers of people with cirrhosis and in a wide range of lung diseases, which have recently received considerable public attention.



Key milestones during the year include:

- Progression towards Phase I human clinical trials for VB0004, which is targeted to commence upon appropriate funding. This funding, in the form of Convertible Notes, was announced to ASX on 17 September 2019. Vectus acknowledges Gleneagle Securities (Aust) Pty Ltd, the Company's broker for the IPO, for its assistance in organising the Convertible Note issue.
- Continued dialogue with a cross-section of global and mid-size pharmaceutical companies. Feedback from these industry leaders remains very positive for the potential for significant transactions upon a successful Phase I human trial for VB0004. Additionally the Company continues discussions on longer term future funding from regional biotech companies and potential strategic investors.
- GMP stability report indicates that, at 24 months, VB0004 remains stable i.e. it has a very good 'shelf life'.
- Expansion of Vectus' IP portfolio, both in terms of scope and the increasing number of granted patents targeting high-value unmet needs across multiple disease states in major international territories.
- Ongoing strong interest in the Company's key areas of work, being cardiovascular disease, pulmonary (lung) fibrosis, and NASH and ASH (liver disease), as evidenced in the interest generated at conferences attended by Vectus in the USA, Australia and New Zealand, and a recent multibillion dollar investment transaction by a large pharmaceutical company in the pulmonary fibrosis field.
- Initial feedback from users of Accugen's AccuCal and RealCount into their experiments has been positive, and commercialisation work for the Company's product continues.

Vectus Research and Development

Since Dr Karen Duggan's original research into vasoactive intestinal peptide (VIP), Vectus has progressed to the development of small molecule compounds that retain VIP's therapeutic benefits of reversing fibrosis and are ideally placed for investment by international pharmaceutical companies. The Company remains at the forefront of the development of drugs that potentially reverse fibrosis, rather than merely slowing its progress.

In the last year, Vectus has focussed its efforts on preparing for the Phase I human trial for VB0004 and also building value in the Company by:

- developing comprehensive pre-clinical data packages on mechanisms of action and efficacy to support therapeutic and patent claims, and to enable an increasing number of emerging candidates from Vectus' compound library that address both high profile and orphan disease states;
- actively expanding research activity into the fibrosis franchises of the liver and lungs. Data on drivers of fibrosis that include the intrahepatic renin angiotensin system and osteopontin are being compiled for presentation to a number of pharmaceutical companies with a view to obtaining support for further work on the Company's A32 compound; and
- its work on Vectus' anti-fibrotic candidate (A79), which holds promise of addressing a cross-section of causes of pulmonary fibrosis, including occupational, lifestyle and genetic factors.

The Company continues to receive support from the Federal Government for R&D through cash refunds under its R&D Tax Incentive cash-back programme. Vectus is expecting a further refund of approximately \$420,000 prior to 31 December 2019, for the financial year ended 30 June 2019. Building the market for Accugen will provide further funds for development.

I take this opportunity to thank the Board for its support in offering its range of skills in drug development, clinical and diagnostic practice, finance, strategy, commercialisation and deep pharmaceutical industry experience. I am grateful to Dr Karen Duggan, who acts as both Chief Executive Officer, and Medical and Scientific Director, in driving the Company's scientific innovation and relationships with a growing number of potential pharmaceutical partners. At the same time I thank our competent and dedicated laboratory staff, whose commitment and hard work are vital for Vectus' success.

The Company's technology, supported by its IP portfolio, enables Vectus to position itself at the forefront of anti-fibrotic drug development. Our sincere thanks go to our shareholders, and investors who recently accepted the offering of convertible notes, for their support and commitment at a time when we are confident of the growth of the Company as an emerging leader in its field.

Ron Shnier
Acting Chairman

REVIEW OF OPERATIONS FOR THE 2018-19 FINANCIAL YEAR

Vectus Biosystems Limited (Vectus or the Company) is pleased to report on its results for the year ended 30 June 2019

OVERVIEW

Vectus has developed potentially novel treatments for fibrosis and high blood pressure, which include treatment for three of the largest diseases in the fibrotic franchise, namely heart, kidney and liver disease. Funds raised in the 2015-16 initial public offering (IPO) on ASX were used to develop the pre-clinical and toxicological studies of Company's lead compound **VB0004**, which is aimed at treating the hardening of functional tissue and high blood pressure. Vectus has conducted a range of studies, which have shown that VB0004 prevents the advance of fibrosis, repairing damaged tissue and reducing high blood pressure, at the pre-clinical stage. VB0004 has progressed through a number of important milestones, including pharmaceutical scale-up synthesis and investigational new drug (IND) enabling toxicity studies. Successful results have provided the Company with a clear path to Human Phase I and IIa Clinical Trials. Vectus' strategy is to develop and perform early validation of its drug candidates to the point where they may become commercially attractive to potential pharmaceutical partners.

The Company has also developed technology aimed at improving the speed and accuracy of measuring the amount of DNA and RNA in samples tested in laboratories. The technology, consisting of **AccuCal™ and RealCount™ software**, is owned by Vectus' wholly owned subsidiary, Accugen Pty Limited. The technology offers a time, cost and accuracy benefit compared with currently available systems. The Company's current stage of investment in Accugen is a commercialisation programme, where a combination of direct sales, distribution partnerships and licensing opportunities are being evaluated.

RESEARCH

During the 2018-19 financial year Vectus continued to focus on the proposed Phase I trial of its proprietary VB0004, which potentially addresses a significant unmet need for anti-fibrotic agents for patients with cardiovascular and / or kidney disease. Aligned with the targeted anti-fibrotic activity, VB0004 has additional capability to meet another important unmet need by lowering blood pressure; particularly in systolic hypertension. A recently received good manufacturing practices (GMP) stability report indicates that, at 24 months, VB0004 remains stable i.e. it has a very good 'shelf life'.

The Company's studies on pre-clinical models of liver fibrosis utilising Accugen's technology have provided data that show important parallels to human liver cirrhosis of all aetiologies (both alcoholic and non-alcoholic), accumulation of both collagen IV and fibronectin. Further, these studies elucidated that major drivers include the intrahepatic renin angiotensin system and osteopontin, again paralleling human liver disease. Additional studies in progress are elucidating the effect of Vectus' **VB4-A32** compound on these features. When complete, these will augment the Company's existing discussions with several pharmaceutical companies with a view to obtaining support for further work on VB4-A32. The implication of these data, if supported by more research and clinical trials, strengthens and further validates Vectus' potential position in the important global franchises of NASH (non-alcoholic steatohepatitis of the liver) and ASH (alcoholic steatohepatitis of the liver).

Key to the Company's value is the target of not only preventing disease progression, but also reversing damage, which has the opportunity for a meaningful and positive impact on quality of life, and on health care costs. The healthcare industry's strong interest in pulmonary fibrosis has been evidenced by a recent multibillion-dollar investment by a large pharmaceutical company. Vectus believes that its own anti-fibrotic candidate (**VB4-A79**) holds promise of addressing a cross-section of causes of pulmonary fibrosis, including occupational, lifestyle and genetic factors.

Patents

During the 2018-19 financial year the Company's intellectual property (IP) portfolio continued to grow and strengthen, both in terms of scope and the increasing number of granted patents targeting high-value unmet needs across multiple disease states in major international territories.

The patent for VB0004 has now been granted in all major jurisdictions. Vectus has also received granted patents, or applied for patents, to protect its library of compounds addressing liver fibrosis, including NASH and ASH (VB4-A32), pulmonary fibrosis, including idiopathic fibrosis, asbestosis and coal dust pneumoconiosis (Black Lung Disease) (VB4-A79), and renal fibrosis (VB4-P5). This now marks the number of patents granted as 12 patents in 184 jurisdictions (including peptides) or eight patents in 59 jurisdictions (i.e. drugs, excluding peptides), being international patent applications that have successfully progressed to grant or gained acceptance without any material objections in the jurisdictions in which they have been filed

The Company continues to gain insights through its research and development (R&D) programme, which may lead to additional IP, to further support Vectus' portfolio of granted, and pending, patents. The Company's strategy has been to protect not only the compounds and their applications, but also the path to discovery via the peptides and fragments, thereby providing a robust protection of over 1,000 compounds in the drug library.

Accugen

A number of new researchers were signed up from key opinion leaders (KOLs) earlier in the year to incorporate Accugen's AccuCal™ and RealCount™ into their experiments as part of the pre-marketing evaluations. Vectus received feedback from users that was positive. Accugen kits have been made available to several KOL sites for their evaluation and potential endorsement. Opportunities that may be available for the Company's proprietary AccuCal™ and RealCount™ products for applications related to food safety, which is a large and growing market, are currently being evaluated. Commercialisation work for Accugen's products continues.

REVIEW OF OPERATIONS FOR THE 2018-19 FINANCIAL YEAR CONTINUED

Capital and Trade Engagement

Vectus maintains its dialogue with a cross-section of global and mid-size pharmaceutical companies. Feedback from these industry leaders remains very positive for the potential for significant transactions upon a successful Phase I human trial for VB0004. The Company continues its material discussions both in relation to its capital needs, and the opportunity to commercialise its lead and emerging compounds into strategic vertical and geographical partnerships.

During the year, Vectus provided information under confidential disclosure agreements to several parties that have expressed interest in the material disclosed. These discussions are targeting both capital resources and strategic partnerships that may progress one or more of the Company's compounds in certain geographic markets.

Finance

The Vectus Group incurred an operating loss after income tax of \$1,596,280 in the year ended 30 June 2019 (2018: \$2,587,296). Operating expenses were down from \$4,018,248 in 2018 to \$2,496,442 in the 2019 financial year.

In January 2019 the Company received its R&D cash-back for the 2017-18 financial year of \$899,942. Subject to adhering to the requisite conditions, the R&D cash-back for the 2018-19 financial year is now a Vectus entitlement and is expected to be received in the December 2019 quarter. Initial analysis of expenditure for the year ended 30 June 2019 indicates a projected

refund for the year of \$420,000. Additional R&D refund entitlements are being generated in the 2019-20 financial year. As an interim measure, the Company is utilising a loan from one of its Directors, which is secured against, and is to be partially repaid upon, the receipt of the R&D cash-back.

On 17 September 2019 Vectus announced a successful Convertible Note issue to raise an amount of \$7,000,000. The funds will be used to complete the Phase I clinical trials for VB0004, to potentially advance the library of the Company's other drugs and for general working capital. The issue will be undertaken in two tranches. Tranche 1 of 3,000,000 Notes at \$0.50 to raise \$1,500,000 is expected to be completed on or about 26 September 2019. Tranche 2 of 11,000,000 Notes at \$0.50 to raise \$5,500,000 is expected to be completed, following shareholder approval at Vectus' 2019 Annual General Meeting, by 18 November 2019. The Company remains in active dialogue with potential trade partners, which could lead to multiple international licensing opportunities.

Vectus Biosystems Limited

Karen Duggan

Chief Executive Officer and Executive Director



DIRECTORS' REPORT

FOR THE YEAR ENDED
30 JUNE 2019



The Directors of Vectus Biosystems Limited present their Report together with the financial statements of the consolidated entity, being Vectus Biosystems Limited (the Company) and its controlled entity (the Group) for the year ended 30 June 2019.

DIRECTORS' DETAILS

The names of the Directors in office at any time during, or since, the end of the year are:

- Maurie Stang
- Karen Duggan
- Peter Bush
- Ronald Shnier
- Susan Pond
- Graham Macdonald
(Retired 31 August 2018)

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

The consolidated loss of the Group for the 2019 financial year amounted to \$1,596,280 (2018: Loss \$2,587,296).

For a comprehensive review of the Group's operational performance, refer to the attached Review of Operations.

A review of the Group's operations during the financial year and the results of those operations are as follows:

- The Group's operations during the financial year performed as expected in the opinion of the Directors;
- No significant changes in the Group's state of affairs occurred during the financial year; and
- No significant change in the nature of these activities occurred during the financial year.

PRINCIPAL ACTIVITIES

During the financial year the principal continuing activities of the Group consisted of:

- Medical Research and Development

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Vectus Biosystems Limited (ASX:VBS) has announced a Convertible Note issue to raise an amount of \$7,000,000. The key terms of the Convertible Notes are:

Notes: 14,000,000 Convertible Notes, each with a face value of \$0.50 each.

Term: 36 months until Maturity Date.

Interest: 6% per annum capitalised and paid on Maturity Date (or investor can elect to convert any unpaid interest on their Notes at the end of each 12-month period into VBS shares at an issue price that is the higher of (i) \$0.50 and (ii) 10% below the relevant VWAP).

Conversion: Each Note will be redeemed for \$0.50 plus any unpaid interest on that Note. Each Note may be converted into one VBS ordinary share at \$0.50 per share. The investors have the right to convert their Notes at any time prior to, or on, the Maturity Date.

Two Tranches: The issue will be undertaken in two tranches. Tranche 1 of 3,000,000 Notes at \$0.50 to raise \$1,500,000 is expected to be completed on or about 24 September 2019. Tranche 2 of 11,000,000 Notes at \$0.50 to raise \$5,500,000 is expected to be completed on or about 18 November 2019.

The funds will be used to complete the Phase I clinical trials for VB0004, which potentially prevents and reverses fibrosis in organs, to advance the library of VBS's other drugs and for general working capital.

No other matters or circumstances

have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this Report as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the consolidated entity during the 2019 and 2018 financial years.

DIVIDENDS

There were no dividends paid during the year.

There were no dividends or distributions recommended or declared for payment to members during the year that have not been paid or credited to the member throughout the year.

DIRECTORS' REPORT CONTINUED

ENVIRONMENTAL REGULATION

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

INDEMNITY AND INSURANCE OF OFFICERS AND AUDITORS

The Company has indemnified the directors and executives of the Group for the 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 Group against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

INDEMNITY AND INSURANCE OF AUDITOR

The Company has not, during or since the financial year, indemnified or agreed to indemnify the auditor of the Group or any related entity against a liability incurred by the auditor.

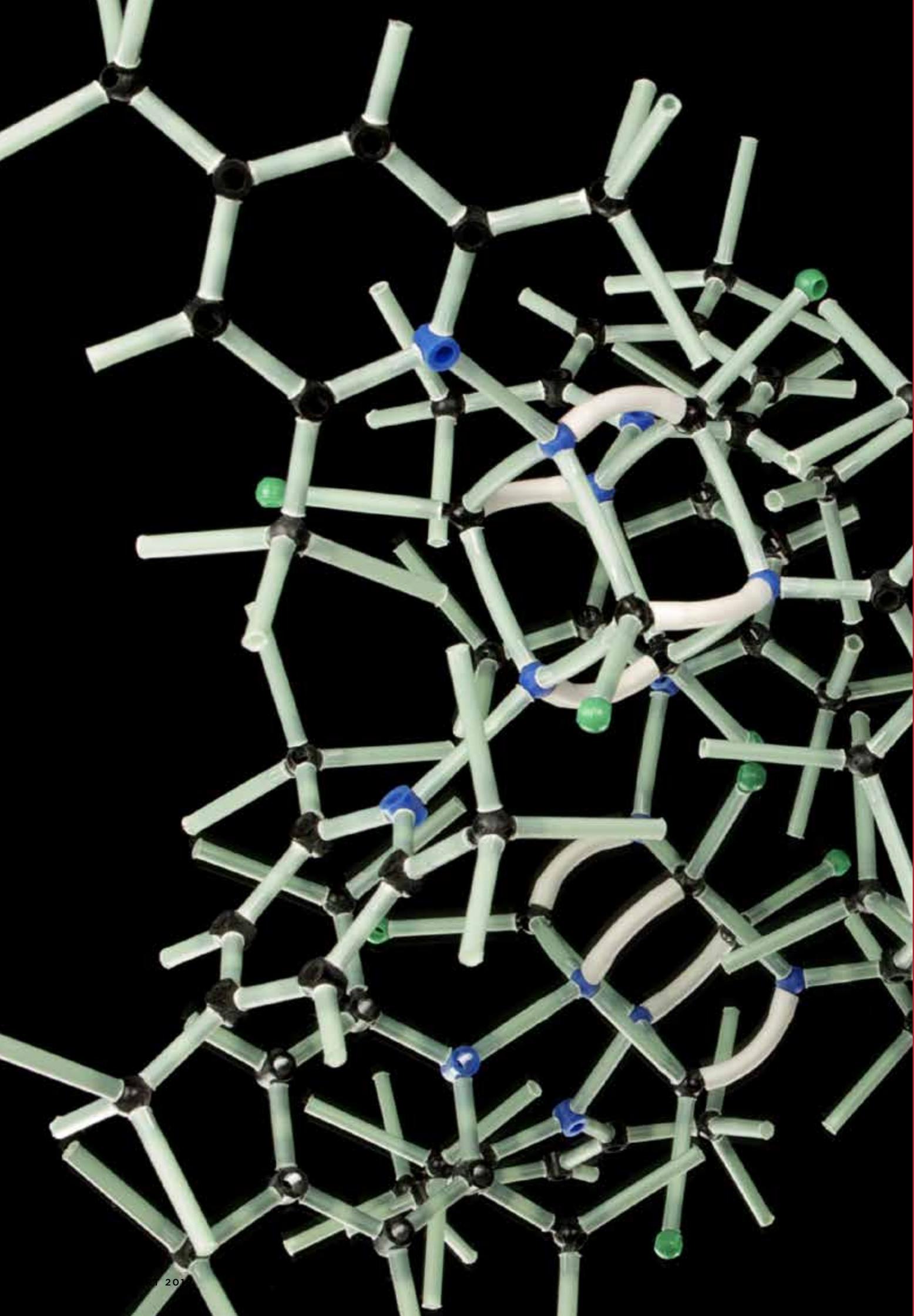
During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Group or any related entity.

No indemnities have been given or insurance premiums paid during or since the end of the financial year for any person who is or has been an officer or auditor of the Group.

PROCEEDINGS ON BEHALF OF THE COMPANY

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

The Company was not a party to any such proceedings during the year.



DIRECTORS' REPORT CONTINUED

BOARD OF DIRECTORS AND COMPANY SECRETARY

Vectus Biosystems Limited's (Vectus or the Company) Board has a broad range of experience in drug research and development, and early stage biotech companies, capital markets, financial and scientific expertise.

Emeritus Professor Graham Macdonald Non-Executive Chairman

Prof Graham Macdonald (AM, MD, BS, BSc (Med), FRACP, FRCP, FANZCC) received, in June 2012, an Australian Queen's Birthday Honour in the General Division of the Order of Australia for 'service to biomedical research in the areas of hypertension and renal disease, to medical education, to the promotion and awareness raising of organ donation, and as a mentor'. He brings to the Company a wealth of experience in clinical medicine, basic biomedical science, and in the field of pharmaceutical licensing and commercialisation. Prof Macdonald has had an outstanding career first as an academic nephrologist, and then moving into the pharmaceutical industry with Merck Sharp and Dohme (Australia). During this time he successfully brokered a number of high-profile agreements, including a US\$100 million-plus deal with AMRAD (now Zenyth Therapeutics) to develop a new asthma treatment. Prof Macdonald retired in 2007 from his former position as External Licensing Coordinator Merck Sharp & Dohme (Australia). Between 1974 and 1998, he was an academic nephrologist at the Prince Henry and Prince of Wales Hospitals Clinical School of the University of New South Wales.

Prof Macdonald's research interests centered on the role of the uridine nucleotides in vascular modulation and sodium metabolism. Other significant projects he has worked on include non-pharmacological control of high blood pressure and interaction of cardiovascular risk factors, psycho-social disorders in patients on dialysis with emphasis on thirst mechanisms, high blood pressure in pregnancy, the role of gut peptides in regulating renal sodium excretion, and normal and disordered regulation of angiotensin II receptors in various disease states. Prof Macdonald is currently a Director and Chairman of Stem Cells Limited.

Directorships held in other listed entities in the past three years: none

Appointed to the Board: 22 February 2008; **Retired:** 31 August 2018.

Dr Karen Duggan Executive Director and Chief Executive Officer

Dr Karen Duggan is a founder of the Company. She was formally director of the Hypertension Service – South Western Sydney Area Health Service (SWSAHS), and is the immediate past chair of the National Blood Pressure and Vascular Disease Advisory Committee. Dr Duggan was also a member of the Cardiovascular Health Advisory Committee of the National Heart Foundation of Australia and the Post-Acute Stroke Guidelines Advisory Committee of the Australian Government Department of Health and Aging. She remains a member of the Cardiovascular Clinical Expert Reference Group of the NSW Department of Health. In Dr Duggan's role as Director of the Hypertension Service SWSAHS she was responsible for managing a multidisciplinary team (medical, nursing, laboratory and administrative staff), as well as developing and implementing new and innovative strategies in patient care within SWSAHS. The Hypertension Service participated in a number of clinical trials of both new therapeutics as well as evaluation of new diagnostic devices.

Directorships held in other listed entities in the past three years: none

Appointed to the Board: 4 September 2006

Mr Maurie Stang

Non-Executive Deputy Chairman

Mr Maurie Stang has over 30-years track record of building successful companies in the Australasian healthcare market and is recognised as one of its most respected business executives. He has significant experience and an extensive network within the life-sciences, pharmaceutical and finance sectors, both in Australia and internationally. Mr M Stang is a Principal of GryphonCapital, an independent investment house that facilitates the financing and development of emerging health-care related entities. He is also a Founder and Director of Henry Schein Halas, a joint venture with the NASDAQ listed Henry Schein, Inc., the leading wholesale supplier of dental products in Australasia. Mr M Stang is a Director of Novapharm Research (Australia) Pty Ltd and of Regional Health Care Group (a diversified healthcare product supplier, with successful businesses across a range of medical, pharmaceutical, consumer healthcare, and research and development sectors).

Directorships held in other listed entities in the past three years: Non-Executive Chairman of Nanosonics Limited (ASX:NAN) since it listed on 15 May 2007 (and a member of its Board since 14 November 2000) and Non-Executive Chairman of Aeris Environmental Ltd (ASX:AEI) since 24 July 2002.

Appointed to the Board: 12 December 2005

Mr Peter Bush

Non-Executive Director

Mr Peter Bush (BCom, CA) previously acted as the Chief Financial Officer and Company Secretary of Vectus and of Accugen Pty Limited. He is the Chief Executive Officer of Aeris Environmental Ltd, and an Executive Director and the Chief Financial Officer of The Regional Health Care Group and GryphonCapital. Mr Bush began his career working for five years at BDO, a global accounting and consulting firm, and has since spent several years working in industry.

Directorships held in other listed entities in the past three years: Alternate Director of Aeris Environmental Ltd (ASX:AEI) since 9 May 2011.

Appointed to the Board: 9 July 2015

DIRECTORS' REPORT CONTINUED

Dr Ronald Shnier

Non-Executive Director and Acting Chairman

Dr Ronald Shnier completed a radiology fellowship at Royal Prince Alfred Hospital (RPAH) before undertaking his neuroradiology fellowship at RPAH in 1989 and musculoskeletal fellowship at the University of California Los Angeles (UCLA) in 1991. He was a consultant specialist at RPAH between 1990 and 1993. Dr Shnier started one of Australia's first Private MRI practices in 1991 before becoming General Manager of Mayne's Diagnostic Imaging in 2007 and was its National Director for many years. He has served on several international MRI advisory boards. Dr Shnier has a strong involvement in clinical research, and has lectured both in Australia and overseas.

Directorships held in other listed entities in the past three years: none

Appointed to the Board: 2 September 2015

Dr Susan Pond

Non-Executive Director

Dr Susan Pond AM (MD, DSc, FRACP) has a strong scientific and commercial background, having held executive positions in the biotechnology and pharmaceutical industry for 12 years, including as Chairman and Managing Director of Johnson & Johnson Research Pty Limited (2003 to 2009). In February 2017 she was appointed by The University of Sydney as Director of its Australian Institute for Nanoscale Science & Technology. Previously, Dr Pond has held many Board positions such as: Non-Executive Director and Chairman of AusBiotech Limited (2006 to 2008); Director of the Australian Nuclear Science and Technology Organisation (ANSTO) (2010 to 2014); Board member of Innovation Australia (2012 to 2015); and Vice President of the Academy of Technological Sciences and Engineering (ATSE) (2010 to 2015). She is a Fellow of ATSE, the Australian Institute of Company Directors, and the Academy of Health and Medical Sciences. Dr Pond obtained specialist clinical credentials in internal medicine, clinical pharmacology and clinical toxicology, and has held academic appointments at the University of California in San Francisco and the University of Queensland.

Directorships held in other listed entities in the past three years: Non-Executive Director of Biotron Limited (ASX:BIT) since 7 March 2012.

Appointed to the Board: 4 May 2016

Mr Robert Waring
Company Secretary

Mr Robert Waring (BEc, CA, FCIS, FFin, FAICD) has over 40 years' worth of experience in financial and corporate roles, including over 25 years in Company Secretarial roles for ASX-listed companies, and over 20 years as a Director of ASX-listed companies. Mr Waring has significant company secretarial experience for both listed and unlisted companies, and is currently serving as Company Secretary for ASX-listed companies Aeris Environmental Ltd, Xref Limited and Cobalt Blue Holdings Limited. He is a Director of Oakhill Hamilton Pty Ltd, which provides secretarial and corporate advisory services to a range of listed and unlisted companies. Appointed as Company Secretary on 9 July 2015.

DIRECTORS' REPORT CONTINUED

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 2019, and the number of meetings attended by each Director / Committee member were:

	BOARD OF DIRECTORS MEETINGS	AUDIT AND RISK MANAGEMENT COMMITTEE MEETINGS	REMUNERATION AND NOMINATION COMMITTEE MEETINGS	CORPORATE GOVERNANCE COMMITTEE MEETINGS	R&D AND INNOVATION COMMITTEE MEETINGS
Number of meetings held	9	3	2	2	-
Number of meetings attended					
Graham Macdonald*	* 3 of 3	* 1 of 1	* 1 of 1	N/A	-
Karen Duggan	9	N/A	N/A	2	-
Maurie Stang***	7	2	2	N/A	N/A
Peter Bush	8	3	N/A	1	N/A
Ronald Shnier	8	N/A	1	N/A	N/A
Susan Pond**	8	** 1 of 1	N/A	2	-

* Graham Macdonald retired as a Director on 31 August 2018

** Susan Pond became an Audit and Risk Management Committee member on 10 October 2018

*** Maurie Stang became the Remuneration and Nomination Committee Chairman on 21 August 2019

In addition to the above meetings the Board and senior executives conduct formal management meetings, and the Non-Executive Directors meet when necessary.

COMMITTEE MEMBERSHIP

As at the date of this report, the Company had an Audit and Risk Management Committee, a Corporate Governance Committee, a Remuneration and Nomination Committee, and an R&D and Innovation Committee of the Board of Directors. Members acting on the Committees of the Board during the year were:

Audit and Risk Management Committee

Peter Bush (Chairman)
Graham Macdonald *
Maurie Stang
Susan Pond **

Remuneration and Nomination Committee

Graham Macdonald (Chairman) *
Maurie Stang***
Ronald Shnier

Corporate Governance Committee

Susan Pond (Chairman)
Karen Duggan
Peter Bush

R&D and Innovation Committee

Graham Macdonald (Chairman) *
Karen Duggan
Susan Pond

SHARE REGISTRY

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 Sydney, NSW 2000
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 Fax: +61 2 9279 0664
 Email: enquiries@boardroomlimited.com.au

AUDITOR'S INDEPENDENCE DECLARATION

UHY Haines Norton continues in office in accordance with section 327 of the *Corporations Act 2001*.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 23.

OFFICERS OF THE COMPANY WHO ARE FORMER AUDIT PARTNERS OF UHY HAINES NORTON

There are no officers of the Company who are former audit partners of UHY Haines Norton.

CORPORATE GOVERNANCE

Vectus Biosystems Limited's Corporate Governance Statement and ASX Appendix 4G are released to ASX on the same day the Annual Report is released.

The Company's Corporate Governance Statement, and Corporate Governance Compliance Manual, can both be found on the Company's website at: <http://www.vectusbiosystems.com.au/investor-centre/corporate-governance>.

DIRECTORS' INTERESTS

	ORDINARY SHARES	OPTIONS OR RIGHTS OVER ORDINARY SHARES
Maurie Stang	2,575,789	-
Karen Duggan	3,203,500	75,000
Graham Macdonald (Retired 31 August 2018)	46,667	-
Peter Bush	4,550	100,000
Ronald Shnier	100,000	-
Susan Pond	21,500	-

DIRECTORS' REPORT CONTINUED

REMUNERATION REPORT (AUDITED)

KEY MANAGEMENT PERSONNEL

The key management personnel of the Company comprises the Directors only as follows:

Maurie Stang
 Karen Duggan
 Graham Macdonald (Retired 31 August 2018)
 Peter Bush
 Ronald Shnier
 Susan Pond

Remuneration policies

Details of Vectus' remuneration policies and practices, together with details of Directors' and Executives' Remuneration, are as follows:

(a) Overview of remuneration structure:

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. Processes have been established to ensure that the levels of compensation and remuneration are sufficient and reasonable, and explicitly linked to the achievement of personal and corporate objectives. The short and long-term incentive plans are specifically aligned to shareholder interests.

Vectus' Remuneration and Nomination Committee advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for staff, including Directors and Senior Managers of the Company.

The Committee has access to the advice of independent remuneration consultants to ensure the remuneration and incentive schemes are consistent with its philosophy as well as current market practices.

(b) Non-Executive Directors:

Payments were made during the year to Non-Executive Directors for their services. This is reviewed annually.

(c) Executives

The objective of Vectus' executive reward system is to ensure that remuneration for performance is competitive and appropriate for the results delivered.

Executive pay structures include a base salary and superannuation. In addition, executives and senior managers can participate in the Employee Incentives Plan.

Equity Holding Transactions

The movement during the reporting period in the number of ordinary shares in Vectus Biosystems Limited held directly, indirectly, or beneficially by each specified Director and specified executive including their personally-related entities, are as follows:

2019	NUMBER HELD 30 JUNE 2018	ACQUIRED DURING YEAR	SOLD DURING YEAR	NUMBER HELD 30 JUNE 2019
Maurie Stang	2,575,064	1,475	750	2,575,789
Karen Duggan	3,203,500	-	-	3,203,500
Graham Macdonald	46,667	-	-	46,667
Peter Bush	3,900	650	-	4,550
Ronald Shnier	100,000	-	-	100,000
Susan Pond	21,500	-	-	21,500
	5,950,631	2,125	750	5,952,006

2018	NUMBER HELD 30 JUNE 2017	ACQUIRED DURING YEAR	SOLD DURING YEAR	NUMBER HELD 30 JUNE 2018
Maurie Stang	2,556,000	19,064	-	2,575,064
Karen Duggan	3,203,500	-	-	3,203,500
Graham Macdonald	46,667	-	-	46,667
Peter Bush	3,900	-	-	3,900
Ronald Shnier	100,000	-	-	100,000
Susan Pond	21,500	-	-	21,500
	5,931,567	19,064	-	5,950,631

Transactions with Directors and Director related entities

A number of specified directors, or their personally-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company in the reporting period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arms length basis.

Details of these transactions and outstanding balances are shown below:

	2019	2018
REGIONAL HEALTHCARE GROUP PTY LTD	\$	\$
Corporate and administration services	163,210	218,005
Current payables	332,608	169,398

Mr M Stang is Director and shareholder of Regional Healthcare Group Pty Ltd.

Aeris Environmental Ltd

Accounting services	21,328	25,328
Current payables	44,879	23,550

Mr M Stang is Director and shareholder of Aeris Environmental Ltd.

Mr P Bush is Alternate Director and shareholder of Aeris Environmental Ltd.

Loan from M Stang, Non-Executive Deputy Chairman

Loan borrowing	1,795,500	1,632,000
Loan repaid	(750,000)	(720,000)
Interest on loan	115,571	18,270
Outstanding balance	1,957,500	912,000

DIRECTORS' REPORT CONTINUED

Details of directors' and executive officers' remuneration for the year ended 30 June 2019

	Short-term benefits		Equity based benefits			Performance related
	Salary and Directors' fees	Post employment benefits	Shares	Options or Rights	Total	
	\$	\$	\$	\$	\$	%
Non-Executive Directors						
Maurie Stang	50,228	4,772	-	16,354	71,354	0.0%
Graham Macdonald (Retired 31 August 2018)	9,893	940	-	-	10,833	0.0%
Peter Bush	41,096	3,904	-	50,799	95,799	0.0%
Ronald Shnier	41,096	3,904	-	-	45,000	0.0%
Susan Pond	41,096	3,904	-	-	45,000	0.0%
Total Non-Executive Directors						
Directors	183,409	17,424	-	67,153	267,986	
Executive Directors						
Karen Duggan	183,429	17,426	-	51,679	252,533	0.0%
Total Executive Directors						
	183,429	17,426	-	51,679	252,533	
TOTAL	366,838	34,850	-	118,832	520,520	

There were no long term benefits paid to directors and executive officers during 2019 financial year

Details of directors' and executive officers' remuneration for the year ended 30 June 2018

	Short-term benefits		Equity based benefits		Total	Performance related
	Salary and Directors' fees	Post employment benefits	Shares	Options or Rights		
	\$	\$	\$	\$	\$	%
Non-Executive Directors						
Maurie Stang	50,228	4,772	-	39,250	94,250	0.0%
Graham Macdonald (Retired 31 August 2018)	59,361	5,639	-	-	65,000	0.0%
Peter Bush	41,096	3,904	-	90,917	135,917	0.0%
Ronald Shnier	41,096	3,904	-	-	45,000	0.0%
Susan Pond	41,096	3,904	-	-	45,000	0.0%
Total Non-Executive Directors						
Directors	232,877	22,123	-	130,167	385,167	
Executive Directors						
Karen Duggan	190,766	18,123	-	74,575	283,464	0.0%
Total Executive Directors						
	190,766	18,123	-	74,575	283,464	
TOTAL	423,643	40,246	-	204,742	668,631	

There were no long term benefits paid to directors and executive officers during 2018 financial year

DIRECTORS' REPORT CONTINUED

EMPLOYMENT CONTRACTS

Executive Director and Chief Executive Officer (CEO):	The following sets out the key terms of the employment agreement for the Executive Director and CEO, Dr Karen Duggan.
Contract Term	Continuous employment until notice is given by either party
Fixed Remuneration	\$ 200,854 per year This is reviewed annually.
Notice period:	To terminate the employment, Dr Duggan is required to provide Vectus with 3 months written notice. Vectus must provide 3 months written notice.
Resignation or Termination	On resignation, unless the Board determines otherwise: <ul style="list-style-type: none">- All unvested short term or long term benefits are forfeited.- All vested but unexercised benefits are forfeited after 90 days following cessation of employment.
Statutory Entitlements	Annual leave applies in all cases of separation. Long Service applies unless service is under 10 years and she is dismissed for misconduct.
Termination for Serious Misconduct	Vectus may immediately terminate employment at any time in case of serious misconduct, and Dr Duggan will only be entitled to payment of fixed remuneration until termination date. Such termination will result in all unvested benefits being forfeited. Treatment of any vested but unexercised benefits will be at the discretion of the Board.
Restraint of Trade	For a period of 6 months or, if that period is unenforceable, 3 months after termination of employment, Dr Duggan must not in the area of Australia or, if that area is unenforceable, New South Wales: <ul style="list-style-type: none">(i) solicit, canvass, approach or accept any approach from any person who was at any time during her last 12 months with the Company a client of the Company in that part or parts of the business carried on by the Company in which she was employed with a view to obtaining the custom of that person in a business that is the same or similar to the business conducted by the Company; or(ii) interfere with the relationship between the Company and its customers, employees or suppliers; or(iii) induce or assist in the inducement of any employee of the Company to leave their employment.

There are no other contracts to which a Director is a party or under which a Director is entitled to a benefit other than as disclosed above and in the financial statements.

LINK BETWEEN REMUNERATION AND PERFORMANCE AND STATUTORY PERFORMANCE INDICATORS

The table below shows measures of the group's financial performance over the last three years as required by the *Corporations Act 2001*. However, these are not necessarily consistent with the measures used in determining the variable amounts of remuneration to be awarded to KMPs. As a consequence, there may not always be a direct correlation between the statutory key performance measures and the variable remuneration awarded.

	2019	2018	2017	2016
	\$	\$	\$	\$
Loss for the year	(1,596,280)	(2,587,296)	(3,794,254)	(3,211,324)
Basic loss per share (cents per share)	(6.83)	(11.07)	(16.24)	(16.13)
Dividend Payments	-	-	-	-
(Decrease) / increase in share price (%)	(60.0%)	(39.3%)	(2.9%)	N/A*
Total KMP remuneration as percentage of loss for the year (%)	(33%)	(26%)	(16%)	(17%)

* Company was listed during the 2016 financial year

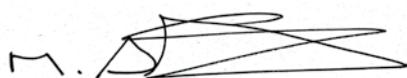
Company is also in discussions with management and remuneration consultants to structure and align KMP remuneration to strategic business objectives with an aim of creation of shareholder wealth.

PERFORMANCE RIGHTS OR OPTIONS

Following rights or options for issue of shares issued to key management personnel were not vested or expired as at the end of financial year:

	NUMBER OF OPTIONS/RIGHTS	
	2019	2018
Performance rights to Peter Bush, Non-Executive Director	100,000	200,000
Performance rights to Maurie Stang, Non-Executive Deputy Chairman	-	100,000
Performance rights to Karen Duggan, Chief Executive Officer	-	100,000
Deferred Share Awards to Karen Duggan, Chief Executive Officer	75,000	75,000

Signed in accordance with a resolution of the directors; pursuant to section 298(2)(a) of *Corporations Act 2001* on behalf of the directors.



Maurie Stang
Deputy Chairman

Date: 30 September 2019

AUDITOR'S INDEPENDENCE DECLARATION



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Auditor's Independence Declaration under section 307C of the *Corporations Act 2001*

To the Directors of Vectus Biosystems Limited

As auditor for the audit of Vectus Biosystems Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the 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.

This declaration is in respect of Vectus Biosystems Limited and the entity it controlled during the year.


Franco Giannuzzi
Partner
Sydney
30 September 2019


UHY Haines Norton
Chartered Accountants



A photograph of a laboratory setting. In the foreground, a rack of clear plastic test tubes is visible, arranged in rows. A purple pipette is positioned over one of the test tubes, with a small amount of purple liquid being dispensed into it. The background is slightly blurred, showing more test tubes and laboratory equipment. The overall lighting is bright, with a blueish tint. The text is overlaid on the upper left portion of the image.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019

	NOTE	2019	2018
		\$	\$
Revenue and other income	3	220	1,827
Administration and corporate expenses		(517,247)	(663,347)
Finance costs	4	(123,165)	(23,457)
Depreciation and amortisation expense	4	(22,627)	(20,100)
Employee benefits expense and directors remuneration	4	(1,125,768)	(1,367,552)
Occupancy expenses		9,293	(298,703)
Research & development	4	(711,797)	(1,602,609)
Travel expenses		(5,131)	(42,480)
Loss before income tax benefit from continuing operations		(2,496,222)	(4,016,421)
Income tax benefit	5	(899,942)	(1,429,125)
Net loss for the year		(1,596,280)	(2,587,296)
TOTAL COMPREHENSIVE LOSS FOR YEAR, NET OF TAX		(1,596,280)	(2,587,296)
Loss for the year attribute to			
Owners of Vectus Biosystems Limited		(1,596,280)	(2,587,296)
Total comprehensive loss for the year attributable to			
Owners of Vectus Biosystems Limited		(1,596,280)	(2,587,296)
Loss per share	25		
Basic loss per share (cents per share) from continuing operations		(6.83)	(11.07)
Diluted loss per share (cents per share) from continuing operations		(6.83)	(11.07)

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

A microscopic image showing a dense population of cells, likely yeast or bacteria, exhibiting bright blue and purple fluorescence. The cells are arranged in clusters and appear to be in various stages of growth or division. The background is dark, making the glowing cells stand out prominently.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019**

	NOTE	2019	2018
		\$	\$
CURRENTS ASSETS			
Cash and cash equivalents	6	43,172	14,811
Other current assets	7	115,807	108,295
Total Current Assets		158,979	150,106
NON-CURRENT ASSETS			
Property, plant and equipment	8	35,129	46,177
Total Non-current assets		35,129	46,177
Total Assets		194,108	196,283
CURRENT LIABILITIES			
Trade and other payables	9	1,136,727	997,814
Other current liabilities	10A	537,053	281,153
Provisions	11A	298,146	248,706
Borrowings	12A	-	912,000
Total Current Liabilities		1,961,926	2,439,673
NON-CURRENT LIABILITIES			
Provisions	11A	-	13,009
Borrowings	12B	1,957,500	-
Other Non-Current liabilities	10B	4,503	-
Total Non-Current liabilities		1,962,003	13,009
TOTAL LIABILITIES		3,923,929	2,452,682
NET LIABILITIES		(3,729,821)	(2,256,399)
EQUITY			
Issued Capital	13	17,600,420	17,600,420
Reserves	24	516,610	393,752
Retained Earnings/Accumulated Losses	14	(21,846,851)	(20,250,571)
Total Deficit		(3,729,821)	(2,256,399)

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

CONSOLIDATED STATEMENT OF CASH FLOWS



CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

	NOTE	2019	2018
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
R&D tax offset rebate received		899,942	1,429,125
Payments to suppliers and employees		(1,825,308)	(2,799,050)
Interest received		220	1,093
Interest paid		(115,468)	(18,270)
Net cash used in operating activities	22(b)	(1,040,614)	(1,387,102)
CASH FLOWS FROM INVESTING ACTIVITIES			
		-	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Lease payments		(3,525)	-
Loan borrowing		1,795,500	1,632,000
Repayments of loans		(750,000)	(720,000)
Net cash provided by financing activities		1,041,975	912,000
Net (decrease) / Increase in cash and cash equivalents		1,361	(475,102)
Cash and cash equivalents at the beginning of the financial year		41,811	516,913
Cash and cash equivalents at the end of the financial year	22(a)	43,172	41,811

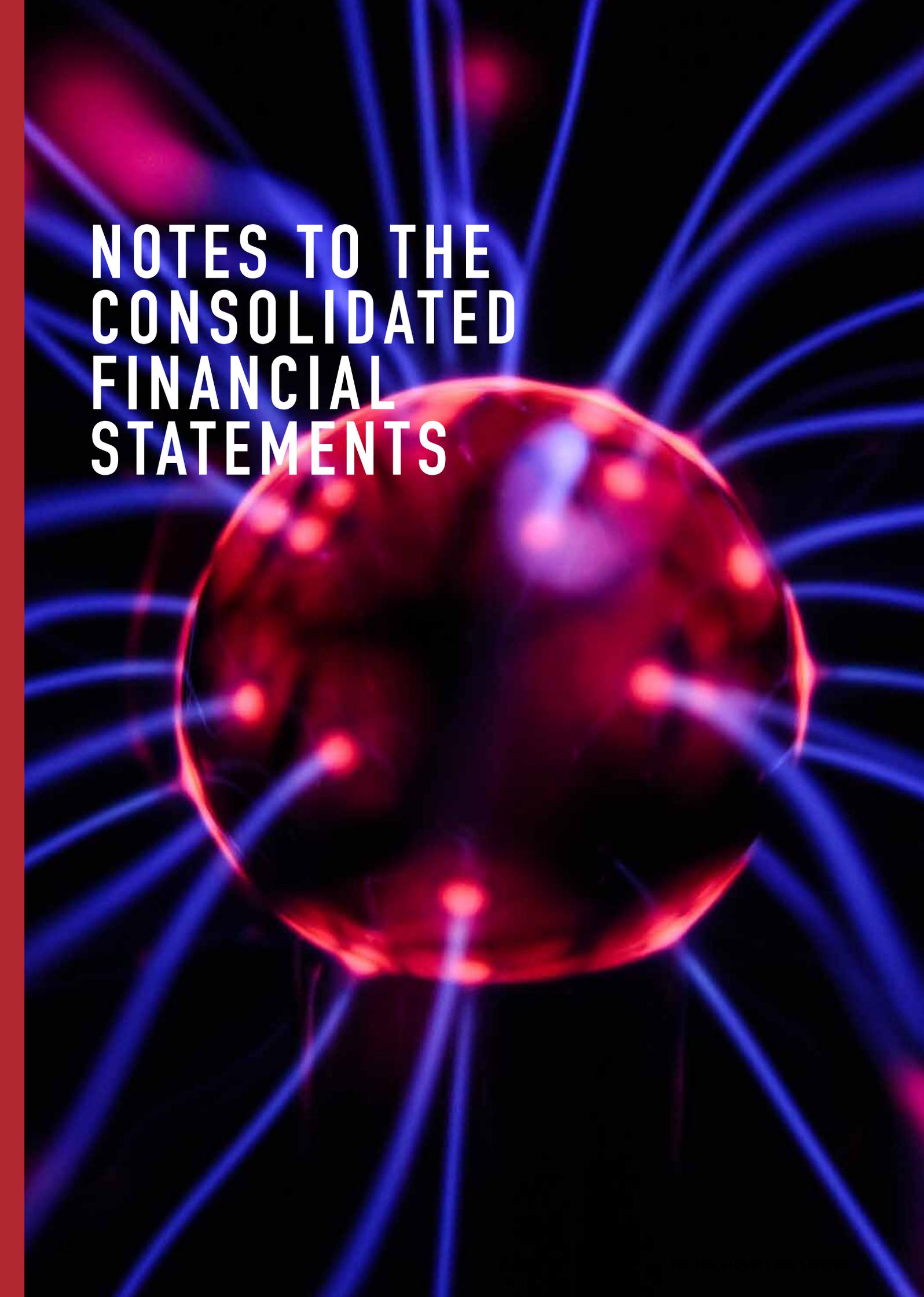
The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019**

	NOTE	EQUITY	RETAINED EARNINGS	RESERVES	TOTAL ATTRIBUTABLE TO EQUITY HOLDERS OF THE ENTITY
		\$	\$	\$	\$
Balance at 1 July 2017		17,591,420	(17,663,275)	188,418	116,563
Comprehensive Income					
Loss for the year		-	(2,587,296)	-	(2,587,296)
Total comprehensive loss for the year		-	(2,587,296)	-	(2,587,296)
Transactions with owners					
Shares issued during the year	13	9,000	-	(9,000)	-
Share-based payment reserve		-	-	214,334	214,334
Balance at 30 June 2018		17,600,420	(20,250,571)	393,752	(2,256,399)
Balance at 1 July 2018		17,600,420	(20,250,571)	393,752	(2,256,399)
Comprehensive Income					
Loss for the year		-	(1,596,280)	-	(1,596,280)
Total comprehensive loss for the year		-	(1,596,280)	-	(1,596,280)
Transactions with owners					
Share-based payment reserve		-	-	122,858	122,858
Balance at 30 June 2019		17,600,420	(21,846,851)	516,610	(3,729,821)

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

A glowing red sphere is the central focus, surrounded by numerous blue lines that radiate outwards, creating a sense of energy and connectivity. The background is a deep, dark blue, and the overall aesthetic is futuristic and high-tech.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Corporate information

The financial report of Vectus Biosystems Limited (the Group) for the year ended 30 June 2019 was authorised for issue in accordance with a resolution of the Directors on 18 September 2019.

Vectus Biosystems Limited (the parent) is a company limited by shares incorporated in Australia whose shares are publicly listed on the Australian Stock Exchange (ASX code: VBS).

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

Basis of Preparation

These general purpose financial statements have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations of the Australian Account Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

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

Going Concern

The Group has incurred an operating loss of \$1,596,280 for the year ended 30 June 2019 (2018: \$2,587,296) and net equity deficit has moved from \$2,256,399 as at 30 June 2018 to \$3,729,821 as at 30 June 2019. The operating cash burn rate for the year ended 30 June 2019 was \$1,040,614 (2018: \$1,387,102). The cash balance as at 30 June 2019 was \$43,172. If the 2019 cash burn rate continues during the year ending 30 June 2020, which it is not budgeted to do, there may be an uncertainty in relation to the Group's ability to continue as a going concern.

The Group has demonstrated the ability to bring down the operating expenses considerably in 2019 and also expects to receive the 2019 R&D cash back in the second quarter. Additionally, Vectus is in active dialog with a number of brokers, potential investors and other sources of funding and capital raising. The Group also has the ability to further reduce its operating expenses further to quite modest levels if required.

As a consequence of the above, the Directors are of the opinion that the Group will have adequate resources to continue to be able to meet its obligations as and when they fall due. For this reason they continue to adopt the going concern basis in preparing the Annual Financial Report.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Statement of compliance

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

AASB 15 Revenue from contracts with customers

The AASB has issued a new standard for revenue recognition. This will replace AASB 118, which covers contracts for goods and services, and AASB 111, which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risk and rewards.

AASB Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration.

AASB 2017-1 Amendments to Australian Accounting Standards - Transfer of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments

AASB 140 Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use.

AASB 128 Investments in Associates and Joint Ventures

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.

AASB 1 First-time Adoption of International Financial Reporting Standards

Short-term exemptions in paragraphs E3-E7 of AASB 1 were deleted because they have now served their intended purpose.

AASB 2016-5 Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions

The AASB issued amendments to AASB 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

AASB 2016-6 Amendments to Australian Accounting Standards - Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments standard, AASB 9, before implementing AASB 17 Insurance Contracts, which replaces AASB 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

The adoption of the above standards did not have any material impact on the Group.

Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (Vectus Biosystems Limited) and the subsidiary (including any structured entities). Subsidiary is the entity the parent controls. The parent controls an entity when it 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 over the entity. A list of the subsidiaries is provided in Note 18.

The assets, liabilities and results of the subsidiary are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiary has been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as “non-controlling interests”. The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary’s net assets on liquidations at either fair value or at the non-controlling interests’ proportionate share of the subsidiary’s net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

(b) Property, Plant and Equipment

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

Depreciation

The depreciable amount of all fixed assets is depreciated on a prime cost method over the assets useful life to the company commencing from the time the asset is held ready for use. Depreciation is recognised in the profit and loss.

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

<i>Class of Fixed Asset</i>	<i>Depreciation Rate</i>
Plant & Equipment	20% - 40%
Fixtures & Fittings	10% - 20%
Office Equipment	20% - 50%

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

(c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within the short-term borrowings in current liabilities in the statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(d) Revenue and Other Income

Revenue is measured at the value of the consideration received or receivable.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

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

(e) Trade Receivables and Other Receivables

Trade receivables and other receivables, are recognised at the nominal transaction value without taking into account the time value of money.

If required, a provision for doubtful debts will be created.

(f) Trade Creditors and Other Payables

Trade and other payables represent the liabilities for goods and services received by the company during the reporting period that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

(g) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from the ATO is included with other receivables 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 are recoverable, or payable to, the ATO are presented as operating cash flows included in receipts from or payments to suppliers.

(h) 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 within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and 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 recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payment

The fair value of options or share-based payments granted under the Employee Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options or shares.

At each balance sheet date, the entity revises its estimate of the number of options or shares that are expected to vest or become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

(i) Leases

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

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

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

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

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

*(j) Financial Instruments**Initial recognition and measurement*

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either purchase or sell the asset.

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

Classification and subsequent measurement

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

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

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

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

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

(ii) Loans and receivables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the companies' intention to hold these investments to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(iv) *Available-for-sale investments*

Available-for-sale investments are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise of investments in equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Available-for-sale financial assets are classified as non-current assets when they are not expected to be sold within 12 months after the end of the reporting period. All other available-for-sale assets are classified as current assets.

(v) *Financial assets and liabilities*

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

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

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

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

Preferred shares

Preferred share capital is classified as equity if it is non-redeemable or redeemable only at the discretion of the parent company, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon declaration by the directors.

Preferred share capital is classified as a liability if it is redeemable on a set date or at the option of the shareholders, or where the dividends are mandatory. Dividends thereon are recognised as interest expense in profit or loss.

Impairment

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

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

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

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if not impairment amount was previously recognised in the allowance account.

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

Financial guarantees

Where material, financial guarantees issued that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due are recognised as a financial liability at fair value on initial recognition.

The fair value of financial guarantee contracts has been assessed using a probability-weighted discounted cash flow approach. The probability has been based on:

- The likelihood of the guaranteed party defaulting during the next reporting period;
- The proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- The maximum loss exposure if the guaranteed party were to default.

Financial guarantees are subsequently measured at the higher of the best estimate of the obligation in accordance with AASB 137: Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity give guarantees in exchange for a fee, revenue is recognised in accordance with AASB 118.

Derecognition

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

(k) Issued Capital

Ordinary shares are classified as equity.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(m) Intangible Assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Research and development

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.

Patents and trademarks

Patents are in relation to research and are not capitalised, the costs associated with patents have been included as an expense.

(n) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(o) Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs it is compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

(p) Comparative Figures

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

Where the Group retrospectively applies an accounting policy, makes a retrospective restatement or reclassifies items in its financial statements, an additional (third) statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

2. 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.

Employee benefits provision

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

3. OTHER INCOME

	2019	2018
	\$	\$
Other Income		
Finance revenue	220	1,827
	220	1,827

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4. LOSS FROM ORDINARY ACTIVITIES

	2019 \$	2018 \$
Loss from ordinary activities before income tax includes the following items of expense:		
EXPENSES		
Depreciation and amortisation expense		
Depreciation of property, plant and equipment	22,627	20,100
	<u>22,627</u>	<u>20,100</u>
Employment expenses and directors' remuneration		
Base salary and fees	886,993	1,042,305
Superannuation and statutory oncosts	71,083	96,037
Share based payment expense	122,858	214,334
Other employee expenses	8,403	7,898
Transfers from employee entitlements provisions	36,431	6,978
Total employment expense	<u>1,125,768</u>	<u>1,367,552</u>
Finance Costs		
Interest and bank fees	123,165	23,457
	<u>123,165</u>	<u>23,457</u>
Research & Development expense		
Research and Development expense	192,375	930,925
Patent costs	519,422	671,684
Total Research & Development expense	<u>711,797</u>	<u>1,602,609</u>

5. INCOME TAX

	2019 \$	2018 \$
(a) INCOME TAX EXPENSE		
The prima facie income tax benefit on pre-tax accounting loss reconciles to the income tax benefit in the financial statements as follows		
Loss for year before income tax benefit	(2,496,222)	(4,016,421)
Income tax benefit calculated at 30%	(748,867)	(1,204,926)
Temporary differences and tax losses not recognised	748,867	1,204,926
Other permanent differences		
R&D tax offset rebate received	899,942	1,429,125
Income tax benefit	899,942	1,429,125
	2019 \$	2018 \$
(b) DEFERRED TAX BALANCES NOT RECOGNISED		
Calculated at 30% not brought to account as assets:		
Deferred tax assets relating to tax losses		
Revenue tax losses available for offset against future tax income	2,880,833	2,690,193
Net deferred tax asset not recognised in respect of tax losses	2,880,833	2,690,193
Deferred tax assets relating to temporary differences		
Provision for employee entitlements	89,444	78,515
Accruals	9,000	9,000
Share Issue Costs	52,702	105,404
	151,146	192,919
Net deferred tax asset not recognised in respect of temporary differences	151,146	192,919

Relevance of tax consolidation to the consolidated entity

Legislation to allow groups comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes ('the tax consolidation system') was substantively enacted on 21 October 2002. The company and its wholly-owned Australian resident entity have been consolidated for tax purposes under this legislation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6. CASH AND CASH EQUIVALENTS

	2019 \$	2018 \$
Cash on Hand	860	860
Cash at Bank	42,312	40,951
	43,172	41,811

7. OTHER CURRENT ASSETS

	2019 \$	2018 \$
Prepayments	84,267	82,815
Goods and Services Tax	31,539	25,480
	115,807	108,295

The carrying amounts of the group's other current assets are a reasonable approximation of their fair values.

8. PROPERTY, PLANT AND EQUIPMENT

	2019 \$	2018 \$
Plant and Equipment	596,781	585,202
Less: Accumulated depreciation	(566,816)	(549,533)
	29,965	35,669
Furniture & Fittings	15,139	15,139
Less: Accumulated depreciation	(15,139)	(15,139)
	-	-
Office Equipment	57,676	57,676
Less: Accumulated depreciation	(52,512)	(47,168)
	5,164	10,508
	35,129	46,177

Reconciliations of the written down values at the beginning and end of the current financial year are set out below

	PLANT AND EQUIPMENT	FURNITURE AND FITTINGS	OFFICE EQUIPMENT	TOTAL
Balance at 1 July 2018	35,669	-	10,508	46,177
Additions	11,579	-	-	11,579
Depreciation	(17,283)	-	(5,344)	(22,627)
Balance at 30 June 2019	29,965	-	5,164	35,129
Balance at 1 July 2017	55,169	-	11,108	66,277
Depreciation	(19,500)	-	(600)	(20,100)
Balance at 30 June 2018	35,669	-	10,508	46,177

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

9. CURRENT TRADE AND OTHER PAYABLES

	2019 \$	2018 \$
Trade creditors	1,119,925	980,986
PAYG withholding payable	16,802	16,828
	1,136,727	997,814

The carrying amount of the Group's current trade and other payables are a reasonable approximation of their fair values.

10. OTHER CURRENT AND NON CURRENT LIABILITIES

	2019 \$	2018 \$
A OTHER CURRENT LIABILITIES		
Accrued expenses	523,193	281,153
Lease liability	3,860	-
	527,053	281,153
B OTHER NON-CURRENT LIABILITIES		
Lease liability	4,503	
	4,503	

The carrying amount of the Group's other current and non-current liabilities are a reasonable approximation of their fair values.

11. PROVISIONS

	2019 \$	2018 \$
A CURRENT		
Provision for Annual Leave	240,707	209,027
Provision for Long Service Leave	57,439	39,679
	298,146	248,706
B NON-CURRENT		
Provision for Long Service Leave	-	13,009
	-	13,009

The carrying amount of the Group's current and non-current provisions are a reasonable approximation of their fair values.

12. BORROWINGS

	2019 \$	2018 \$
A CURRENT BORROWINGS		
Loans from Directors	-	912,000
(Interest is payable at 8% per annum)	-	912,000
B NON-CURRENT BORROWINGS		
Loans from Directors	1,957,500	-
(Interest is payable at 8% per annum)	1,957,500	-

13. ISSUED CAPITAL

	2019 NUMBER OF SHARES	2018 NUMBER OF SHARES	2019 \$	2018 \$
Ordinary shares - fully paid	23,379,996	23,379,996	17,600,420	17,600,420
	23,379,996	23,379,996	17,600,420	17,600,420

Movements in ordinary share capital of Vectus Biosystems Limited

	2019 NUMBER OF SHARES	2018 NUMBER OF SHARES	2019 \$	2018 \$
Balance at beginning of the year	23,379,996	23,374,770	17,600,420	17,591,420
Shares issued during the year				
Other share issues	-	5,226	-	9,000
Balance at end of year	23,379,996	23,379,996	17,600,420	17,600,420

For the purposes of these disclosures, the Group considers its capital to comprise its ordinary share capital and accumulated retained earnings. Neither the share based payments reserve nor the translation reserve is considered as capital.

Capital Risk Management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management are constantly adjusting the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital risk management policy remains unchanged from the 30 June 2018 Annual Report.

14. EQUITY - ACCUMULATED LOSSES

	2019 \$	2018 \$
Accumulated loss at the beginning of the financial year	(20,250,571)	(17,663,275)
Loss after income tax expense for the year	(1,596,280)	(2,587,296)
Accumulated loss at the end of the financial year	(21,846,851)	(20,250,571)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

15. RELATED PARTY DISCLOSURES

(a) Subsidiary

Vectus Biosystems Limited has a 100% interest in Accugen Pty Limited.

(b) Key management personnel

Disclosures relating to key management personnel are set out in note 16.

(c) Transactions with related parties

Details of transactions occurred with related parties are disclosed in Remuneration Report in the Directors' report.

16. KEY MANAGEMENT PERSONNEL

(a) The Directors of Vectus Biosystems Limited during the year were:

Maurie Stang

Karen Duggan

Graham Macdonald (Retired 31 August 2018)

Peter Bush

Ronald Shnier

Susan Pond

(b) The aggregate compensation made to key management personnel of the consolidated entity is set out below:

	2019 \$	2018 \$
Short-term employee benefits	366,838	423,643
Post-employment benefits	34,850	40,246
Share-based payments	118,832	204,742
	520,520	668,631

Further, disclosures relating to the key management personnel are set out in remuneration report in the directors' report

17. COMMITMENTS

	2019 \$	2018 \$
(a) LEASE COMMITMENTS - FINANCE		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	78,246	68,845
One to five years	4,935	-
	83,181	68,845
(b) LEASE COMMITMENTS - OPERATING		
Committed at the reporting date but not recognised as liabilities, payable for the laboratory facility at North Ryde:		
Within one year	25,210	36,789
One to five years	-	-
	25,210	36,789
(c) OPERATING COMMITMENTS		
Committed at the reporting date but not recognised as liabilities, payable:		
Research and development expenses		
Within one year	184,889	184,889
One to five years	-	-
	184,889	184,889
(d) CAPITAL EXPENDITURE COMMITMENTS		
There are no capital expenditure commitments at the end of the financial year.		

18. INTEREST IN SUBSIDIARY

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy described in note 1.

Name	Principal place of business /Country of Incorporation	OWNERSHIP INTEREST	
		2019 %	2018 %
Accugen Pty Limited	Australia	100%	100%

19. SUBSEQUENT EVENTS

Vectus Biosystems Limited (ASX:VBS) has announced a Convertible Note issue to raise an amount of \$7,000,000. The key terms of the Convertible Notes are:

Notes: 14,000,000 Convertible Notes, each with a face value of \$0.50 each.

Term: 36 months until Maturity Date.

Interest: 6% per annum capitalised and paid on Maturity Date (or investor can elect to convert any unpaid interest on their Notes at the end of each 12-month period into VBS shares at an issue price that is the higher of (i) \$0.50 and (ii) 10% below the relevant VWAP).

Conversion: Each Note will be redeemed for \$0.50 plus any unpaid interest on that Note. Each Note may be converted into one VBS ordinary share at \$0.50 per share. The investors have the right to convert their Notes at any time prior to, or on, the Maturity Date.

Two Tranches: The issue will be undertaken in two tranches. Tranche 1 of 3,000,000 Notes at \$0.50 to raise \$1,500,000 is expected to be completed on or about 24 September 2019. Tranche 2 of 11,000,000 Notes at \$0.50 to raise \$5,500,000 is expected to be completed on or about 18 November 2019.

The funds will be used to complete the Phase I clinical trials for VB0004, which potentially prevents and reverses fibrosis in organs, to advance the library of VBS's other drugs and for general working capital.

There have been no other matters or circumstances, which have arisen since 30 June 2019 that have significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2019, of the Group; or
- (b) the results of those operations;
- (c) the state of affairs, in the financial years subsequent to 30 June 2019, of the Group.

20. REMUNERATION OF AUDITORS

During the financial year the following fees were paid or payable for services provided by UHY Haines Norton, Chartered Accountants.

	2019 \$	2018 \$
<hr/>		
Audit Services - UHY Haines Norton		
Audit and review of financial statements	39,200	38,000
	<hr/>	<hr/>
	39,200	38,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

21. PARENT ENTITY INFORMATION

	2019 \$	2018 \$
Loss after income tax	(1,507,446)	(2,459,310)
Total comprehensive loss	(1,507,446)	(2,459,310)
Total current assets	1,369,871	1,256,924
Total assets	1,395,128	1,303,038
Total current liabilities	1,897,370	2,418,244
Total liabilities	3,894,922	2,418,244
Equity		
Issued capital (net of share issue cost)	17,600,420	17,600,420
Reserves	516,610	393,752
Retained earnings /accumulated losses	(20,616,824)	(19,109,378)
Total equity	(2,499,794)	(1,115,206)

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

The parent entity has not entered into guarantee agreement on behalf of its subsidiary.

Operating commitments and Contingent liabilities

Operating commitments and contingent liabilities of the parent entity as at the reporting date are same as of the Group disclosed in note 17 and 27 respectively.

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Capital Commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019 and 30 June 2018.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, with exception of the investment in subsidiary that is accounted for at cost.

22. NOTES TO CASH FLOW STATEMENTS

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled in the related items in the statement of financial position as follows:

	2019 \$	2018 \$
Cash at bank and on hand	43,172	41,811
	43,172	41,811

(b) Reconciliation of operating loss after income tax to net cash flows from operating activities

	2019 \$	2018 \$
Operating loss after income tax	(1,596,280)	(2,587,296)
Non cash/non-operating items included in profit and loss		
Depreciation and amortisation	22,627	20,100
Share based payments	122,858	214,334
Changes in assets and liabilities		
(Increase) / Decrease in other assets	(7,512)	29,065
Increase in trade creditors	135,361	902,949
Increase in other creditors and accruals	245,900	26,768
Increase in employee entitlement provision	36,432	6,978
Net cash used in operating activities	(1,040,614)	(1,387,102)

23. OPERATING SEGMENTS

The consolidated group had no reportable segments during the year.

24. RESERVES

	2019 \$	2018 \$
SHARE BASED PAYMENTS RESERVE		
Balance at beginning of financial year	393,752	188,418
Share based payments during the year allocated to:		
Employees and consultant	4,026	592
Directors	118,832	204,742
Balance at end of financial year	516,610	393,752

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

25. LOSS PER SHARE

	2019 \$	2018 \$
Basic loss per share (cents per share)	(6.83)	(11.07)
Diluted loss per share (cents per share)	(6.83)	(11.07)
Loss used to calculate basic loss per share	(1,596,280)	(2,587,296)
Loss used to calculate diluted loss per share	(1,596,280)	(2,587,296)
Weighted average number of ordinary shares used to calculate basic loss per share	23,379,993	23,376,414
Weighted average number of ordinary shares used to calculate diluted loss per share	23,379,993	23,376,414

26. FINANCIAL INSTRUMENTS DISCLOSURES

(a) Capital:

The Group considers its capital to comprise its ordinary share capital and accumulated retained earnings. In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and distributions. In order to achieve this objective, the Group seeks to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through new share issues or debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

(b) Financial instrument risk exposure and management:

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them.

Further quantitative information in respect of these risks is presented throughout these financial statements. There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

(c) Principal financial instruments:

The principal financial instruments used by the Group, from which financial instrument risks arise, are:

Cash at bank;
Deposits and bonds
Trade and other payables.

(d) General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and has the responsibility for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives monthly reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

(i) Credit risk:

Credit risk arises principally from the Group's cash and term deposits. It is the risk that the counterparty fails to discharge its obligation in respect of the instrument.

The maximum exposure to credit risk at balance sheet date is as follows :

	2019 \$	2018 \$
Deposits with ANZ Bank (credit rating Aa2)	42,312	40,951

(ii) Liquidity risk:

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 45 days.

The Board receives cash flow projections on a monthly basis as well as information regarding cash balances. At the balance sheet date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

Maturity analysis of financial assets and liability based on management's expectations

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as property, plant, equipment and investments in working capital (e.g., trade receivables and inventories). These assets are considered in the Group's overall liquidity risk.

MATURITY ANALYSIS - 2019	CASH FLOWS			TOTAL	CARRYING AMOUNT
	< 1 YEAR	1 - 3 YEARS			
	\$	\$	\$	\$	\$
Financial assets					
Cash and cash equivalents	43,172	43,172	-	43,172	43,172
TOTAL	43,172	43,172	-	43,172	43,172
Financial liabilities					
Trade Creditors	1,136,727	1,136,727	-	1,136,727	1,136,727
Accruals	523,193	523,193	-	523,193	523,193
Borrowings	2,427,300	-	2,427,300	2,427,300	1,957,500
TOTAL	4,087,220	1,659,920	2,427,300	4,087,220	3,617,420
Net Maturity	(4,044,048)	(1,616,748)	(2,427,300)	(4,044,048)	(3,574,248)

MATURITY ANALYSIS - 2018	CASH FLOWS			TOTAL	CARRYING AMOUNT
	< 1 YEAR	1 - 3 YEARS			
	\$	\$	\$	\$	\$
Financial assets					
Cash and cash equivalents	41,811	41,811	-	41,811	41,811
TOTAL	41,811	41,811	-	41,811	41,811
Financial liabilities					
Trade Creditors	997,814	997,814	-	997,814	997,814
Accruals	281,153	281,153	-	281,153	281,153
Borrowings	284,960	984,960	-	984,960	912,000
TOTAL	2,263,927	2,263,927	-	2,263,927	2,190,967
NET MATURITY	(2,222,116)	(2,222,116)	-	(2,222,116)	(2,149,156)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(iii) Interest rate risk:

The Group's exposure to fluctuations in interest rates that are inherent in financial markets arise predominantly from assets and liabilities bearing variable interest rates.

The company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below

2019	WEIGHTED AVERAGE RATES	FLOATING RATES	FIXED RATES	NON-INTEREST BEARING	TOTAL
	%	\$	\$	\$	\$
Financial Assets					
Cash and cash equivalents	1.0%	43,172	-	-	43,172
TOTAL		43,172	-	-	43,172
Financial liabilities					
Trade Creditors	0.0%	-	-	1,136,727	1,136,727
Other payables and accruals	0.0%	-	-	523,193	523,193
Borrowings	8.0%	-	1,957,500	-	1,957,500
TOTAL		-	1,957,500	1,659,920	3,617,420
Net financial assets (liabilities)		43,172	(1,957,500)	(1,659,920)	(3,574,248)

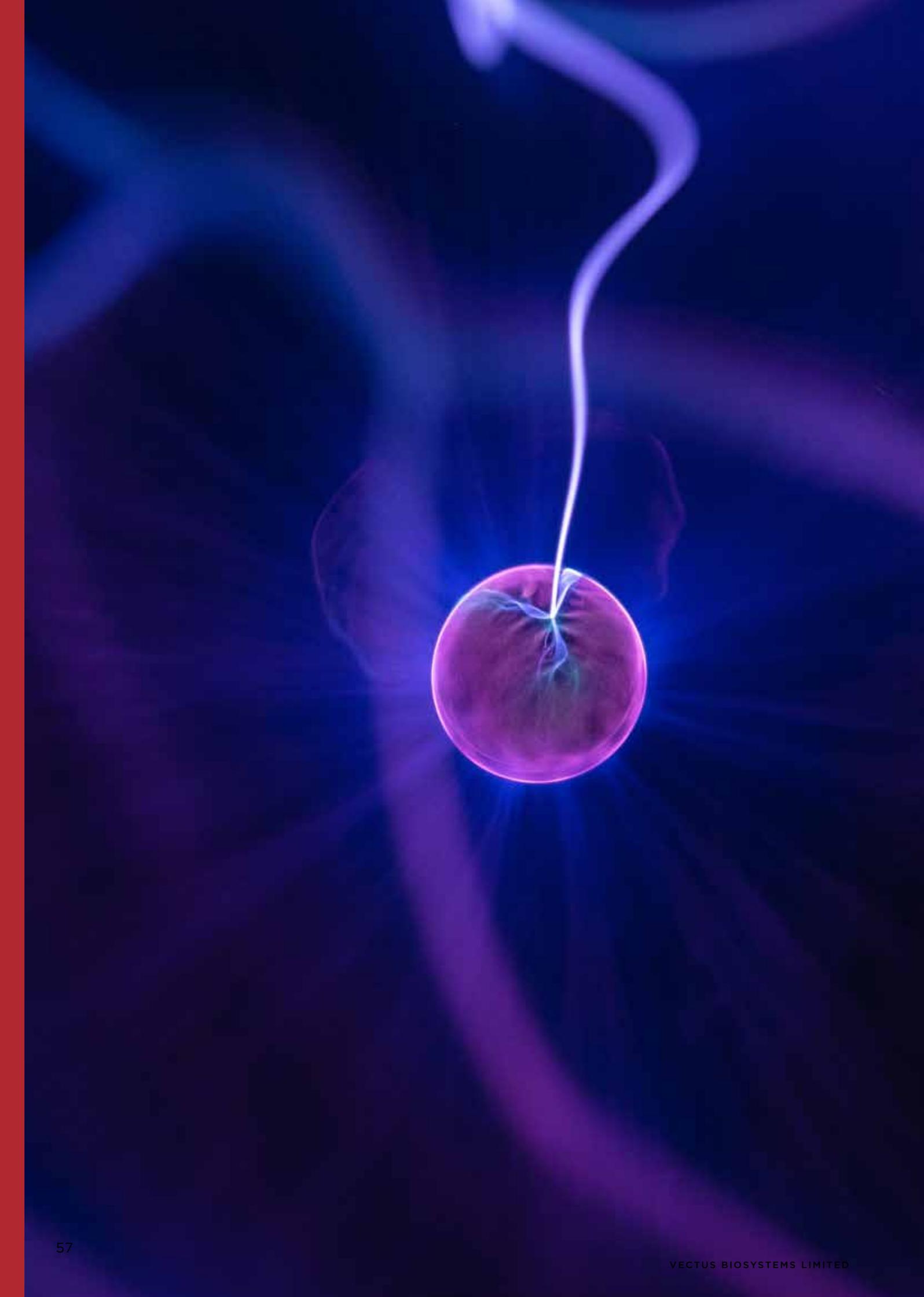
2018	WEIGHTED AVERAGE RATES	FLOATING RATES	FIXED RATES	NON-INTEREST BEARING	TOTAL
	%	\$	\$	\$	\$
Financial Assets					
Cash and cash equivalents	1.0%	41,811	-	-	41,811
TOTAL		41,811	-	-	41,811
Financial liabilities					
Trade Creditors	0.0%	-	-	997,814	997,814
Other payables and accruals	0.0%	-	-	281,153	281,153
Borrowings	8.0%	-	912,000	-	912,000
TOTAL		-	912,000	1,278,967	2,190,967
Net financial assets (liabilities)		41,811	(912,000)	(1,278,967)	(2,149,156)

The following sensitivity analysis is based on the interest rate risk exposure in existence at the balance sheet date. The analysis assumes all other variables remain constant.

SENSITIVITY ANALYSIS	CARRYING AMOUNT	+0.5% INTEREST	-0.5% INTEREST
2019		PROFIT & LOSS	PROFIT & LOSS
	\$	\$	\$
Cash at bank	43,172	216	(216)
		216	(216)
Tax charge of 30%		(65)	65
Post tax profit increase / (decrease)		151	(151)
	CARRYING AMOUNT	+0.5% INTEREST	-0.5% INTEREST
2018		PROFIT & LOSS	PROFIT & LOSS
	\$	\$	\$
Cash at bank	41,811	209	(209)
		209	(209)
Tax charge of 30%		(63)	63
Post tax profit increase / (decrease)		146	(146)

27. CONTINGENT LIABILITIES

There are no contingent liabilities of the company or the Group other than commitments disclosed in note 17.



DIRECTORS' DECLARATION

In accordance with a resolution of directors, I state that:

1 In the opinion of the Directors:

(a) the financial statements and notes, as set out on pages 25 to 56, are in accordance with the *Corporations Act 2001* and

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and its performance for the year ended on that date; and

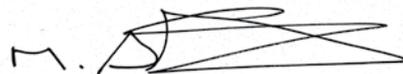
(ii) complying with Accounting Standards and the *Corporations Regulations 2001*;

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1; and

(c) There are reasonable grounds to believe that the company and the consolidated entity will be able to pay its debts as and when they become due and payable;

2 This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2019.

On behalf of the Board of Directors



Maurie Stang
Deputy Chairman

Date: 30 September 2019

INDEPENDENT AUDITOR'S REPORT



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INDEPENDENT AUDITOR'S REPORT

To the Members of Vectus Biosystems Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Vectus Biosystems Limited (the Company) and its subsidiary (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- i. giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
- ii. 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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms given to the directors at the time of this auditor's report.

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



Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. 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.

GOING CONCERN

Why a key audit matter	How our audit addressed the risk
<p>The Company has had a history of making losses. The net loss for 2019 was \$1.60 million (2018: \$2.59 million). Therefore, there is an increased risk that the Company may not have the ability to continue as a going concern.</p>	<p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> ▪ Analysis of the cash flow projections. ▪ Assessing significant non-routine forecast cash inflows and outflows including the expected impact of a planned capital raising for quantum and timing. We used our knowledge of the Group, its industry and current status of these initiatives to assess the level of the associated uncertainty. ▪ Evaluating the Group's going concern disclosures in the financial report by comparing them to our understanding of the matter, the events or conditions incorporated into the cash flow projection assessment, the Group's plans to address those events or conditions, and accounting standards requirements. ▪ Discussions with the directors and management regarding the capital raising initiatives, their current status, including the timeline and their uncertainties. ▪ Review of the ASX announcement regarding the successful convertible note issue to raise \$7 million (14 million convertible notes with a face value of \$0.50 each). UHY checked that Tranche 1 of 3 million notes to raise \$1.5 million was completed with the monies being received in the company's bank account. Tranche 2 of 11 million notes to raise \$5.5 million is expected to be completed in November 2019.
<p>As at 30 June 2019, the company had \$0.04 million (2018: \$0.04 million) of cash in the bank. The net cash outflow from operating activities in 2019 was \$1.04 million (2018: \$1.39 million).</p>	
<p>The magnitude of losses relative to the level of cash and net assets in the entity are indicative of a possible going concern risk.</p>	
<p>A key audit matter is the entity's ability to continue as a going concern.</p>	

INDEPENDENT AUDITOR'S REPORT CONTINUED



RESEARCH AND DEVELOPMENT COSTS

Why a key audit matter

As disclosed in the financial report, the Group has expensed all research and development expenditure (FY19: \$0.71 million, FY18 \$1.60 million), in the statement of profit or loss and other comprehensive income.

Our audit focused on this area due to the value of the research and development costs incurred, and the fact that there is judgment involved in assessing whether the requirements detailed in the accounting standards for expensing or capitalising these costs have been met.

The Group is currently performing a range of animal toxicology studies on its main compound. This research continues to progress over time with corresponding increases in the probability of future economic benefits flowing to the Company. AASB 138: Intangible Assets prescribes that research and development expenditure on an asset or product be capitalised as an intangible asset when specific criteria (relating to commercial viability) are met.

Significant judgments relevant to the Group for capitalisation of research and development costs include determining if the development stage has been reached.

Management's conclusion is that no material element of the spending this year on research and development met the criteria for capitalisation on the basis that the Group was still in the research phase and had not started with human trials of the main compounds yet.

How our audit addressed the risk

In responding to the significant judgments involved in determining whether the research and development spend has been recognized in accordance with the relevant accounting standards, our audit procedures included:

- Discussions with management regarding their accounting policies for expensing and capitalising the Group's research and development costs.
- Updating our understanding of management's process for assessing whether any research and development spend has met all of the AASB 138 recognition criteria.
- Meeting with management and discussing the nature of work being completed and their assessment of the areas of judgment, particularly the current stage of the research and development.
- Considering other information obtained during the audit, including products being developed, nature of contracts with key suppliers and the stage of related sales prospects.

The results of our procedures did not identify any inconsistencies with management's conclusions that no material element of the spending this year on research and development meets criteria for capitalisation.

It is likely that in the future, some of the Group's research and development spend will meet the criteria for capitalisation. The Group's systems and processes for recording research and development spend and assessing the stage of the development against all of the specific criteria for recognition under AASB 138 will require further development to provide a framework for capitalisation.



Other Information

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 2019, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has 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.

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

INDEPENDENT AUDITOR'S REPORT CONTINUED



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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



Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 22 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Vectus Biosystems Limited, for the year ended 30 June 2019, 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.



Franco Giannuzzi
Partner
Sydney
30 September 2019



UHY Haines Norton
Chartered Accountants

AUSTRALIAN SECURITIES EXCHANGE (ASX) ADDITIONAL INFORMATION

Additional information required by the ASX Listing Rules, and not disclosed elsewhere in this Annual Report, is detailed below. This information was prepared based on Vectus Biosystems Limited's Share Registry information.

SHAREHOLDING INFORMATION

Distribution of Shareholders

Analysis of the fully paid ordinary shares by holding as at 19 September 2019:

Spread of Holdings	Number of Holders	Ordinary shares	% of Total Issued Capital
1 - 1,000	44	22,822	0.098
1,001 - 5,000	135	289,403	1.238
5,001 - 10,000	38	296,074	1.266
10,001 - 100,000	128	4,586,165	19.616
100,001 - and over	39	18,185,532	77.782
Total	384	23,379,996	100.000

On 19 September 2019 there were 34 shareholders holding less than a marketable parcel of \$500 worth of shares at a share price of \$0.64.

Statement of Shareholdings as at 18 September 2019

The names of the 20 largest holders of fully paid ordinary shares are listed below:

SHAREHOLDER	Number of Shares	% Holding
Ajjika Technology Pty Limited <The Ajjika A/C>	3,200,000	13.687
Energy Trading Systems Pty Ltd <The MPF A/C>	2,550,000	10.907
Bernard Stang	2,550,000	10.907
3rd Pulitano Pty Ltd	801,667	3.429
Grizzly Holdings Pty Limited	733,333	3.137
Bennelong Resources Pty Ltd <John Egan Super Fund A/C>	670,000	2.866
Gleneagle Securities (Aust) Pty Ltd <House Prop A/C>	566,942	2.425
Spinite Pty Ltd	553,455	2.367
Finot Pty Limited	550,000	2.352
Fleray Pty Ltd <The Senior Super Fund AC>	531,083	2.272
Australian Shareholder Nominees Pty Ltd <Legal Eagle Pl Colmansf A/C>	479,569	2.051
Victor Zheng Chun Ye	400,000	1.711
Mr Norman Nathan Gelbart <Alex Wartski Family A/C>	356,775	1.526
Kent's Flowers Pty Ltd <The Flawless Flowers A/C>	324,524	1.388
Helensleigh Pty Ltd <Helensleigh Staff S/F A/C>	257,441	1.101
Adziel Pty Limited	250,000	1.069
Madrettor Pty Ltd <Russell and Linda Super A/C>	232,187	0.993
Mr Norman Nathan Gelbart	224,160	0.959
Capricorn Eleven Superannuation Fund Pty Ltd <Capricorn Eleven P/L S/F A/C>	204,167	0.873
Australian Direct Investments Pty Limited <Super Fund A/C>	183,333	0.784
Total of Top 20 Holdings	15,618,636	66.803
Other Holdings	7,761,360	33.197
Total Ordinary Shares	23,379,996	100.000

AUSTRALIAN SECURITIES EXCHANGE (ASX) ADDITIONAL INFORMATION CONTINUED

VOTING RIGHTS

At general meetings of the Company, all fully paid ordinary shares carry one vote per share without restriction. On a show of hands, every member present at a general meeting, or by proxy, shall have one vote and, upon a poll, each share shall have one vote. Option holders, performance rights holders and deferred share awards holders have no voting rights until the options are exercised, or the rights or awards are converted into ordinary shares.

Substantial Shareholders

Substantial shareholders in Vectus Biosystems Limited, based on Substantial Shareholder Notices received by the Company, are as follows:

Name	Shares	% of Shares Issued
Dr Karen Duggan	3,201,500	13.640
Mr Maurie Stang	2,562,000	10.963
Mr Bernard Stang	2,562,000	10.963

Performance Rights issued under Employee Incentive Plan as at 19 September 2019

Name of Performance Holder	Performance Shares the Holder is Entitled to
Dillon Ventures Pty Ltd <The Dillon Ventures A/C>	100,000

The conversion ratio of the Performance Rights into ordinary shares upon achievement of a relevant performance milestone is one ordinary share for each Performance Right.

Deferred Share Awards issued under Employee Incentive Plan as at 19 September 2019

Name of Deferred Share Awards Holder	Share Awards the Holder is Entitled to
Karen Duggan	75,000 - expire if not exercised by 17 November 2019

Options issued under Employee Incentive Plan as at 19 September 2019

Details of Option Holders	Zero Exercise Price Options (progressive vesting dates)
Vectus employees - two holders	1,000 - expire if not converted by 25 January 2022
Vectus employees - two holders	2,000 - expire if not converted by 29 May 2022
Vectus employees - one holder	5,000 - expire if not converted by 23 August 2023

ON-MARKET BUY BACK

In accordance with ASX Listing Rule 4.10.18, the Company advises that there is no current on-market buy-back.

CORPORATE DIRECTORY

VECTUS BIOSYSTEMS LIMITED

ACN: 117 526 137
ABN: 54 117 526 137

DIRECTORS

Mr Maurie Stang
Non-Executive Deputy Chairman

Dr Karen Duggan
Executive Director and Chief Executive Officer

Mr Peter Bush
Non-Executive Director

Dr Ronald Shnier
Non-Executive Director

Dr Susan Pond
Non-Executive Director

COMPANY SECRETARY

Mr Robert Waring

REGISTERED AND PRINCIPAL OFFICE

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RESEARCH DIVISION

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SHARE REGISTRY

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AUDITOR

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Website: www.uhyhnsydney.com.au

STOCK EXCHANGE LISTING

The Company is listed on the Australian Securities Exchange (ASX Limited). ASX Code: VBS



