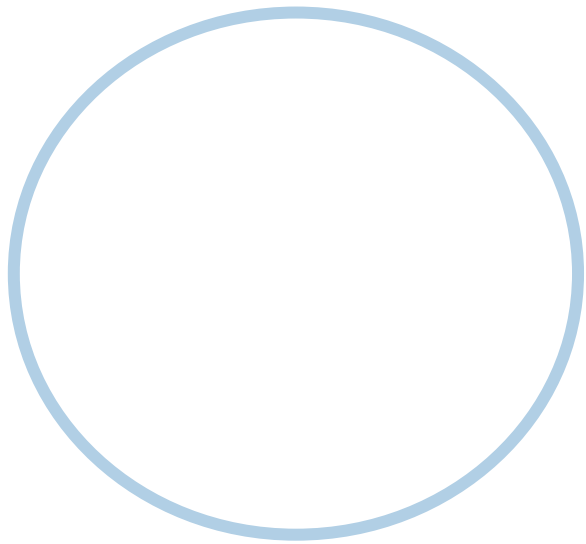


# Annual Report 2020

Regeneus Ltd

ABN 13 127 035 358





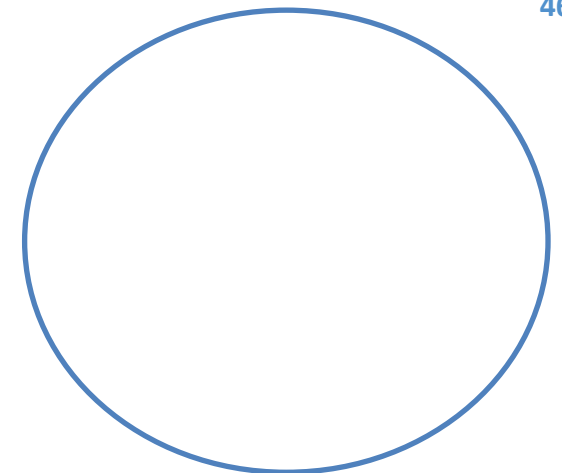
## WHO WE ARE

Regeneus Ltd (ASX: RGS) is an ASX listed clinical stage regenerative medicine company using stem cell technologies to develop a portfolio of novel cell-based therapies focussed on neuropathic pain, including osteoarthritis and various skin conditions. The Company has two platform technologies, Progenza and Sygenus.

The Company's strategy focuses on bringing Progenza to commercialisation in Japan, targeting osteoarthritis (OA).

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## Letter from the Chairman and CEO

Dear fellow shareholders

On behalf of the Board of Directors we are pleased to present Regeneus' annual report for the 2020 financial year.

A number of important milestones were achieved in 2020, including our revised strategy to focus on the global neuropathic pain market which anchored many of our activities during the year and beyond.

We are pleased to note that by focusing on the neuropathic pain market, we were able to successfully secure a transformative licensing deal with Kyocera Corporation of Japan: to collaborate, license and commercialise our lead stem cell technology platform, Progenza, for knee osteoarthritis in Japan. While this announcement was made outside the 2020 financial year, our activities during the year paved the way for securing this significant transaction.

## Operational changes and focus on global pain market

2020 was a productive year as Regeneus implemented a number of operational changes to realign its focus on the global pain market.

In particular, the Company underwent a major restructure in order to streamline operations and reduce costs to ensure the preservation and enhancement of shareholder value. This restructure included a reduction in operational expenditure by up to 50 per cent and ensuring the Company's priority remained focused on the commercialisation of Progenza.

Of course, during the financial year the COVID-19 pandemic affected many businesses across industries and sectors. For Regeneus, disruptions were minimal given our research and development activities were able to continue largely unaffected. We are also pleased to report that the management team was able to navigate the challenges of international border closures and successfully consummate the transformative deal with Kyocera in August 2020.

*Our recent licensing and collaboration agreement with Kyocera was an important milestone as it provides a clear pathway for the commercialisation of Regeneus' lead platform technology, Progenza, in Japan.*

As noted above, while the transaction with Kyocera was concluded just outside the 2020 financial year, it was an important milestone for the Company. Not only does it illustrate a clear commercialisation pathway for Progenza in Japan, but it also provides Regeneus with sufficient

cash runway through to a commercial launch of its Progenza OA product in Japan. The terms of the transaction with Kyocera are also highly attractive, with upfront and milestone payments amounting to US\$19 million to be received by the Company, in addition to the receipt of single to high double-digit royalties for future Progenza OA product sales in Japan.

Importantly, the licensing deal also provides Regeneus with flexibility as it allows the Company to negotiate the licensing of its Progenza OA technology in other regions and for other indications outside of Japan with other partners. Given the global market for osteoarthritis treatments is estimated to be worth \$3.5 billion by 2026, we believe this provides Regeneus with an untapped market opportunity.

## Clinical and regulatory progress

During the 2020 financial year, Regeneus was able to secure a number of important clinical and regulatory milestones for its platform technologies.

For example, in the first quarter of the financial year, we announced that Progenza was able to demonstrate a reversal of disease in a neuropathic pain model; a single injection of Progenza resulted in the complete reversal of symptoms of allodynia, a condition in which pain occurs from what is normally non-painful stimulation of the skin, such as light touch. These positive preclinical results support our move to target the global pain market and underscore the versatility of our platform technology to potentially address additional indications and diseases.

We also continued our existing research partnership with Monash University to explore the mode of action of Mesenchymal Stem Cells (MSCs) in pain management. This research was further bolstered as Regeneus received a funding grant as part of the Innovation Connections Grant from the Australian Government's Department of Industry, Innovation and Science.

Another important achievement was our new key patent to be granted from the United State Patent and Trademark Office for Progenza. The patent covers a broad range of inflammatory conditions such as Acute Respiratory Distress Syndrome (ARDS), arthritis, heart diseases and auto-immune diseases, and means the Company now has strong IP coverage in all its key markets, including the US, Japan, Europe and Australia. While the Company remains focused on addressing the opportunities in pain and osteoarthritis, this achievement opens doors to partnerships for our lead platform technology for other diseases and indications.

## Financial Highlights

Our financial results during the financial year underscore our commitment to our strategy as we reduced operational expenditure and focused on moving our commercialisation discussions for Progenza.

As part of this, we were able to reduce corporate costs primarily due to the one-off costs of implementing the outcomes of the strategic review, including redundancies and consulting costs associated with securing the Kyocera agreement.

Further to this, Regeneus completed a \$5.5 million share placement which was supported by institutional and private investors, including a Japanese biotech institutional investor who took up the shortfall.

To help support the Company in its commercialisation discussions, in February 2020, the Directors provided loan facilities totaling \$4 million. Of this amount, \$1.1 million has been drawn and in the new financial year, Regeneus will focus on reducing its current liabilities and strengthen its cash position, including intentions to cancel the loan facilities once the additional upfront Kyocera funds have been received

In the third quarter of the financial year we were pleased to report that Regeneus received \$1.6 million from Kyocera as part of the licensing transaction subsequently entered into between the parties and referred to above. This initial upfront payment will be followed by further upfront payments in the 2021 financial year and we look forward to sharing these details with our shareholders.

## Outlook

Looking ahead into the 2021 financial year, the Company has secured a transformative deal with Kyocera for its lead platform technology Progenza. This deal is significant as it provides a clear commercialisation pathway for Progenza in Japan, where the osteoarthritis market is expected to be worth \$350 million by 2026.

In the new financial year, our focus will be on the completion of manufacturing set up and working towards the start of a Phase 2 clinical study in Japan.

We look forward to entering into more partnerships with leading universities and research groups to explore potential commercial opportunities for our technologies in order to continue to build long term shareholder value. This includes taking Sygenus into new indications given the recent grant of our additional US patent which covers a broad range of non-inflammatory skin conditions such as aged spots, wrinkles and other aged-related skin concerns. The market for aesthetic therapeutics is significant, estimated to be worth US\$53 billion, and we believe Sygenus can potentially address a part of this market.

We also look forward to updating the market on our progress in the year ahead and achieving more clinical and regulatory milestones to pave the way for Progenza's commercialisation in Japan.

We thank our fellow directors, our small and dedicated team and our various clinical and research partners for their ongoing support and tireless work to the business despite the disruptions the COVID-19 pandemic has brought about.

Finally, we thank our shareholders for their ongoing support for Regeneus. The Kyocera agreement we have recently secured is a major milestone for the Company and we are pleased to share this with our shareholders. We look forward to progressing our collaboration with Kyocera, building our pipeline of stem cell technologies and updating you on this front.



Barry Sechos

Chairman



Leo Lee

Chief Executive Officer

# Directors' report

Your Directors present their report for Regeneus Ltd and its controlled entities (the Group) for the financial year ended 30 June 2020.

## Directors

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

**Barry Sechos**

Non-executive Chairman

**Leo Lee**

CEO and Executive Director

**Professor Graham Vesey**

CSO and Executive Director

**Dr Alan Dunton**

Non-executive Director

**Dr John Chiplin**

Non-executive Director

**Dr. Glen Richards**

Non-executive Director

Resigned 4 June 2020

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

## Chairman

**Barry Sechos** has served on the Board since 2012 and has over 35 years experience as a director, business executive and corporate lawyer with particular experience in investment and asset management. Barry is Executive Director of the Sherman Group (an early-stage investor in the Company) and sits on the board of many Sherman Group companies and investee companies.

**Other current directorships**

Concentrated Leaders Fund Ltd (formerly Aberdeen Leaders Fund Ltd)

**Previous directorships** (last 3 years)

None

**Interests in shares**

7,700,000

**Interests in options**

Nil

**Interests in options**

Nil

## CEO - Executive Director

**Leo Lee** joined the Board in December 2017 and was appointed CEO in January 2019. Leo brings more than 20 years experience in pharmaceutical innovation, commercialisation, regulation and policy development and has worked extensively in North America and Asia. Most recently, Mr. Lee served as President, Japan, for Merck KGaA. Prior to this role, he served as President, Japan, for Allergan plc, a global pharmaceutical company. Leo has held sales and commercial roles in Merck & Co., IQVIA and Accelrys, Inc

Leo received a Bachelor of Science in Molecular Genetics and Microbiology from the University of California.

**Other current directorships**

None

**Previous directorships** (last 3 years)

None

**Interests in shares**

13,511,000

**Interests in options**

15,000,000

## CSO - Executive Director

**Professor Graham Vesey** is a co-founder and founding CEO of the Company and has served on the Board since incorporation. He was appointed Chief Scientific Officer in November 2014. Graham is a successful biotechnology entrepreneur, technology innovator and inventor and a highly regarded scientist. Graham was a co-founder and Executive Director of the successful biotech company, BTF, which was sold to bioMerieux in 2007. Graham is an Adjunct Professor at Macquarie University.

### Other current directorships

None

### Previous directorships (last 3 years)

None

### Interests in shares

15,879,968

### Interests in options

Nil

## Non-executive Directors

**Dr. Alan Dunton** joined the Board in April 2019. Dr Dunton is a senior pharmaceutical and biotechnology industry leader with over 35 years experience in senior company leadership roles.

Dr Dunton has served as a director of 18 companies and is based in Florida, USA. He is the founder and principal of Danerius, LLC a consultancy that provides specialised advisory services to pharmaceutical and biotechnology organisations both in the private and public sectors. Over the last few years, Dr Dunton has also served as an independent board director for a variety of publicly-listed biopharmaceutical and drug development companies such as Palatin Technologies, Oragenics and CorMedix and the private company Cytogel Pharma.

### Other current directorships

None

### Previous directorships (last 3 years)

None

### Interests in shares

Nil

### Interests in options

Nil

**Dr. John Chiplin** joined the Board in April 2019. Dr. Chiplin is Managing Director of Newstar Ventures Ltd and has significant operational, investment and transactions experience in the international life science and technology industries. Between 1995 and 2014, Dr Chiplin served as CEO at three leading publicly-listed software, biotechnology and cancer immunotherapy companies.

Based in London, UK, Dr. Chiplin currently serves on the boards of Adalta (ASX: 1AD), Batu Biologics, Scancell Holdings plc (LSE: SCLP, Chairman) and ScienceMedia.

### Other current directorships

Adalta Ltd

### Previous directorships (last 3 years)

Cynata Therapeutics Ltd

### Interests in shares

Nil

### Interests in options

Nil

**Dr. Glen Richards** resigned from the Board in June 2020 having served on the Board since April 2015. Glen practised companion animal medicine and surgery in Brisbane, Townsville and London before establishing Greencross Vets in 1994. As Managing Director of Greencross Ltd (ASX:GXL) he created Australia's largest veterinary healthcare group with over 120 veterinary practices and 200 pet specialty stores. He resigned as MD in December 2014 and continues as a Non-executive Director.

### Other current directorships

Greencross Ltd

1300Smiles Ltd

People Infrastructure Ltd

### Previous directorships (last 3 years)

None

### Interests in shares

4,208,333

### Interests in options

Nil

## Company Secretary

**Sandra McIntosh** is the Company Secretary and Head of Corporate Operations. Sandra has been with the Company since 2009, and has more than 20 years management experience in HR, customer service and finance.

## Principal activities

Regeneus Ltd (ASX: RGS) is a Sydney-based clinical-stage regenerative medicine company using stem cell technologies to develop a portfolio of novel cell-based therapies to address significant unmet medical needs in the human health markets with a focus on osteoarthritis and other musculoskeletal disorders, neuropathic pain and dermatology.

## Operating and financial review

### Review of operations

During Q1 FY2020 a strategic review led to the Group's activities being streamlined as it focused on its licence arrangements for Progenza in Japan. R&D continued on Progenza and Sygenus.

Highlights of the year in review include:

- Memorandum of understanding (MOU) signed with Kyocera Corporation of Japan (Kyocera), a diversified multinational listed on the Tokyo stock exchange (TYO:6971) for exclusive negotiation rights for Progenza OA in Japan
- Receipt of \$1.64 million from Kyocera for the successful completion of the due diligence process with a further \$1.3 million payable upon signing of a commercial licence arrangement
- The Group completed a successful \$5.5 million private placement and rights issue which included a Japan-based institutional investor with significant experience in the life sciences and regenerative sector taking up the shortfall
- Directors converted loans of \$1.4 million into shares as part of the capital raising
- Received \$1.5m by way of R&D Tax Incentive
- Repayment of Paddington St Finance Pty Ltd R&D loan and the securing of new loan facilities of \$4 million from CEO Leo Lee and Paddington St Finance.
- Finalised the arrangements with AGC Inc (AGC). which includes the pending share issuance of 22.8 million shares to AGC. Shares to be issued at AGC's request. Upon issue AGC will become the single largest shareholder in the Group
- Cash utilised in supplier and employee payments was \$4.76 million down from: \$5.9 million in FY19. Excluding current year redundancy costs of \$784k the average monthly cash utilised on these payments was \$331k (FY19: \$489k)

While outside FY20, in August 2020 the Group signed a collaboration and licence agreement with Kyocera which includes US\$19 million in upfront and milestone payments and high single to double-digit royalties on future Progenza sales. This agreement provides a clear commercial pathway for the lead platform technology, Progenza, in Japan.

## Financial review

### Operating results

The Groups operating results for the year was a loss of \$1.1 million (FY19: \$6.0 million). The improved result is reflective of the \$1.64m from Kyocera for the successful completion of the due diligence process, significantly lower expenditure and includes the \$1.9m gain from finalising the AGC arrangement.

### Revenue from operating activities

	2020 \$'000	2019 \$'000	Movement \$'000
<b>Operating activities</b>			
Licence & other fee revenue	1,663	-	1,663
<b>Total revenue</b>	<b>1,663</b>	<b>-</b>	<b>1,663</b>

### Expenses

	2020 \$'000	2019 \$'000	Movement \$'000
Research and development	1,238	2,433	(1,195)
Occupancy	263	512	(249)
Corporate	3,439	3,922	(483)
Finance costs	271	403	(132)
<b>Expenses from operations</b>	<b>5,211</b>	<b>7,270</b>	<b>(2,059)</b>
Other expenses	18	-	18
Gain on settlement of AGC contract liability	(1,855)	-	(1,855)
Realised foreign exchange loss on contract liability	88	-	88
Unrealised foreign exchange loss on contract liability	-	180	(180)
Share of (gain) / loss on investment	(7)	41	(48)
<b>Total expenses</b>	<b>3,455</b>	<b>7,491</b>	<b>(4,036)</b>

## Research and development expenses

Research and development activities include staff and other costs associated with product research, preliminary manufacture and the conduct of clinical trials for the Company's products. R&D expenditure for the year was \$1.2m (FY19 \$2.4m). The continuing reduction in R&D expenditure is a reflection of the cost containment program undertaken in Q1 and R&D being focused on finalising testing and related activities that enhance licensing opportunities for Progenza and Sygenus.

In line with the Group's policy and to comply with the accounting standards, all costs associated with research and development are fully expensed in the period in which they are incurred. The Directors do not consider the Group can demonstrate all the requirements of the accounting standards to capitalise development expenditure.

## Occupancy costs

Occupancy costs of \$263k were significantly down on the prior year due to the conclusion of the Corporate office lease. Occupancy costs are now only the use of laboratory facilities on an ad-hoc basis.

## Corporate expenses

Corporate expenses at \$3,439k are 12% lower than prior year (\$3,922k) but remain higher than targeted predominantly due to the one-off costs of implementing the outcomes of the strategic review including redundancies of \$784k for the Group and increased consulting costs associated with securing the Kyocera arrangements. This category of expenditure includes: corporate employees, Directors, IP, compliance, depreciation and business development costs.

## Finance costs

These are predominantly interest on the Directors and the Paddington St Finance loans.

## Gain on settlement

This gain is the result of finalising the AGC Inc share issuance. Previously a financial liability was recognised in respect of AGC's entitlement to receive US\$2.5 million (A\$3.6 million) payable in Regeneus shares. In December 2019 AGC agreed to receive a fixed number of Regeneus shares (22.46 million) at a value of \$0.16 per share. At the time Regeneus shares were trading at \$0.08 giving rise to a benefit of \$1.855 million. This arrangement is more fully detailed in the notes to the Financial Statements.

## Financial Position

The Consolidated Statement of Financial Position continues to be a deficit with assets exceeded by liabilities by \$0.1m (FY19:\$6.4m).

The significant improvement over the 12 month period is predominantly reflective of the reduction in current liabilities to \$3.6m (FY19: \$8.8M). This improvement was driven by a number of significant activities. The capital raising brought into Regeneus net \$3.9 million of new cash and also saw \$1.4 million of the Directors Loans converted to Regeneus shares. Additionally, the R&D incentive loan from Paddington St Finance was repaid with the R&D incentive receipt and the agreement on the reduction of shares and associated liability to satisfy AGC's entitlement of \$3.5m contributed to a stronger balance sheet.

Current Liabilities at \$3.6 million includes the Directors loan of \$1.1m and the contract liability of \$1.4m representing the second invoice to Kyocera which requires signing of the Kyocera licence and collaboration agreement to be recognised as income.

The current loan facilities available to the Company of \$4 million are drawn to \$1.1 million.

## Cash flows

The net cash inflows for the period were:

	2020 \$'000	2019 \$'000
Net cash provided by (used in) operating activities	(1,918)	(3,608)
Net cash provided by (used in) investing activities	16	(8)
Net cash provided by (used in) financing activities	2,628	2,780
<b>Net change in cash and cash equivalents held</b>	<b>726</b>	<b>(836)</b>

## Operating activities

The strategic initiatives implemented in FY20 facilitated a reduced cash usage in operating activities. The underlying cash payments to suppliers and employees of \$4.8m (excluding the receipt of Kyocera's first payment received of \$1.6m and the R&D incentive received of \$1.5m) compared favourably to the prior year of \$6.0 million. This comparison is further enhanced when the one-off termination payments including employee provisions of almost \$0.8m is considered.

## Investing activities

This amount reflects the net impact of cash on the acquisition and subsequent termination of the AGC Japan Joint Venture.

## Financing activities

The cash provided by financing activities in the September capital raising of \$3.9m were in part offset by the Paddington St Finance loan repayment of \$1.3m, which was repaid using the R&D incentive received by the Company.



## Significant changes in state of affairs

There were no other changes in the state of affairs of the Group during the reporting period.

## Changes in accounting policy

There were no changes in accounting policy during the reporting period other than the adoption of AASB 16 Leases.

## Events subsequent to the reporting period

In the period from 30 June 2020 through to the signing of the financial report the following important events have occurred:

On 11 August 2020, Regeneus announced that it had signed with Kyocera a licence and collaboration agreement. The agreement is for Kyocera to exclusively develop and commercialise Regeneus' lead stem cell platform technology Progenza for the treatment of knee osteoarthritis in Japan.

Regeneus will receive approximately \$27 million (US\$19m) in upfront, development and regulatory milestone payments consisting of:

- \$13 million (US\$9m) in upfront and execution payments, data package delivery and establishing Standard Operating Procedures, of which \$1.6 million was received in March 2020, \$1.3 million is due in the current quarter and the balance in the current financial year.
- \$14 million (US\$10m) in regulatory and development milestone payments.

Additionally, Regeneus will receive high single to double-digit royalties on all future Progenza OA product sales in Japan.

On 19 August 2020, Regeneus announced that the US Patent and Trademark office has issued a notice of allowance for a new patent for Sygenus. The patent covers treatment of a broad range of non-inflammatory skin conditions with adipose-derived cell secretion, including age spots, wrinkles, and other age-related conditions.

On 27 August 2020, Regeneus received from Kyocera the second payment under the February 2020 MOU of JPY100m. The net amount after withholding tax was A\$1.23m.

Apart from the above, there are no other matters or circumstances that have arisen since the end of the year that have significantly affected or may significantly affect either the entity's operations in future financial years, the results of those operations in future financial years or the entity's state of affairs in future financial years.

## COVID-19 impact

Regeneus has considered the impact of COVID-19 on its business and believes that there is no material impact on its operations, asset values and impairment considerations. As the potential impacts of COVID-19 continue to evolve management will continue to monitor the situation and the effect on the business.

## Likely developments, business strategies and prospects

The finalisation of the licence and collaboration agreement in FY21 Q1 lays a strong foundation for the commercialisation of Regeneus' lead stem cell platform technology Progenza in Japan as well as in additional jurisdictions. FY21 will focus on the manufacture of Progenza and preparation for a successful Phase 2 clinical trial in Japan.

Ongoing clinical trials of Sygenus and the further development of 'pain' applications will also continue throughout FY21.

## Corporate Governance Statement

The Board is committed to achieving and demonstrating the highest standards of corporate governance. As such, Regeneus Ltd and its controlled entities (the Group) have adopted the third edition of the Corporate Governance Principles and Recommendations which was released by the ASX Corporate Governance Council in March 2014 and became effective for financial years beginning on or after 1 July 2014.

The Group's corporate governance statement for the financial year ending 30 June 2020 is dated as at 30 June 2020 and was approved by the Board on 27 August 2020. The corporate governance statement is available on Regeneus' website at: [regeneus.com.au/investors/corporate-governance](http://regeneus.com.au/investors/corporate-governance)

## Directors' meetings

The number of meetings of Directors (including committees of Directors) held during the year and the number of meetings attended by each Director were as follows:

Directors' name	Board meetings		Audit and risk committee		Remunerations and nominations charter	
	A	B	A	B	A	B
Barry Sechos	6	5	2	2	1	1
Leo Lee	6	6	-	-	1	1
Graham Vesey	6	5	-	-	-	-
John Chiplin <sup>1</sup>	6	6	-	-	-	-
Alan Dunton	6	6	-	-	-	-
Glen Richards <sup>2</sup>	6	4	2	1	1	1

Column A is the number of meetings the director was entitled to attend

Column B is the number of meetings the director did attend.

Where a Director joined the Board during the year or resigned their position during the year then the number of meetings entitled to attend is for the relevant period.

1. John Chiplin was appointed Chair of the Rem & Nom committee and appointed as a member of the Audit & Risk committee on 5 June 2020
2. Glen Richards resigned from the Board 4 June 2020

## Dividends paid or recommended

No dividends have been paid or declared since the start of the financial year (FY19: Nil).

## Unissued shares under option

Unissued ordinary shares of Regeneus Ltd under option at the date of this report are:

Date of granting	Expiry date	Exercise price of option \$	Number under option
21/02/2011	20/02/2021	0.136	1,001,674
31/01/2019	30/01/2024	0.200	1,250,000
31/01/2019	30/01/2024	0.250	2,500,000
01/10/2019	30/09/2024	0.100	1,000,000
01/10/2019	30/09/2024	0.150	3,500,000
01/10/2019	30/09/2024	0.200	750,000
01/10/2019	30/09/2024	0.250	750,000
01/10/2019	30/09/2024	0.300	750,000
01/10/2019	30/09/2024	0.350	750,000
01/04/2020	31/03/2025	0.100	3,500,000
01/04/2020	31/03/2025	0.200	1,250,000

During FY20, 15.75 million options over ordinary shares were issued of which 3.5 million were forfeited. Of the balance of 12.25m options, 6.5m were approved at the FY19 AGM and 4.25m were issued subject to shareholder approval (FY19: 5.0m). 1.0 million options were issued to staff as part of the Option Share Trust plan (FY19: nil).

All unexercised, vested options expire on the earlier of their expiry date or within a period set out in the plans. These options were issued under the Employee Share Option Plan and Option Trust Share plans, and have been allotted to individuals on condition that they meet the agreed milestones before the options vest.

As part of the IPO, 12,740,252 employee options, that had an exercise price of less than 20 cents, were exercised prior to the listing on 19 September 2013. These were financed by a full recourse loan provided by the Company to the option holders. Loans associated with almost 8 million of these shares remain outstanding.

## Shares issued during or since the end of the year as a result of exercise of options

During or since the end of the year, no shares were issued by the Company as a result of the exercise of options (FY19: nil).

## Remuneration report (audited)

The Directors of the Group present the Remuneration Report for Executive Directors, Non-Executive Directors and other key management personnel prepared in accordance with the Corporations Act 2001 and the Corporations Regulations 2001.

The Remuneration Report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based remuneration
- Bonuses and
- Other information

### a. Principles used to determine the nature and amount of remuneration

The principles of the Group's executive strategy and supporting incentive programs and frameworks are to:

- Align rewards to business outcomes that deliver value to shareholders,
- Drive a high-performance culture by setting challenging objectives and rewarding high performing individuals,
- Ensure remuneration is competitive in the relevant employment market place to support the attraction, motivation and retention of executive talent.

Regeneus has structured a remuneration framework that is market competitive and complementary to the reward strategy of the Group. The Board has established a Remuneration and Nominations Committee which operates in accordance with its charter as approved by the Board and is responsible for making recommendations to the Board for reviewing and approving compensation arrangements for the Directors and the Executive team. The remuneration structure that has been adopted by the Group consists of the following components:

- Fixed remuneration being annual salary,
- Short and long-term incentives, being employee bonuses and options.

The Remuneration and Nominations Committee assesses the appropriateness of the nature and amount of remuneration on a periodic basis by reference to recent employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive team.

All bonuses, options and incentives are linked to predetermined performance criteria.

### Short term incentive (STI)

Regeneus performance measures involve the use of annual performance objectives, metrics, and performance appraisals.

The performance measures are set annually after consultation with the Directors and Executives and are specifically tailored to the areas where each executive has a level of control. The measures target areas the Board believes hold the greatest potential for expansion and profit and cover financial and non-financial measures.

The KPIs for the Executive team are summarised as follows:

Performance area:

- Financial - operating results
- Non-financial - strategic goals set for each individual

The Board may, at its discretion, award bonuses for exceptional performance in relation to each person's pre-agreed KPIs and extraordinary achievements.

### Voting and comments made at the Company's last Annual General Meeting

Regeneus received 65,315,998 – 99.3% 'For' votes on its Remuneration Report for the financial year ending 30 June 2019 (FY18: 40,474,751 – 93.6%). The Company received no specific feedback on its Remuneration Report at the Annual General Meeting.

### Consequences of performance on shareholder wealth

In considering the Group's performance and benefits for shareholder wealth, the Board has regard to the following indices in respect of the current financial year and the previous four (4) financial years:

Item	2020	2019	2018	2017	2016
EPS (cents)	(0.004)	(0.029)	(0.025)	0.016	(0.017)
Dividends (per share)	\$0	\$0	\$0	\$0	\$0
Net profit (loss) (\$000)	(1,069)	(6,025)	(5,185)	3,271	(3,574)
Share price (\$)	\$0.070	\$0.085	\$0.12	\$0.12	\$0.14

### b. Details of remuneration

Details of the nature and amount of each element of key management personnel (KMP) remuneration are shown in the following table:

Executive Directors		Short term					Total \$	Performance related
		Cash salary & fees \$	Incentive \$	Other benefits \$	Post employ Super-annuation \$	Share based payments		
Leo Lee <sup>1</sup>	2020	298,750	-	-	-	212,714	511,464	42%
	2019	174,000	-	-	-	100,490	274,490	44%
Graham Vesey	2020	152,000	-	4,985	14,440	-	171,425	0%
	2019	212,000	-	10,396	20,140	-	242,536	0%
John Martin <sup>4</sup>	2020	-	-	-	-	-	-	-
	2019	345,011	-	(45,275)	20,583	-	320,319	0%
Non-executive Directors								
Barry Sechos	2020	85,000	-	-	-	-	85,000	0%
	2019	60,000	-	-	-	-	60,000	0%
Glen Richards <sup>3</sup>	2020	41,250	-	-	-	-	41,250	0%
	2019	55,000	-	-	-	-	55,000	0%
John Chiplin <sup>2</sup>	2020	55,000	-	-	-	-	55,000	0%
	2019	9,166	-	-	-	-	9,166	0%
Alan Dunton <sup>2</sup>	2020	55,000	-	-	-	-	55,000	0%
	2019	9,166	-	-	-	-	9,166	0%
Roger Aston <sup>4</sup>	2020	-	-	-	-	-	-	-
	2019	70,833	-	-	-	-	70,833	0%
Total	2020	687,000	-	4,985	14,440	212,714	919,139	
Total	2019	935,176	-	(34,879)	40,723	100,490	1,041,510	

1. Leo Lee joined the Board as a non-executive Director in December 2017 and appointed CEO and executive Director 23 January 2019
2. John Chiplin and Alan Dunton were appointed as non-executive Directors 29 April 2019
3. Glen Richards resigned as a Director 4 June 2020
4. John Martin resigned from the role of CEO 23 January 2019 providing 3 months' notice and both he and Roger Aston resigned from the Board 29 April 2019

Other benefits include the movement in the annual leave provision and long service leave provision in accordance with AASB 119 Employee Benefits. Where the provision is reduced due to leave taken exceeding leave accrued the movement is negative. The share based payment of \$212,714 (2019: \$100,490) is share based remuneration in the form of options (refer following notes).

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed remuneration	At risk – STI	At risk – options
Leo Lee	58%	-	42%
Graham Vesey	100%	-	-
Barry Sechos	100%	-	-
Glen Richards	100%	-	-
John Chiplin	100%	-	-
Alan Dunton	100%	-	-

#### d. Share-based remuneration

[Options granted over unissued shares.](#)

All options are for ordinary shares in the Company and are exercisable on a one-for-one basis.

The options were provided at no cost to the recipients. All options expire on the earlier of their expiry date or within the time period set out in the plan, from termination of the individual's employment.

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

Name	Number granted	Grant date	Value per option at grant date \$	Number vested	Exercise price \$	First exercise date	Last exercise date
Leo Lee	3,500,000	01/10/2019	0.0440	-	0.10	30/09/2020	30/09/2024
Leo Lee	3,500,000	01/10/2019	0.0392	-	0.15	30/09/2021	30/09/2024
Leo Lee	750,000	01/10/2019	0.0357	-	0.20	31/12/2020	30/09/2024
Leo Lee	750,000	01/10/2019	0.0329	-	0.25	31/12/2021	30/09/2024
Leo Lee	750,000	01/10/2019	0.0307	-	0.30	31/12/2022	30/09/2024
Leo Lee	750,000	01/10/2019	0.0288	-	0.35	31/12/2023	30/09/2024
Leo Lee	3,500,000	01/04/2020	0.0313	-	0.10	31/03/2021	31/03/2025
Leo Lee	1,250,000	01/04/2020	0.0248	-	0.20	31/03/2021	31/03/2025

Options granted in April 2020 for Leo Lee require shareholder approval at the AGM.

During FY20 4,750,000 (average exercise price \$0.126) management personnel options were forfeited (FY19: 4,823,210 options forfeited (average exercise price \$0.25))

#### c. Service agreements

Remuneration and other terms of employment for the Executive Directors and other key management personnel are formalised in a service agreement. The major provisions of the agreements relating to remuneration are set out below:

Name	Base salary \$	Term of agreement	Notice period
Leo Lee	325,000	Unspecified	3 months
Graham Vesey	140,000	Unspecified	3 months
Barry Sechos	85,000	Unspecified	Nil
John Chiplin	55,000	Unspecified	Nil
Alan Dunton	55,000	Unspecified	Nil

There are no termination payments provided for in these agreements, other than those required by statute.

### e. Short term incentives included in remuneration

Details of the short-term incentive awarded as remuneration to each key management personnel, the percentage of the available incentive that was paid in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the incentive is payable in future years.

Name	Included in remuneration \$	Percentage vested in year	Percentage forfeited in year
Leo Lee	-	-	-
Graham Vesey	-	-	-
Barry Sechos	-	-	-
Glen Richards	-	-	-
John Chiplin	-	-	-
Alan Dunton	-	-	-

### f. Other information

#### Options held by key management personnel

The number of options to acquire shares in the Company held during the FY19 reporting period by each of the key management personnel of the Group, including their related parties are set out below.

Name	Balance at 1 July 2019	Granted	Forfeited	Balance at end of year	Vested and exercisable at 30 June 2020	Vested, and un-exercisable at 30 June 2020
Leo Lee	5,000,000	14,750,000	4,750,000	15,000,000	1,250,000	-
Graham Vesey	-	-	-	-	-	-
Barry Sechos	-	-	-	-	-	-
Glen Richards	-	-	-	-	-	-
John Chiplin	-	-	-	-	-	-
Alan Dunton	-	-	-	-	-	-
Totals	5,000,000	14,750,000	4,750,000	15,000,000	1,250,000	-

Of the options granted 10,000,000 were approved by shareholders at the FY19 AGM and the remainder of 4,750,000 options issued to Leo Lee require shareholder approval at the FY20 AGM (FY19: 5,000,000).

#### Shares held by key management personnel

The number of ordinary shares in the Company during the FY20 reporting period held by each of the Group's key management personnel, including their related parties, are set out below:

Name	Held at 1 July 2019	Granted as remuneration	Purchased	Other movement	Held at 30 June 2020
Leo Lee	1,011,000	-	12,500,000	-	13,511,000
Graham Vesey	15,879,968	-	-	-	15,879,968
Barry Sechos	200,000	-	7,500,000	-	7,700,000
Glen Richards	2,333,333	-	1,875,000	-	4,208,333
John Chiplin	-	-	-	-	-
Alan Dunton	-	-	-	-	-
Totals	19,424,301	-	21,875,000	-	41,299,301

Glen Richards resigned as a Director 4 June 2020.

#### Loans to key management personnel

These loans relate to the shareholder loan, the terms of which are disclosed in Note 13.

Name	Loan at 1 July 2019	Loans repaid	Loans Advanced	Other movement	Loan at 30 June 2019
Graham Vesey	150,552	-	-	-	150,552
Totals	150,552	-	-	-	150,552

#### Loans by key management personnel

These loans are either the R&D loan facility provided by Paddington St Finance Pty Ltd or the loans provided by the Directors in February 2019. These loans are further detailed in note 2'9.

Name	Loan at 1 July 2019	Loans Advanced	Loans Repaid	Converted to Equity	Loan at 30 June 2020
Barry Sechos (Paddington St Finance)	1,280,000	20,000	1,300,000	-	-
Barry Sechos (Other)	250,000		-	250,000	-
Leo Lee	2,100,000		-	1,000,000	1,100,000
Glen Richards	100,000		-	100,000	-
John Martin	50,000		-	50,000	-
Totals	3,780,000	20,000	1,300,000	1,400,000	1,100,000

John Martin resigned as a Director 29 April 2019. The loan from John Martin of \$50,000 was converted to equity along with the Directors loans.

End of audited remuneration report.

## Environmental legislation

Regeneus' operations are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory in Australia.

## Indemnities given to auditors and officers and insurance premiums paid

During the year, Regeneus paid a premium to insure officers of the Group. The officers of the Group covered by the insurance policy include all Directors.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else to cause detriment to the Group.

Details of the amount of the premium paid in respect of the insurance policies is not disclosed as such disclosure is prohibited under the terms of the contract.

The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify any current or former officer or auditor of the Group against a liability incurred as such by an officer or auditor.

## Non-audit services

From time to time, Grant Thornton, the Group's auditors, perform certain other services in addition to their statutory audit duties. The Board considers any non-audit services provided during the year by the auditor and satisfies itself that the provision of these non-audit services during the year is compatible with, and does not compromise, the auditor independence requirements of the Corporations Act 2001.

Details of the amounts paid to the auditors of the Group, Grant Thornton Audit Pty Ltd, and its related practices for audit and non-audit services provided during the year are set out in Note 26 to the Financial Statements.

## Proceedings on behalf of the Group

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

## Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 14 and forms part of this Directors' report.

Signed in accordance with a resolution of the Board of Directors:



Leo Lee  
CEO and Executive Director  
Dated this day 27 August 2020

# Auditor's independence declaration



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## Auditor's Independence Declaration

To the Directors of Regeneus Ltd

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Regeneus Limited for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

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

Grant Thornton Audit Pty Ltd  
Chartered Accountants

N J Bradley  
Partner – Audit & Assurance

Sydney, 27 August 2020

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# Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June	Note	2020 \$	2019 \$
Revenue	6	1,663,345	-
Other income	6	722,232	1,466,859
Research and development expenses		(1,237,657)	(2,432,564)
Occupancy expenses		(262,972)	(512,311)
Corporate expenses		(3,439,261)	(3,922,731)
Finance costs	7b	(271,471)	(402,800)
Share of (loss) on investment accounted for using equity method	17	-	(40,903)
Gain on Disposal of Regeneus Japan Inc	17	7,077	-
Loss on disposal of fixed assets		(17,622)	-
Gain on settlement of AGC Inc contract liability	21	1,854,783	-
Realised foreign exchange loss on contract liability	21	(87,500)	-
Unrealised foreign exchange loss on contract liability		-	(180,150)
<b>Profit/(loss) before income tax</b>		<b>(1,069,046)</b>	<b>(6,024,600)</b>
Income tax (expense) / benefit	25	-	-
<b>Profit/(loss) for the year</b>		<b>(1,069,046)</b>	<b>(6,024,600)</b>
Other comprehensive (expense) / income		-	-
<b>Total comprehensive (loss) for the year</b>		<b>(1,069,046)</b>	<b>(6,024,600)</b>
<b>Earnings per share</b>			
<b>Basic earnings per share</b>			
Earnings per share from continuing operations	27	(0.004)	(0.029)
<b>Diluted earnings per share</b>			
Earnings per share from continuing operations	27	(0.004)	(0.029)

Note: This statement should be read in conjunction with the notes to the financial statements.

# Consolidated statement of financial position

As at 30 June	Note	2020 \$	2019 \$
<b>Current Assets</b>			
Cash and cash equivalents	8	981,845	255,463
Trade and other receivables	9	1,466,400	-
Inventories	10	-	8,615
R&D incentive receivable	11	429,394	1,249,440
Other current assets	12	36,421	275,016
Financial assets at amortised cost	13	570,227	596,157
<b>Total current assets</b>		<b>3,484,287</b>	<b>2,384,691</b>
<b>Non-current assets</b>			
Property, plant and equipment	14	61,805	153,448
Right of use assets under lease	15	18,367	-
Intangible assets	16	-	-
Investments accounted for using the equity method	17	-	3,675
<b>Total non-current assets</b>		<b>80,172</b>	<b>157,123</b>
<b>Total assets</b>		<b>3,564,459</b>	<b>2,541,814</b>
<b>Current liabilities</b>			
Trade and other payables	18	946,268	1,055,946
Provisions	19	141,122	352,677
Borrowings	20	1,100,000	3,780,000
Lease liabilities	22	5,117	-
Financial liabilities	21	1,440,000	3,564,300
<b>Total current liabilities</b>		<b>3,632,507</b>	<b>8,752,923</b>
<b>Non-current liabilities</b>			
Lease liabilities	22	13,843	-
Provisions	19	49,071	175,386
<b>Total non-current liabilities</b>		<b>62,914</b>	<b>175,386</b>
<b>Total liabilities</b>		<b>3,695,421</b>	<b>8,928,309</b>
<b>Net assets/(liabilities)</b>		<b>(130,962)</b>	<b>(6,386,495)</b>
<b>Equity</b>			
Issued capital	23.1	36,358,675	31,076,819
Other contributed equity	23.2	1,797,017	-
Accumulated losses		(38,718,175)	(37,875,379)
Reserves	23.2	431,521	412,065
<b>Total equity</b>		<b>(130,962)</b>	<b>(6,386,495)</b>

Note: This statement should be read in conjunction with the notes to the financial statements.

# Consolidated statement of changes in equity

For the year ended 30 June	Share capital \$	Other contributed equity \$	Share option reserve \$	Retained earnings \$	Total attributable to parent owners \$	Total equity \$
<b>Balance at 1 July 2018</b>	<b>31,076,819</b>	-	<b>1,652,773</b>	<b>(29,774,504)</b>	<b>2,921,765</b>	<b>2,921,765</b>
Restatement for adoption of accounting standard AASB 15	-	-	-	(3,384,150)	(3,384,150)	(3,384,150)
<b>Restated balance at 1 July 2018</b>	<b>31,076,819</b>	-	<b>1,619,450</b>	<b>(33,158,654)</b>	<b>(462,385)</b>	<b>(462,385)</b>
Reported loss for the year	-	-	-	(6,024,600)	(6,024,600)	(6,024,600)
Reported other comprehensive income (expense)	-	-	-	-	-	-
<b>Total comprehensive income (loss) for the year</b>	-	-	-	<b>(6,024,600)</b>	<b>(6,024,600)</b>	<b>(6,024,600)</b>
Employee share-based payment option expense	-	-	100,490	-	100,490	100,490
Transfer from reserves to retained earnings for options lapsed	-	-	(1,307,875)	1,307,875	-	-
<b>Balance at 30 June 2019</b>	<b>31,076,819</b>	-	<b>412,065</b>	<b>(37,875,379)</b>	<b>(6,386,495)</b>	<b>(6,386,495)</b>
<b>Balance at 1 July 2019</b>	<b>31,076,819</b>	-	<b>412,065</b>	<b>(37,875,379)</b>	<b>(6,386,495)</b>	<b>(6,386,495)</b>
Reported loss for the year	-	-	-	(1,069,046)	(1,069,046)	(1,069,046)
Reported other comprehensive income (expense)	-	-	-	-	-	-
<b>Total comprehensive income (loss) for the year</b>	-	-	-	<b>(1,069,046)</b>	<b>(1,069,046)</b>	<b>(1,069,046)</b>
Employee share-based payment option expense	-	-	245,706	-	245,706	245,706
Transfer from reserves to retained earnings for options lapsed	-	-	(226,250)	226,250	-	-
Equity confirmed pending issuance to AGC Inc	-	1,797,017	-	-	1,797,017	1,797,017
Issue of share capital net of transaction costs	5,281,856	-	-	-	5,281,856	5,281,856
<b>Balance at 30 June 2020</b>	<b>36,358,675</b>	<b>1,797,017</b>	<b>431,521</b>	<b>(38,718,175)</b>	<b>(130,962)</b>	<b>(130,962)</b>

Note: This statement should be read in conjunction with the notes to the financial statements.

# Consolidated statement of cash flows

For the year ended 30 June	Note	2020 \$	2019 \$
<b>Operating activities</b>			
Receipts from customers		1,639,344	-
Payments to suppliers and employees		(4,760,104)	(5,866,152)
Interest received		780	19,077
Other income and grant received		50,000	6,000
R&D incentive refund		1,491,498	2,356,937
Finance costs		(339,104)	(124,358)
<b>Net cash (used in) operating activities</b>	<b>28</b>	<b>(1,917,586)</b>	<b>(3,608,496)</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		-	(7,620)
Receipts from sale of property, plant and equipment		5,430	-
Payment for outstanding 50% equity interest in Regeneus Japan		(25,494)	-
Sale of Subsidiary		36,246	-
<b>Net cash provided by / (used in) investing activities</b>		<b>16,182</b>	<b>(7,620)</b>
<b>Financing activities</b>			
Proceeds from related party loan		20,000	4,660,000
Repayment of related party loan		(1,300,000)	(1,880,000)
Proceeds from issue of shares		3,881,856	-
Receipts from shareholder loan		25,930	-
<b>Net cash provided by financing activities</b>		<b>2,627,786</b>	<b>2,780,000</b>
Net change in cash and cash equivalents held		726,382	(836,116)
Cash and cash equivalents at beginning of financial year		255,463	1,091,579
<b>Cash and cash equivalents at end of financial year</b>	<b>8</b>	<b>981,845</b>	<b>255,463</b>

Note: This statement should be read in conjunction with the notes to the financial statements.

# Notes to the consolidated financial statements

## 1. Nature of operations

Regeneus Ltd is a Sydney based ASX listed clinical stage regenerative medicine company using stem cell technologies to develop a portfolio of novel cell-based therapies focused on neuropathic pain, including osteoarthritis and various skin conditions.

The Company has two platform technologies, Progenza and Sygenus.

Regenerative medicine is a rapidly growing multidisciplinary specialty that is focused on the repair or regeneration of cells, tissues and organs. The primary goal is to enhance the body's natural ability to replace tissue damaged or destroyed by injury or disease.

Where commercial opportunities are identified, the Group seeks to license appropriate parties.

## 2. General information and statement of compliance

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations), other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Regeneus is a for-profit entity for the purpose of preparing the financial statements.

The financial statements cover Regeneus and its controlled entities as a consolidated entity (the Group). As at 30 June 2020, Regeneus is a Public Group, incorporated and domiciled in Australia.

The address of its registered office and its principal place of business is 2 Paddington Street, Paddington, NSW 2021, Australia.

### Statement of compliance

Compliance with Australian Accounting Standards ensures that the financial statements and notes of Regeneus comply with International Financial Reporting Standards (IFRS) as issued by the IASB.

The consolidated financial statements for the year ended 30 June 2020 were approved and authorised for issue by the Board of Directors on 27 August 2020.

### Basis of preparation

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets and financial instruments for which the fair value basis of accounting has been applied.

## New and revised standards that are effective for these financial statements

A number of new and revised standards became effective for the first time to annual periods beginning on or after 1 July 2019. Information on the more significant standard(s) is presented below:

### AASB 16: Leases

This standard AASB 16 'Leases' replaces AASB 117 'Leases' along with three Interpretations (Interpretation 4 'Determining whether an Arrangement contains a Lease', Interpretation 15 'Operating Leases-Incentives' and Interpretation 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from AASB 117 and Interpretation 4 and has not applied AASB 16 to arrangements that were previously not identified as a lease under AASB 117 and Interpretation 4.

The new standard has been applied using the modified retrospective approach. Prior periods have not been restated.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of AASB 16, being 1 July 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of AASB 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under AASB 117 immediately before the date of initial application.

On transition to AASB 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under AASB 16 was 7.0%.

The Group has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

On the date of initial application of AASB 16, the impact to retained earnings was \$nil. The table below highlights the impact of AASB 16 on the Group's statement of financial position for the year ending 30 June 2020. The adoption of AASB 16 did not have a material impact on the Group's Consolidated Statement of Profit or Loss and Other Comprehensive Income or Loss, and Consolidated Statement of Cash Flows

The following is a reconciliation of total operating lease commitments at 30 June 2019 as disclosed in the financial statements at 30 June 2019 to the lease liabilities recognised at 1 July 2019.

	\$
Operating lease commitments disclosed as at 30 June 2019	-
Adjustments relating to commitments disclosures	28,998
<b>Total lease liability for discounting</b>	<b>28,998</b>
Discounted using the incremental borrowing rate	(5,256)
<b>Total lease liabilities recognised at 1 July 2019</b>	<b>23,742</b>

#### AASB Interpretation 23 Uncertainty over Income tax Treatments

This interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. The interpretation addresses (a) whether and entity considers uncertain tax treatments separately; (b) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and (d) how an entity considers changes in facts and circumstances

The adoption of this interpretation has had no impact on the current or previous reporting period and as such there have been no adjustments to the opening balance of retained earnings.

	Amounts under AASB 117 \$	Adjustment \$	Amounts under AASB 16 \$
Lease liability	-	(23,742)	(23,742)
Right of use asset	-	23,742	23,742

### Accounting standards issued but not yet effective and not adopted early by the Group

At the date of authorisation of these financial statements, there were no new standards, amendments and interpretations to existing standards published but not yet effective, that are relevant to the Group, that have not been adopted by the Group.

## 3. Summary of accounting policies

### Overall considerations

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised below.

The consolidated financial statements have been prepared using the measurement bases specified by the Australian Accounting Standards for each type of asset, liability, income and expense. The measurement bases are more fully described in the following accounting policies.

#### a. Basis of consolidation

##### Controlled entities

The Group financial statements consolidate those of the Parent Company and all of its subsidiaries as of 30 June 2020. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power

over the subsidiary. All subsidiaries have a reporting date of 30 June.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective.

Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

##### Investments in associates and joint arrangements

Associates are those entities over which the Group is able to exert significant influence but which are not subsidiaries.

A joint venture is an arrangement that the Group controls jointly with one or more other investors, and over which the Group has rights to a share of the arrangement's net assets rather than direct rights to underlying assets and obligations for underlying liabilities.

Investments in all joint ventures are accounted for using the equity method.

Any goodwill or fair value adjustment attributable to the Group's share in the associate or joint venture is not recognised separately and is included in the amount recognised as investment.

The carrying amount of the investment in associates and joint ventures is increased or decreased to recognize the Group's share of the profit or loss and other comprehensive income of the associate and joint venture, adjusted where necessary to ensure consistency with the accounting policies of the Group.

Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

If an entity's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the entity discontinues recognising its share of further losses.

The interest in an associate or a joint venture is the carrying amount of the investment in the associate or joint venture determined using the equity

method together with any long-term interests that, in substance, form part of the entity's net investment in the associate or joint venture. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate or joint venture. Such items may include preference shares and long-term receivables or loans, but do not include trade receivables, trade payables or any long-term receivable for which adequate collateral exists, such as secured loans.

Losses recognised using the equity method in excess of the entity's investment in ordinary shares are applied to the other components of the entity's interest in an associate or a joint venture in the reverse order of their seniority (ie priority in liquidation).

After the entity's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports profits, the entity resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

**b. Segment reporting**

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

The Group's operating segment is based on the internal reports that are reviewed and used by the Board of Directors (being the CODM) in assessing performance and determining the allocation of resources.

Reports provided to the CODM reference the Group operating in one segment, being the development of innovative cell-based therapies to address significant unmet medical needs in human and veterinary health. Initial focus is osteoarthritis and other musculoskeletal disease as well as oncology and dermatology. The information reported to the CODM, on a monthly basis, is profit or loss before tax, assets and liabilities and cash flow.

**c. Going concern basis of accounting**

The Directors have prepared the financial statements on a going concern basis which contemplates continuity of normal activities and realisation of assets and settlement of liabilities in the normal course of business. In arriving at this position, the Directors considered the loss after tax \$1,069,046 (2019: \$6,024,600), the cash balance \$981,845 (2019: \$255,463), the deficit of net current assets \$148,220 (2019:

\$6,368,232 and the undrawn loan facilities \$2,900,000 (2019: nil)

During August 2020, as referred to in the subsequent event note (Note 36) an agreement was signed with Kyocera which includes an imminent payment of \$1.3 million (Yen 100,000,000). This agreement gives rise to Regeneus receiving \$27 million in upfront, development and regulatory milestones.

The Directors have considered the cashflow needs of the Group and believe that the Group has sufficient cash flows to maintain the Group on a going concern basis.

**d. Comparative figures**

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

**e. Cash and cash equivalents**

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**f. Income tax**

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income). Current and deferred income tax expense (income) is charged or credited directly to other comprehensive income instead of the profit or loss when the tax relates to items that are credited or charged directly to other comprehensive income.

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, the Australian Taxation Office (ATO) and other fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilised against future taxable income, based on the Group's forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of land) or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

**g. Inventories**

Inventories are measured at the lower of cost and net realisable value. The average cost method has been used to value inventory. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.



#### **h. Plant and equipment**

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

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

#### **i. Depreciation**

The depreciable amount of fixed assets are depreciated on a straight line over their useful lives to the Consolidated entity commencing from the time the asset is held ready for use. Leased assets are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the assets.

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

Class of fixed asset	Depreciation rate (%)
Office equipment straight line	25%-50%
Laboratory equipment straight line	20%-30%
Office fit-out straight line	Life of lease
Leasehold improvements straight line	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the statement of profit or loss and other comprehensive income.

#### **j. Intangibles**

Intangible assets include acquired software. Intangible assets are accounted for using the cost model whereby capitalised costs are amortised on a reducing balance basis over their estimated useful lives, as these assets are considered finite. Amortisation commences from the date the asset is brought into use. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and install the specific software. Subsequent expenditure is expensed as incurred.

Costs associated with maintaining intangibles are expensed as incurred.

The amortisation rate used for acquired software is 25% straight line.

The Group has reviewed its policy not to capitalise development costs unless they meet the criteria as set in AASB 138. All development costs not meeting the recognition criteria of AASB 138 are expensed.

#### **k. Impairment of non-financial assets**

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that the assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required (i.e. intangible assets with indefinite useful lives and intangible assets not yet available for use), the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash generating unit to which it belongs.

When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

To determine the value-in-use, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and

asset enhancements. Discount factors are determined individually for each asset or cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

#### **l. Leases**

Leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Where practical exemptions for short term and low value leases are applied, expenses are recognised as incurred.

[Accounting policies applicable to comparative period \(30 June 2019\)](#)

#### **Finance Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the Group are classified as finance leases

### **m. Foreign currency transactions and balances**

#### **Functional and presentation currency**

The functional currency of each entity is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the consolidated entity's functional and presentation currency.

#### **Transaction and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of profit or loss and other comprehensive income.

### **n. Financial instruments**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are de-recognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is de-recognised when it is extinguished, discharged, cancelled or expires.

#### **Classification and subsequent measurement of financial assets**

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

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

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

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

Classifications are determined by both:

- The entities business model for managing the financial asset
- The contractual cash flow characteristics of the financial assets

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

#### **Subsequent measurement financial assets**

##### **Financial assets at amortised cost**

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments as well as government bonds.

##### **Financial assets at fair value through profit or loss (FVPL)**

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVPL.

All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

##### **Equity instruments at fair value through other comprehensive income (Equity FVOCI)**

Investments in equity instruments that are not held for trading are eligible for an irrevocable election at inception to be measured at FVOCI. Under Equity FVOCI, subsequent movements in fair value are recognised in other comprehensive income and are never reclassified to profit or loss. Dividend from these investments continue to be recorded as other income within the profit or loss unless the dividend clearly represents return of capital.

### Debt instruments at fair value through other comprehensive income (Debt FVOCI)

Financial assets with contractual cash flows representing solely payments of principal and interest and held within a business model of collecting the contractual cash flows and selling the assets are accounted for at debt FVOCI.

Any gains or losses recognised in OCI will be reclassified to profit or loss upon derecognition of the asset.

### Impairment of Financial assets

AASB 9's impairment requirements use more forward looking information to recognize expected credit losses – the 'expected credit losses (ECL) model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under AASB 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

The Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument. In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and

- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

### Trade and other receivables and contract assets

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix. The Group assess impairment of trade receivables on a collective basis as they possess credit risk characteristics based on the days past due. The Group makes no allowance for amounts less than 90 days past due and writes off fully any amounts that are more than 90 days past due.

### Classification and measurement of financial liabilities

The Group's financial liabilities include borrowings, and trade and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

### o. Equity and reserves

Share capital represents the fair value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share capital, net of any related income tax benefits.

Other components of equity include the following:

- Option reserve. Comprises equity settled share-based remuneration plans for the Group's employees
- Retained earnings/(Accumulated losses) include all current and prior period retained profits/(losses)

- Other contributed equity represents the shares to be issued to AGC as part of the termination of agreements with them and to be issued upon their AGC notification to Regeneus.

### p. Employee benefits

#### Short-term employee benefits

Short-term employee benefits are benefits, other than termination benefits, that are expected to be settled wholly within twelve (12) months after the end of the period in which the employees render the related service. Examples of such benefits include wages and salaries, non-monetary benefits and accumulating sick leave. Short-term employee benefits are measured at the undiscounted amounts expected to be paid when the liabilities are settled.

#### Other long-term employee benefits

The Group's liabilities for long service leave are included in other long term benefits as they are not expected to be settled wholly within twelve (12) months after the end of the period in which the employees render the related service. They are measured at the present value of the expected future payments to be made to employees. The expected future payments incorporate anticipated future wage and salary levels, experience of employee departures and periods of service, and are discounted at rates determined by reference to market yields at the end of the reporting period on high quality corporate bonds that have maturity dates that approximate the timing of the estimated future cash outflows. Any re-measurements arising from experience adjustments and changes in assumptions are recognised

in profit or loss in the periods in which the changes occur.

The Group presents employee benefit obligations as current liabilities in the statement of financial position if the Group does not have an unconditional right to defer settlement for at least twelve (12) months after the reporting period, irrespective of when the actual settlement is expected to take place.

#### Defined contribution plans

The Group pays fixed contributions into independent entities in relation to several state plans and insurance for individual employees. The Group has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognised as an expense in the period that relevant employee services are received.

#### q. Provisions, contingent liabilities and contingent assets

Provisions for product warranties, legal disputes, make good obligations, onerous contracts or other claims are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an

outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

No liability is recognised if an outflow of economic resources as a result of present obligation is not probable. Such situations are disclosed as contingent liabilities, unless the outflow of resources is remote in which case no liability is recognised.

#### r. Share-based employee remuneration

The Group operates equity settled share-based remuneration plans for its employees.

This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions).

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to share option reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs are allocated to share capital.

#### s. Revenue

For licence revenue, and in order to determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer,
2. Identifying the performance obligations,
3. Determining the transaction price,
4. Allocating the transaction price to the performance obligations,
5. Recognising revenue when/as performance obligation(s) are satisfied.

The Group will enter into licence transactions and receive upfront and milestone payments as part of research and development collaborations or out-licensing agreements.

The total transaction price for a contract is allocated amongst the various performance obligations based on their

relative stand-alone selling prices using the residual method and cost method.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations or where revenue is constrained and reports these amounts as contract liabilities in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Licence revenue is determined with reference to performance obligations to provide either patents or IP. Licence revenues are considered a right to use and recognised at a point in time, net of any revenue constraints.

Revenue relating to the provision of services is recognised when the services are provided.

The assessment of the criteria for income recognition and the determination of the appropriate period during which income is recognised are subject to judgement where variable consideration that is constrained and revenue is recognised only when it is highly probable that there will not be a significant reversal of revenue.

**t. 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 Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**u. Research and development**

Expenditure during the research phase of a project is recognised as an expense when incurred. The research and development incentive is calculated and accrued at year end and is recognised in accordance with 'AASB 120 Accounting for Government Grants'. The amount is credited to other income and the receivable is included in the Consolidated Statement of Financial Position as a current R&D incentive receivable.

The R&D Incentive becomes receivable once the tax return is lodged which generally occurs during the first quarter after year end.

**v. Operating expenses**

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin. Expenditure for warranties is recognised and charged against the associated provision when the related revenue is recognised.

**w. Significant management judgments and estimates in applying accounting policies**

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data.

When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

**Estimation uncertainty**

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expense is provided below. Actual results may be substantially different.

**Share options and performance rights**

Share options were valued using a variation of the binomial option pricing model. Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements. For purposes of the valuation the assumed life of the options was based on the historical exercise patterns, which may not eventuate in the future. No special features inherent to the options granted were incorporated into measurement of fair value. Where approval is required at the AGM and the service period has commenced the expense is measured from the service period start date and is re-measured at grant date (being AGM). Any true up/adjustment is reflected in future periods.

**Research and development claim**

In calculating the R&D incentive, the Group has treated certain research and development activities as eligible expenditure under the Australian Government tax incentive. Management has assessed these activities and expenditures undertaken in Australia and overseas to determine which are likely to be eligible under the incentive scheme. At each period end, management estimates the refundable R&D incentive available to the Group based on current information. This estimate is also reviewed by external tax advisors. For the years ended 30 June 2020 and 2019, the Group has recognised income of \$0.67 million and \$1.44 million respectively. Refer note 6.

Uncertainties in the estimate relate to expenditure that can be claimed under the scheme including in some cases the claimable percentages applied to certain expenditure.

Additionally, uncertainty exists from a legislative perspective with the Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019. Initially due for review on the Economic Legislation Committee by 30 April, now due for report late August 2020. This bill may reduce the incentive from 43.5% to 41.0%. Retrospectivity to the current year is possible.

**Licence revenue**

In February 2020 Regeneus signed an MOU with Kyocera as a precursor to a definitive licence arrangement to be agreed.

The MOU included 2 payments of JPY 100,000,000 each, represented by:

- Financial consideration for access to and adequate provision of 'data' culminating in Kyocera issuing a 'Review notice' attesting the adequacy of the data. Such a notice was received on 15 May 2020.
- Payment for definitive agreement, that while receivable prior to finalisation of a definitive agreement was refundable if such an agreement could not be reached.

As at 30 June 2020, Kyocera had issued their 'Review notice' and Regeneus was entitled to retain the payment received of \$1.64 million and recognise this amount as income.

Upon the receipt of the 'Review notice' Regeneus was entitled to invoice the second payment, included as at 30 June 2020 in trade and other receivables as \$1.44 million. At the time of issuing the invoice both parties agreed that as it was refundable if agreement could not be reached it was more practical to simply delay payment until agreement was reached. Regeneus deferred the recognition of the revenue in accordance with the accounting standards, specifically AASB 15 Revenue from contracts with customers, including an offset amount in contract liability.

Subsequent to 30 June 2020 agreement between the two parties was reached and payment became due (refer subsequent events).

#### Loans to Shareholder's

The Group holds full recourse loans to shareholders totalling \$870,227 (FY19: \$896,157) that were provided at the time of the 2013 IPO. As outlined in 'impairment of financial assets' above, the Group has made an adjustment for expected credit losses. The Group assesses expected credit losses with reference to the history of losses and considering the value of shares held by the shareholders to determine future expected credit losses. The provision for expected credit losses has been raised against the loans to shareholders, reflecting the reduction in the share price to \$0.07 at balance date and the expected credit loss on realising these loans.

## 4. Controlled entities

Set out below are details of the subsidiaries held directly by the Group.

Name of the subsidiary	Country of incorporation & principal place of business	Principal activity	Group proportion of ownership interests	
			30 June 2020	30 June 2019
Regeneus Animal Health Pty Ltd	Australia 2 Paddington Street, Paddington NSW 2021	Non-trading	100%	100%
Cell Ideas Pty Ltd	Australia 2 Paddington Street, Paddington NSW 2021	Non-trading owns various IP	100%	100%

## 5. Segment reporting

### Identification of reportable income segments

The Group's operating segment is based on the internal reports that are reviewed and used by the Board of Directors (being the Chief Operating Decision Makers (CODM)) in assessing performance and in determining the allocation of resources.

Following an assessment of the information provided to the CODM, it has been concluded that the Group operates in only one segment, being the development of innovative cell-based therapies to address significant unmet medical needs in human and veterinary health.

The segment result is as shown in the statement of profit or loss and other comprehensive income. Refer to statement of financial position for assets and liabilities.

## 6. Revenue and other income

	2020 \$	2019 \$
<b>Operating activities</b>		
Licence fee income	1,639,345	-
Other fee income	24,000	-
<b>Total revenue</b>	<b>1,663,345</b>	<b>-</b>
<b>Other income</b>		
Federal Government initiatives and grants	50,000	6,000
Interest income	780	19,077
R&D incentive	671,452	1,441,782
<b>Total other income</b>	<b>722,232</b>	<b>1,466,859</b>

## 7. Results for the year

The results for the year have been arrived at after charging the following items:

	2020 \$	2019 \$
<b>a. Expense</b>		
Premises rental expense on operating leases minimum lease payment	-	436,562
Amortisation of intangible assets	-	1,644
Depreciation	68,591	269,136
Right of use assets amortisation	5,375	-
Loss on disposal of assets	17,621	2,284
Employment expenses (excludes share-based payment)	1,367,775	2,743,048
Superannuation expense	111,972	247,302
Share-based payments	245,706	100,490
<b>b. Finance costs</b>		
- Interest expense	248,676	320,926
- Bank and finance charges	22,795	81,874
<b>Total finance costs</b>	<b>271,471</b>	<b>402,800</b>

## 8. Cash and cash equivalents

Cash and cash equivalents include the following components:

	2020 \$	2019 \$
Cash on hand	-	11
Cash at bank (AUD account)	981,700	255,310
Cash at bank (USD account)	145	142
<b>Total cash and cash equivalents</b>	<b>981,845</b>	<b>255,463</b>

## 9. Trade and other receivables

Trade and other receivables include the following:

	2020 \$	2019 \$
Trade Receivables	1,466,400	-
<b>Total trade and other receivables</b>	<b>1,466,400</b>	<b>-</b>

These amounts are short term. The net carrying value of trade receivables is considered a reasonable approximation of fair value. All of the Group's trade and other receivables have been reviewed for indicators of impairment of which none was noted.

Included with trade receivables is \$1,440,000 (JPY 100,000,000) which is the second payment under the February 2020 MOU signed with Kyocera. This amount was included in the licence agreement referred to in Subsequent Events.

## 10. Inventories

Inventories consist of the following:

	2020 \$	2019 \$
Raw materials and consumables at cost	-	13,014
Less: Provisions	-	(4,399)
<b>Total inventories</b>	<b>-</b>	<b>8,615</b>

In September 2019 the laboratory was closed as the Group prepared for a major licensing opportunity and the resultant commencement of a Phase 2 Trial in Progenza. Previously inventories were utilised in R&D projects and other operational activities.

## 11. R&D incentive receivable

	2020 \$	2019 \$
<b>Current</b>		
R&D incentive receivable	429,394	1,249,440
<b>Total R&amp;D incentive receivable</b>	<b>429,394</b>	<b>1,249,440</b>



## 12. Other current assets

	2020 \$	2019 \$
Prepayments	12,431	14,609
GST receivable	23,990	50,407
Security deposit on leased premises	-	210,000
Other current assets	36,421	275,016

In September 2019 the Group exited from its leased premises and the security deposit was utilised to pay for the make good of the premises.

## 13. Financial assets at amortised cost

	2020 \$	2019 \$
Shareholder loan	870,227	896,157
Expected credit loss allowance	(300,000)	(300,000)
Shareholder loan	570,227	596,157

The shareholder loan is a full recourse, interest-free loan initially for 4 years maturing September 2017. The Directors have extended the maturity of the loans to the 15 June 2019 and while the loans are technically in default the Directors consider the agreement with Kyocera will ensure the collectability in the first half FY21.

While the loan is full recourse, in accordance with AASB 9 the ECL (expected credit loss) model credit risk has increased as the amounts are in default and the share price has reduced. Accordingly, an expected credit loss allowance has been made.

At the date of this report the share price was \$0.15, if this was the share price at reporting date the expected credit loss of nil and would have been recorded in respect of the shareholder loans receivable.

Included within the shareholder loan are balances owing by the Directors of the financial year as follows:

	2020 \$	2019 \$
Graham Vesey	150,552	150,552

## 14. Plant and equipment

Details of the Group's property, plant and equipment and their carrying amounts are as follows:

	Office equipment \$	Lab equipment \$	Equipment in clinics \$	Office fit-out \$	Total \$
<b>Gross carrying amount</b>					
<b>Balance 1 July 2019</b>	139,891	613,316	52,116	1,168,665	1,973,988
Additions	-	-	-	-	-
Disposals	112,188	269,153	52,116	1,168,665	1,602,122
<b>Balance 30 June 2020</b>	<b>27,703</b>	<b>344,163</b>	<b>-</b>	<b>-</b>	<b>371,866</b>
<b>Depreciation and impairment</b>					
Balance 1 July 2019	(105,231)	(494,528)	(52,116)	(1,168,665)	(1,820,540)
Disposals	92,267	266,022	52,116	1,168,665	1,579,070
Depreciation	(10,605)	(57,986)	-	-	(68,591)
<b>Balance 30 June 2020</b>	<b>(23,569)</b>	<b>(286,492)</b>	<b>-</b>	<b>-</b>	<b>(310,061)</b>
<b>Carrying amount 30 June 2020</b>	<b>4,134</b>	<b>57,671</b>	<b>-</b>	<b>-</b>	<b>61,805</b>
<b>Gross carrying amount</b>					
<b>Balance 1 July 2018</b>	146,810	611,362	52,116	1,168,665	1,978,953
Additions	5,666	1,954	-	-	7,620
Disposals	12,585	-	-	-	12,585
<b>Balance 30 June 2019</b>	<b>139,891</b>	<b>613,316</b>	<b>52,116</b>	<b>1,168,665</b>	<b>1,973,988</b>
<b>Depreciation and impairment</b>					
Balance 1 July 2018	(85,900)	(412,304)	(52,116)	(1,011,385)	(1,561,705)
Disposals	10,301	-	-	-	10,301
Depreciation	(29,632)	(82,224)	-	(157,280)	(269,136)
<b>Balance 30 June 2019</b>	<b>(105,231)</b>	<b>(494,528)</b>	<b>(52,116)</b>	<b>(1,168,665)</b>	<b>(1,820,540)</b>
<b>Carrying amount 30 June 2019</b>	<b>34,660</b>	<b>118,788</b>	<b>-</b>	<b>-</b>	<b>153,448</b>

## 15. Right of use assets under lease

The Group's right of use assets under lease and their carrying amounts are as follows:

	Right of use assets \$	Total \$
<b>Gross carrying amount</b>		
Balance at 1 July 2019 <sup>1</sup>	23,742	23,742
<b>Balance at 30 June 2020</b>	<b>23,742</b>	<b>23,742</b>
<b>Amortisation and impairment</b>		
Balance at 1 July 2019	-	-
Amortisation	(5,375)	(5,375)
<b>Balance at 30 June 2020</b>	<b>(5,375)</b>	<b>(5,375)</b>
<b>Carrying amount 30 June 2020</b>	<b>18,367</b>	<b>18,367</b>

1) Initial balance is the value of Right of use assets at adoption of AASB 16 1 July 2019

In the previous year, the group only recognised lease assets and lease liabilities in relation to leases that were finance leases. The assets were presented in property, plant and equipment and the liabilities as part of the group's borrowings. The adjustments recognised on adoption of AASB 16 on 1 July 2019 is further detailed in note 2.

## 16. Intangible assets

Details of the Group's intangible assets and their carrying amounts are as follows:

	Acquired software licenses \$	Total \$
<b>Gross carrying amount</b>		
Balance at 1 July 2019	82,561	82,561
Balance at 30 June 2020	82,561	82,561
<b>Amortisation and impairment</b>		
Balance at 1 July 2019	(82,561)	(82,561)
Amortisation	-	-
Balance at 30 June 2020	(82,561)	(82,561)
Carrying amount 30 June 2020	-	-
<b>Gross carrying amount</b>		
Balance at 1 July 2018	82,561	82,561
Balance at 30 June 2019	82,561	82,561
<b>Amortisation and impairment</b>		
Balance at 1 July 2018	(80,917)	(80,917)
Amortisation	(1,644)	(1,644)
Balance at 30 June 2019	(82,561)	(82,561)
Carrying amount 30 June 2019	-	-

## 17. Investments accounted for using the equity method

During the period the Group had one material joint venture Regeneus Japan Inc. This joint venture was discontinued in the current financial period.

On February 25 2020 as part of the agreement with AGC inc, the other joint venture party, the outstanding 50% equity interest in the joint venture was purchased for \$25,494. At the time of the purchase Regeneus had an agreement with a third party that they would purchase the entity for the cash held in the company. On the March 3 2020 the sale of the entity was finalised and it was sold for \$36,246 represented by cash.

The Group has no further commitments or contingent liabilities with respect to Regeneus Japan Inc.

The transactions associated with the acquisition and disposal of the entity are noted in the table below:

	€
Investments accounted for using the equity method at 30 June 2019 (50% of entity)	3,675
Payment to AGC outstanding 50% (25 Feb 2020)	25,494
Receipt for sale of entity (2 March 2020)	(36,246)
Gain on disposal of Regeneus Japan Inc	7,077
Investment at 30 June 2020	-

In the prior period the investment was accounted for using the equity method in accordance with AASB 128. Summarised financial information for Regeneus Japan Inc. is set out below:

	2020 \$	2019 \$
Total assets (a)	-	7,350
Total liabilities	-	-
Net assets	-	7,350
(a) Includes cash and cash equivalents	-	7,350
Expenses	-	(81,806)
Total comprehensive profit (loss) for the year	-	(81,806)
Share of comprehensive loss for the year	-	(40,903)
Exchange gain / (loss) on investment	-	3,315
Loss on investment accounted for using equity method	-	(37,588)

A reconciliation of the above summarised financial information to the carrying amount of the investment in Regeneus Japan Inc. is set out below:

Total net assets of Regeneus Japan Inc	-	7,350
Proportion of ownership interests held by the Group	0%	50%
Carrying amount of the investment in Regeneus Japan Inc.	-	3,675

## 18. Trade and other payables

Trade and other payables consists of the following:

	2020 \$	2019 \$
<b>Current</b>		
Trade payables	555,759	391,306
Accruals	357,528	607,982
PAYG Payable	32,981	56,658
Total trade and other payables	946,268	1,055,946

All amounts are short term and the carrying values are considered to be a reasonable approximation of fair value.

### 18.1 Foreign currency risk

The carrying amount of trade and other payables denominated in foreign currencies is:

	2020 \$/ ¥	2019 \$/ ¥
US dollar	10,394	12,078
Japanese Yen	1,000,000	350,000

## 19. Provisions

	2020 \$	2019 \$
<b>Current: Annual leave</b>		
Opening balance 1 July	102,481	111,398
Benefits accrued / (expensed)	(40,829)	(8,917)
Balance as at 30 June	61,652	102,481
<b>Current: Long service leave</b>		
Opening balance 1 July	40,196	-
Benefits accrued	2,881	-
Benefits paid	(11,944)	-
Benefits transferred from non-current	48,337	40,196
Balance as at 30 June	79,470	40,196
<b>Current: Make good</b>		
Opening balance 1 July	210,000	53,700
Provision accrued	-	156,300
Expense incurred	(210,000)	-
Balance as at 30 June	-	210,000
<b>Total current provisions</b>	<b>141,122</b>	<b>352,677</b>
<b>Non-current: Long service leave</b>		
Opening balance 1 July	175,386	189,057
Benefits accrued	3,663	26,525
Benefits paid	(81,641)	-
Benefits transferred to current	(48,337)	(40,196)
Balance as at 30 June	49,071	175,386
<b>Total non-current provisions</b>	<b>49,071</b>	<b>175,386</b>

## 20. Other current liabilities

	2020 \$	2019 \$
<b>Current</b>		
Related party loan	-	1,280,000
Directors loan	1,100,000	2,500,000
<b>Total other current liabilities</b>	<b>1,100,000</b>	<b>3,780,000</b>

The Related party loan is the R&D loan facility provided by Paddington St Finance Pty Ltd. This loan was repaid in full with the proceeds of the R&D tax incentive received by the Company.

The Directors Loan relates to commercial loans provided by a number of Directors in February 2019, refer to note 29 for additional disclosure in relation to these balances.

## 21. Financial liabilities

	2020 \$	2019 \$
<b>Current</b>		
Contract Liability	1,440,000	-
Financial liabilities	-	3,564,300
<b>Total financial liabilities</b>	<b>1,440,000</b>	<b>3,564,300</b>

The contract liability refers to the second payment as part of the February 2020 Kyocera MOU -Payment for definitive agreement. This amount, while receivable prior to finalisation of a definitive agreement was refundable if such an agreement could not be reached.

Regeneus was entitled to invoice the second payment in May 2020 and it is included as at 30 June 2020 in Trade and other receivables at \$1.44m million. At the time of issuing the invoice both parties agreed that, as it was refundable if agreement could not be reached, it was more practical to simply delay payment until agreement was reached. Regeneus deferred the recognition of the revenue in accordance with the accounting standards, specifically AASB 15 Revenue from contracts with customers, including an offset amount in contract liability.

Subsequent to 30 June 2020 agreement between the two parties was reached and payment became due (refer subsequent events Note 36).

The prior period financial liability of \$3.56 million relates to the termination of the Manufacturing Licence Agreement and Shareholders Agreement with AGC.

As part of the termination of these arrangements US\$2.5 million of the upfront payment and milestone payments received by Regeneus from AGC became available to AGC to subscribe for shares in Regeneus.

In December 2019, agreement between AGC and Regeneus was reached under which AGC agrees to subscribe, at some time in the future, for US\$2.5 million worth of Regeneus shares at an issue price of AUD\$0.16 per share. This gave rise to an entitlement of AGC to receive 22,462,712 ordinary shares in Regeneus.

The prevailing price of Regeneus shares at the time of the agreement with AGC was \$0.08 giving rise to Other contributed equity of \$1,797,017 and a gain on the settlement with AGC of the contract liability of \$1,854,783. Additionally, an exchange rate gain of \$87,500 was recognised due to the change in the USD over the period.

	2020 \$	2019 \$
<b>Financial liability at beginning of year</b>	3,564,300	-
Movements in period		
Exchange loss at date of settlement	87,500	-
Transferred to other contributed equity	(1,797,017)	-
Gain on settlement of AGC contract liability	(1,854,783)	-
Contract termination US\$2.5 m at \$0.70	-	3,564,300
<b>Financial liabilities</b>	-	3,564,300

## 22. Lease liabilities

	2020 \$	2019 \$
Lease liability at adoption of standard	23,742	-
Lease payments in period	(6,444)	-
Interest expense (included in finance expenses)	1,662	-
<b>Total lease liabilities</b>	18,960	-
<b>Comprising:</b>		
Current lease liability	5,117	-
Non-current lease liability	13,843	-
<b>Total lease liabilities</b>	18,960	-

## 23. Equity

### 23.1 Share capital

The share capital of Regeneus Ltd consists only of fully paid ordinary shares which do not have a par value. All shares are equally eligible to receive dividends and the repayment of capital, and represent one vote at the shareholders' meeting of Regeneus Ltd.

	2020 shares	2019 shares	2020 \$	2019 \$
Shares issued and fully paid				
Beginning of the year	208,885,143	208,885,143	31,076,819	31,076,819
Shares issued	68,939,845	-	5,281,856	-
Closing balance at the end of the year	277,824,988	208,885,143	36,358,675	31,076,819

During 2020, the following shares were issued as part of the capital raisings, no options were exercised. (2019: nil).

Private placement	29,250,000
Directors loan conversion	17,500,000
Directors subscription	5,000,000
Non-renounceable rights issue	7,751,973
Shortfall fully placed	9,437,872
Total issued during period	68,939,845

The costs associated with these capital raisings were \$233,332.

### 23.2 Other contributed equity

In December 2019 the agreements with AGC were terminated. The termination of the agreements gave rise to AGC being entitled to be issued shares in Regeneus to the value of up to \$US\$2.5 million. AGC confirmed that they would be prepared to be issued with shares in Regeneus based on a valuation of AUD\$0.16 per share. This gave rise to an entitlement of AGC to receive 22,462,712 ordinary shares in Regeneus.

The prevailing price of Regeneus shares at the time of the agreement was \$0.08 giving rise to Other contributed equity of \$1,797,017.

	2020 shares	2019 shares	2020 \$	2019 \$
Beginning of the year	-	-	-	-
Shares to be issued	22,462,712	-	1,797,017	-
Closing balance at the end of the year	22,462,712	-	1,797,017	-

As at 30 June 2020 these shares had not been issued.

### 23.3 Reserves

The details of reserves are as follows:

	Share option reserve \$	Total reserves \$
Balance at 30 June 2018	1,619,450	1,619,450
Share options expense	100,490	100,490
Options exercised	-	-
Transfer from reserves to retained earnings for options lapsed	(1,307,875)	(1,307,875)
Balance at 30 June 2019	412,065	412,065
Share options expense	245,706	245,706
Options exercised	-	-
Transfer from reserves to retained earnings for options lapsed	(226,250)	(226,250)
Balance at 30 June 2020	431,521	431,521

## 24. Employee remuneration

### 24.1 Share-based employee remuneration

As at 30 June 2020 the Group maintained share-based option plans as part of employee remuneration. 15.75 million options were awarded during the year (FY19: 5.0m).

Share options and weighted average exercise prices for the reporting periods presented are as follows.

Share options	Employee share option plan		Option share trust		Total share options	
	Number	Weight avg exercise price \$	Number	Weight avg exercise price \$	Number	Weight avg exercise price \$
Outstanding at 1 July 2018	2,271,774	0.17	6,888,210	0.24	9,159,984	0.22
Granted	-	-	5,000,000	0.23	5,000,000	0.25
Forfeited	(500,000)	0.28	(5,988,210)	0.25	(6,488,210)	0.25
Exercised	-	-	-	-	-	-
Outstanding at 30 June 2019	1,771,774	0.14	5,900,000	0.22	7,671,774	0.20
Granted	-	-	15,750,000	0.15	15,750,000	0.15
Forfeited	(770,100)	0.14	(5,650,000)	0.13	(6,420,100)	0.13
Exercised	-	-	-	-	-	-
Outstanding at 30 June 2020	1,001,674	0.14	16,000,000	0.18	17,001,674	0.18
Exercisable at 30 June 2020	1,001,674	0.14	1,250,000	0.20	2,251,674	0.17
Exercisable at 30 June 2021	1,001,674	0.14	10,250,000	0.17	11,251,674	0.17

Other details of options currently outstanding:

- The range of exercise prices is \$0.100 to \$0.350
- The weighted average remaining contractual life is approximately 3 years
- The 4.75 million options awarded in January 2020 are subject to approval at the AGM

The share options were valued using a variation of the binomial option pricing model. The following principal assumptions were used in the valuation:

Valuation assumptions						
Grant date	21 Feb 2011	31 Jan 2019	31 Jan 2019	1 Oct 2019	1 Oct 2019	1 Oct 2019
Share price at date of grant	\$0.136	\$0.155	\$0.155	\$0.069	\$0.069	\$0.069
Volatility	45%	57%	57%	91%	91%	91%
Option life	10 years	5 years	5 years	5 years	5 years	5 years
Dividend yield	0%	0%	0%	0%	0%	0%
Risk free investment rate	5.60%	1.9%	1.9%	0.75%	0.75%	0.75%
Fair value at grant date	\$0.085	\$0.067	\$0.058	\$0.044	\$0.039	\$0.036
Exercise price at date of grant	\$0.136	\$0.20	\$0.25	\$0.10	\$0.15	\$0.20

Grant date	1 Oct 2019	1 Oct 2019	1 Oct 2019	1 Apr 2020	1 Apr 2020
Share price at date of grant	\$0.069	\$0.069	\$0.069	\$0.053	\$0.053
Volatility	91%	91%	91%	91%	91%
Option life	5 years	5 years	5 years	5 years	5 years
Dividend yield	0%	0%	0%	0%	0%
Risk free investment rate	0.75%	0.75%	0.75%	0.54%	0.54%
Fair value at grant date	\$0.033	\$0.031	\$0.029	\$0.031	\$0.025
Exercise price at date of grant	\$0.25	\$0.30	\$0.35	\$0.10	\$0.20

In total, \$245,706 (2019: \$100,490), of employee remuneration expense (all of which related to equity settled share-based payment transactions) has been included in profit or loss and credited to share option reserve.

Volatility has been determined based on the historic share price volatility as it is assumed that this is indicative of future movements.

Option life is based on the nominated expiry date of the option and historical exercise patterns, which may not eventuate.



## 25. Income tax expense

The major components of tax expense and the reconciliation of the expected tax expense based on the domestic effective tax rate of Regeneus Ltd at 27.5% (2019: 27.5%) and the reported tax expense in profit or loss are as follows:

	2020 \$	2019 \$
The prima facie tax on (loss) / profit before income tax is reconciled to the income tax as follows		
Prima facie tax receivable on (loss) / profit before income tax at 27.5%	(293,988)	(1,656,765)
Less:		
Tax effect of:		
- Research and development incentive	(184,649)	(396,490)
- Timing differences	(327,212)	-
Add:		
Tax effect of:		
- Non-deductible expenses	468,974	1,008,459
- Timing differences	-	227,328
- Tax losses not brought to account	336,875	817,468
Income tax benefit	-	-
The applicable weighted average effective tax rates are as follows:	0%	0%
	2020 \$	2019 \$
Deferred tax losses not recognised		
Tax losses not recognised	10,226,082	9,001,083
Capital losses not recognised	833,534	833,534
Other deferred tax assets not recognised	2,440,615	3,425,339
<b>Total</b>	<b>13,500,231</b>	<b>12,259,956</b>
<b>Potential tax benefit</b>	<b>3,712,564</b>	<b>3,646,488</b>

2019 tax losses not recognised have been restated to reflect amended tax returns.

## 26. Auditor's remuneration

	2020 \$	2019 \$
<b>Audit and review of financial statements</b>		
- Auditors of Regeneus Ltd – Grant Thornton	108,595	115,000
Remuneration for audit and review of financial statements	108,595	115,000
<b>Other services</b>		
Other services	-	-
Total other services remuneration	-	-
<b>Total auditor's remuneration</b>	<b>108,595</b>	<b>115,000</b>

## 27. Earnings per share

Both the basic and diluted earnings per share have been calculated using the loss attributable to shareholders of the Parent Company as the numerator (i.e. no adjustments to the loss were necessary in FY20 or FY19).

The reconciliation of the weighted average number of shares for the purposes of diluted earnings per share to the weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:

	2020 \$	2019 \$
<b>Earnings per share</b>		
Basic earnings per share from continuing operations	(0.004)	(0.029)
The weighted average number of ordinary shares used as the denominator on calculating the EPS	265,883,744	208,885,143
<b>Diluted earnings per share</b>		
Diluted earnings per share from continuing operations	(0.004)	(0.029)
The weighted average number of ordinary shares used as the denominator on calculating the DEPS	265,883,744	208,885,143

Share options have not been included in the diluted EPS calculation because they are anti-dilutive.

## 28. Reconciliation of cash flows from operating activities

	2020 \$	2019 \$
<b>Cash flows from operating activities</b>		
(Loss) / Profit for the period	(1,069,046)	(6,024,600)
<b>Non cash adjustments for:</b>		
• Depreciation	73,966	269,136
• Amortisation	-	1,644
• Loss on disposal of plant and equipment	17,622	2,284
• Gain on settlement of equity instrument	(1,854,783)	-
• Equity settled share-based transactions	245,706	100,490
• Provision for shareholder loan	-	300,000
• Realised foreign exchange (gain) / loss	87,500	(3,315)
• Unrealised foreign exchange gain		180,150
• Gain on disposal of Regeneus Japan Inc	(7,077)	-
• Share of loss on investment accounted for using the equity method	-	40,903
<b>Net changes in working capital:</b>		
• Change in inventories	8,615	6,721
• Change in trade and other receivables	(1,466,400)	-
• Change in right of us assets	(4,782)	-
• Change in other assets	238,595	80,291
• Change in trade and other payables	(86,001)	361,053
• Change in other employee obligations	(23,677)	(12,316)
• Change in tax assets	820,046	915,155
• Change in other liabilities	1,440,000	-
• Change in provisions	(337,870)	173,908
<b>Net cash inflow / (outflow) from operating activities</b>	<b>(1,917,586)</b>	<b>(3,608,496)</b>

## 29. Related party transactions and loans

On 29 June 2018 the Group entered into an R&D loan facility agreement with Paddington St Finance Pty Ltd, a related party. The facility forward funded, via a loan, the lesser of 80% of the expected R&D tax incentive claim or \$2m. In the reporting period a final drawdown of \$20k was undertaken. The R&D tax incentive was received in October 2019 and the loan and all outstanding interest were repaid.

On the 28 February 2019, the Company received loans from the Directors totalling \$2,500,000 in an arms-length arrangement. The loans were unsecured and repayable on the earlier of 2 March 2020 or 10 days after a capital raise sufficient to fund repayment of the loans of the Company and support the working capital requirements of the Company for the following 12 months, as reasonably determined by the Board of Directors.

During September 2019 a successful capital raising was undertaken and \$1.4 million of the Directors Loans were converted to shares. The interest associated with these loans was paid out in March 2020 in accordance with the original loan arrangements.

The remaining \$1.1 million loan was renegotiated as part of a new \$4 million loan facility, \$2 million provided by Leo Lee and a further \$2 million provided by Paddington St Finance Pty Ltd. At the end of the current financial year only \$1.1 million has been drawn.

The remaining loans terms include a market interest rate reflective of prior loans and current market conditions.

Related party transactions	2020 \$	2019 \$
<b>Paddington St Finance Pty Ltd</b>		
Balance at beginning of the year	1,280,000	1,000,000
Loan received	20,000	2,160,000
Loan repaid	(1,300,000)	(1,880,000)
Balance at year end	-	1,280,000
Interest charged	54,664	195,277
Interest paid	(206,807)	(43,134)
Unpaid interest on loan from Paddington St Finance Pty Ltd	-	152,143
<b>Directors Loans Received</b>		
Leo Lee	1,100,000	2,100,000
Barry Sechos	-	250,000
Glen Richards	-	100,000
John Martin	-	50,000
Balance at year end	1,100,000	2,500,000
Interest charged	192,340	125,000
Interest paid	(107,840)	-
Unpaid interest on loan from Directors	209,500	125,000
<b>Total received from related parties</b>	<b>1,309,500</b>	<b>4,057,143</b>

In addition, interest of \$152,143 (2018: \$nil) due to Paddington St Finance and interest accrued of \$125,000 due on the Directors' loans is included in trade payables.

Loans receivable relate to the shareholder loan, terms of which are disclosed in Note 13

Related party loan receivable	2020 \$	2019 \$
Graham Vesey	150,552	150,552
<b>Total related party loans</b>	<b>150,552</b>	<b>150,552</b>

During the year Regeneus provided technical support to BioPoint Pty Ltd a company of which Graham Vesey is a director and significant shareholder. These services are valued at \$48,000 over a 4 month period to August 2020. Of this amount \$24,000 was incurred in the reported financial year. This revenue is in part offset by an agreement where BioPoint Pty Ltd provided laboratory space and facilities over a similar period valued at \$50,000. Of this amount, \$25,000, was incurred by Regeneus in the reported financial year.

### 30. Transactions with key management personnel

Key management personnel remuneration includes the following expenses:

	2020 \$	2019 \$
Salaries & Fees	687,000	886,512
Short term incentive	-	-
<b>Total short-term employee benefits</b>	<b>687,000</b>	<b>886,512</b>
Defined contribution pension plans	14,440	40,723
Other long-term benefits	4,985	(34,879)
Share-based payments	212,714	100,490
<b>Total remuneration</b>	<b>919,139</b>	<b>992,846</b>

During the year, no options were exercised.

Disclosures relating to key management personnel are set out in this note and the remuneration report in the Directors' report.

### 31. Contingent liabilities

Recently a claim has been received for reimbursement of additional expenditure from a group that undertook an animal trial for the Group in 2015 through to 2018. Management believe it is an ambit claim with little merit and will pursue avenues to minimise this claim and may potentially seek reimbursement of the costs of the failed trial paid to date. It is anticipated the net claim including costs would not exceed \$50,000.

Other than the claim noted above, the Group has no other contingent liabilities as at 30 June 2020 (FY19: \$nil).

### 32. Capital expenditure commitments

There were no capital commitments as at the 30 June 2020 (FY19: \$nil).

### 33. Financial instruments

#### a. Capital risk management

The Group's financial instruments consist mainly of deposits with banks, accounts receivable, deposits, shareholder loans, accounts payable and financial liabilities.

#### b. Categories of financial instruments

The total for each category of financial instrument, measured in accordance with AASB 9 as detailed in the accounting policies to these financial statements, are as follows:

Financial assets at amortised cost	2020 \$	2019 \$
Cash and cash equivalents	981,845	255,463
Trade and other receivables	1,466,400	-
Shareholder loan	570,227	596,157
<b>Total financial assets at amortised cost</b>	<b>3,018,472</b>	<b>851,620</b>

Financial liabilities at amortised cost	2020 \$	2019 \$
Trade and other payables	913,287	999,288
Related party loan	-	1,280,000
Directors' loans	1,100,000	2,500,000
Financial liabilities	1,440,000	3,564,300
<b>Total financial liabilities at amortised cost</b>	<b>3,453,287</b>	<b>8,343,588</b>

#### c. Financial risk management objective

The Group is exposed to various risks in relation to financial instruments. The main types of risks are foreign currency risk, credit risk and liquidity risk.

The Group's risk management is coordinated in close operation with the Board of Directors, and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes. The most significant financial risks to which the Group is exposed are described below.

#### d. Foreign exchange risk

Foreign exchange risk is the risk of an adverse impact on the Group's financial performance as a result of exchange rate volatility.

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group is exposed to foreign exchange risk arising primarily from transactions with foreign suppliers and revenue from licence arrangements. Material exposure to currency risk arises from foreign currency transactions and is limited to trade receivables and trade payables and financial liabilities. The total AUD balance of trade receivables denominated in a foreign currency (JPY) at 30 June 2020 is \$1,440,000 (FY19: nil) and trade payables denominated in a foreign currency (USD & JPY) at 30 June 2020 is \$29,510 (FY19: \$24,300) and contract liability at 30 June 2020 of \$1,440,000 (FY19 Financial liability \$3,564,000)

Management have assessed the risk of movement in interest rates, and foreign exchange and with due consideration of the nature of the material debtor, which as at 30 June 2020 was offset by a contract liability of the same amount to Kyocera, and believe the nature of the net risk is minimal and do not believe the impact would be material to the accounts.

The following table illustrates the sensitivity of profit in regards to the Group's financial assets and financial liabilities and the USD / AUD and JPY / AUD exchange rate 'all other things equal'. It assumes a +/- 10% change of the AUD / USD and the AUD / JPY exchange rate for the year ended at 30 June 2020 (FY19: 5%). This percentage has been determined based on the average market volatility in exchange rates in the previous twelve (12) months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting date.

Movements in the AUD / USD and the AUD / JPY would have the following impact:

Profit / (loss) impact of exchange rate sensitivity	2020 \$	2019 \$
If AUD had strengthened against USD & JPY by 10% (2019: 5%)	(2,950)	(177,188)
If AUD had weakened against USD & JPY by 10% (2019: 5%)	2,950	177,694

Exposure to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless the analysis above is considered to be representative of the Group's exposure to currency risk.

#### e. Liquidity risk analysis

Liquidity risk is risk that the Group might be unable to meet its obligations. The Group manages its liquidity needs by monitoring forecast cash inflows and outflows due in day-to-day business. The data used for analysing these cash flows consistent with that used in the contractual maturity analysis below. Liquidity needs are monitored in a rolling 365 day projection.

The Group's objective is to maintain cash and deposits to meet its liquidity requirements for 180 day periods at a minimum. This objective relies on the Groups Capital Management Policies and in conjunction with these was met for the reporting periods.

The Group considers expected cash flows from financial assets in assessing and managing liquidity risk in particular its cash resources and trade receivables.

As at 30 June 2020 the Group's non-derivative financial liabilities have contractual maturities as summarised below:

	2020 Current within 6 months \$	2020 Current within 6 to 12 months \$	2019 Current within 6 months \$	2019 Current within 6 to 12 months \$
Trade and other payables	913,287	-	874,288	-
Related party loan	-	-	1,280,000	-
Directors' loans	-	1,100,000	-	2,500,000
Financial Liabilities	1,440,000	-	3,564,300	-
<b>Total financial liabilities</b>	<b>2,353,287</b>	<b>1,100,000</b>	<b>5,718,588</b>	<b>2,500,000</b>

#### f. Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in a financial loss to the Group.

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposure to customers, including outstanding receivables and committed transactions.

The Group has adopted a policy of only dealing with creditworthy counter parties as a means of mitigating the risk of financial loss from defaults.

There are no significant concentrations of credit risk within the Group.

Other financial assets at amortised cost include loans to shareholders.

The Group applies the AASB 9 simplified model of recognising lifetime expected credit losses for loans to shareholders as these items do not have a significant financing component.

In measuring the expected credit losses, loans to shareholders have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due and also according to the geographical location of customers.

The expected loss rates are based on the repayment profile over the past 48 months before 30 June 2020 as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking factors affecting the customer's ability to settle the amount outstanding. The group has identified liquidity in the Company's shares to be the most relevant factor and adjusts loss rates for expected changes in these factors. However, given the short period exposed to credit risk, the impact of these factors has not been considered significant within the reporting period.

Loans to shareholders are written off (ie derecognised) when there is significant change in the share price of the Company and a likely change in the expectation of recovery. The Company share price at 30 June 2020 and the failure to make payments at the loan due date and to engage with the Group on alternative payment arrangement amongst other is considered indicative of a reduced expectation of recovery.

On the above basis the expected credit loss for the shareholder loan as at 30 June 2020 was determined as follows:

	Stage 1 \$	Stage 2 \$	Stage 3 \$	Total \$
Expected credit loss rate	0%	33%	100%	-
Gross carrying amount	-	870,227	-	870,227
Lifetime expected credit loss	-	(300,000)	-	(300,000)

#### g. Capital management policies and procedures

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern
- To provide an adequate return to shareholders

The Group monitors capital on the basis of the carrying amount of equity less cash and cash equivalents as presented on the face of the statement of financial position and cash flow.

Management assesses the Group's capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leakage. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

## 34. Fair value measurement

### Fair value hierarchy

The Group's assets and liabilities measured or disclosed at fair value are valued using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurements date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

There were no assets or liabilities held at fair value and no transfers between levels during the financial year.

## 35. Parent entity information

Set out below is the supplementary information about Regeneus Ltd, the parent entity.

	2020 \$	2019 \$
Statement of financial position		
Current assets	3,484,187	2,384,591
Total assets	3,564,359	2,541,714
Current liabilities	3,632,507	8,752,923
Total liabilities	3,695,421	8,928,309
Net assets	(131,062)	(6,386,595)
Issued capital	38,155,692	31,076,819
Retained earnings	(38,718,275)	(37,875,479)
Option reserve	431,521	412,065
Total equity	(131,062)	(6,386,595)
Statement of profit or loss and other comprehensive income		
Profit / (Loss) for the year	(1,069,046)	(6,024,600)
Other comprehensive income	-	-
Total comprehensive profit or (loss)	(1,069,046)	(6,024,600)

## 36. Subsequent events

In the period from 30 June 2020 through to the signing of the financial report the following important events have occurred:

On 11 August 2020, Regeneus announced that it had signed with Kyocera a licence and collaboration agreement. The agreement is for Kyocera to exclusively develop and commercialise Regeneus' lead stem cell platform technology Progenza for the treatment of knee osteoarthritis in Japan.

Regeneus will receive \$27 million (US\$19m) in upfront, development and regulatory milestone payments consisting of:

- \$13 million (US\$9m) in upfront and execution payments, data package delivery and establishing Standard Operating Procedures, of which \$1.6 million was received in March 2020, \$1.3 million is due in the current quarter and the balance in the current financial year.
- \$14 million (US\$10m) in regulatory and development milestone payments.

Additionally, Regeneus will receive high single to double-digit royalties on all future Progenza OA product sales in Japan.

On 19 August 2020, Regeneus announced that the US Patent and Trademark office has issued a notice of allowance for a new patent for Sygenus. The patent covers treatment of a broad range of non-inflammatory skin conditions with adipose-derived cell secretion, including age spots, wrinkles, and other age-related conditions.

On 27 August 2020, Regeneus received from Kyocera the second payment under the February 2020 MOU of JPY100m. The net amount after withholding tax was A\$1.23m.

Apart from the above, there are no other matters or circumstances that have arisen since the end of the year that have significantly affected or may significantly affect either the entity's operations in future financial years, the results of those operations in future financial years or the entity's state of affairs in future financial years.

### COVID-19 impact

Regeneus has considered the impact of COVID-19 on its business and believes that there is no material impact on its operations, asset values and impairment considerations. As the potential impacts of COVID-19 continue to evolve management will continue to monitor the situation and the effect on the business.

## Directors' declaration

1. In the opinion of the Directors of the Group:
  - a. The consolidated financial statements and notes are in accordance with the Corporations Act 2001, including:
    - i. Giving a true and fair view of its financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
    - ii. Complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
  - b. There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and the chief financial officer for the financial year ended 30 June 2020.
3. Note 2 confirms that the consolidated financial statements also comply with International Financial Reporting Standards.

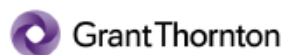
Signed in accordance with a resolution of the Board of Directors:

A handwritten signature in black ink, appearing to be 'Leo Lee', with a long horizontal line extending to the right.

CEO and Executive Director  
Leo Lee

Dated the 27<sup>th</sup> day of August 2020.

# Auditor's Report



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## Independent Auditor's Report

To the Members of Regeneus Ltd

Report on the audit of the financial report

### Opinion

We have audited the financial report of Regeneus Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

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

### Basis for opinion

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

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

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#### Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
------------------	----------------------------------------------

#### Licence revenue – Note 6

In February 2020, the Group entered into a Memorandum of Understanding with Kyocera Corporation to give Kyocera exclusive negotiation rights to Progenza for treatment of knee osteoarthritis (Progenza OA) until end of July 2020.

The Memorandum Of Understanding defines the timeline and process toward a commercial licence for Progenza in Japan and outlines terms to access select research knowhow from Regeneus. As part of these arrangements the Group had a performance obligation to deliver data to Kyocera Corporation for review. The Group received a non-refundable milestone payment of 100,000,000 JPY (AUD 1,639,345) in relation to this performance obligation, which was satisfied in May 2020, resulting in revenue recognition.

An additional advance payment of 100,000,000 JPY (AUD 1,440,000) is payable by Kyocera upon completion of the due diligence process, and is refundable if a commercial licence agreement is not executed.

Following conclusion of due diligence, Regeneus and Kyocera agreed to proceed with negotiations of a commercial licence agreement at market benchmark. As at 30 June 2020, the licence agreement had not been executed, and as such a contract liability was recognised.

This area is a key audit matter due to the management judgement involved in determining performance obligations and the points in time at which revenue should be recognised under AASB 15 *Revenue from Contracts with Customers*.

Our procedures included, amongst others:

- reviewing the Group's revenue recognition policies and evaluating compliance with AASB 15;
- obtaining management's AASB 15 assessment for the contract revenue;
- reviewing the Memorandum of Understanding and determining whether the recognition is in accordance with AASB 15;
- assessing the classification and calculation of the advance payment receivable as at 30 June 2020;
- including reviewing the recognition of the Kyocera contract liability;
- evaluating compliance of the related disclosures in the financial statements.

#### Recognition of the R&D tax incentive – Note 6

The Group receives a 43.5% refundable tax offset (2019: 43.5%) of eligible expenditure under the research and development ("R&D") tax incentive scheme, under the condition that the entity's turnover is less than \$20 million per annum. A registration of R&D activities is filed with AusIndustry in the following financial year and, based on this filing, the Group expects to receive the incentive in cash within a month of lodgement date. Management, with the assistance of a management expert, performed a comprehensive review of the Group's total R&D expenditure. This enables management to estimate the refundable tax offset receivable under the R&D tax incentive legislation. The receivable recorded at year-end represents an estimated claim for the period 1 July 2019 to 30 June 2020.

Our procedures included, amongst others:

- obtaining management's calculation of the R&D tax incentive receivable and comparing the eligible expenditure claimed to expenditure recorded in the general ledger;
- evaluating the qualifications and expertise of management's expert in order to assess their professional competence and capabilities as they relate to the work undertaken;
- reviewing historical estimates for accuracy against the final amounts received, to support the reliability of the estimate;
- inspecting supporting documentation for a sample of expenses claimed to assess validity of the claimed amount and eligibility against the R&D tax incentive scheme criteria.

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This area is a key audit matter due to the degree of judgement and interpretation of the R&D tax legislation that is required by management to assess the eligibility of R&D expenditure under the scheme.

- comparing the nature of the R&D expenditure included in the current year estimate to the prior year claim;
- utilising internal R&D tax specialists to review the expenditure methodology employed by management for consistency with the R&D tax legislation;
- inspecting copies of relevant correspondence with AusIndustry and the ATO; and
- reviewing relevant disclosures in the financial statements.

#### Carrying value of financial assets held at amortised cost - Note 13

The recoverability of the shareholder loan was significant to our audit due to the value of the financial assets that were past due as at year end. In accordance with AASB 9 *Financial Instruments*, the Group is required to determine the expected future credit loss with reference to the history of losses, current conditions, forward looking information and consideration of the fair value of shares held by shareholders.

This area is a key audit matter because there is judgement required to assess the expected credit loss. The expected credit loss is reliant on the share price of the Group which has been subject to volatility during the period.

Our procedures included, amongst others:

- assessing the provision for shareholder loans receivable for compliance with the requirements of AASB 9;
- recalculating the fair value of shares as at 30 June 2020 and reviewing share price movements subsequent to period end;
- making inquiries with management with regards to the future plans and assessing reasonableness of the responses; and
- assessing the appropriateness of the related disclosures within the financial statements.

#### Going concern – Note 3c and Note 36

The financial statements have been prepared on a going concern basis as discussed in Note 3c.

Historically, the Group has been loss making and material uncertainty with respect to going concern was identified in the prior year. The Group had a consolidated loss after tax of \$1.07 million for the year ended 30 June 2020, a deficit of net current assets of \$0.15 million and accumulated losses of \$38.7 million on the Consolidated Statement of Financial Position as at 30 June 2020.

Subsequent to 30 June 2020, the Group signed a Licensing agreement with Kyocera Corporation of Japan. The agreement provides \$27 million (US \$19 million) of upfront development and regulatory milestones, including \$1.3 million due within the quarter ending 30 September 2020, and a further \$10.1 million due within FY2021.

This area was a key audit matter due to the significant management judgment involved in forecasting future cashflows, and the uncertainty surrounding ongoing negotiations with Kyocera as at 30 June 2020, which were subsequently resolved.

Our procedures included, amongst others:

- obtaining management's assessment of the going concern, and assessing the appropriateness of significant inputs and assumptions in the forecast cash flows;
- making inquiries with management to understand the status of ongoing negotiations with Kyocera Corporation of Japan;
- performing sensitivity analyses over management's forecasts;
- considering the terms of bank facilities available to the Group, and the amount available for draw down;
- obtaining the licence and collaboration agreement signed with Kyocera Corporation of Japan on 1 August 2020; and
- considering the impact of the agreement with Kyocera on the forecast.

#### Information other than the financial report and auditor's report thereon

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

Our opinion on the financial report does not cover the other information and 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.

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

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

#### Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [https://www.auasb.gov.au/admin/file/content102/c3/ar1\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf). This description forms part of our auditor's report.

#### Report on the remuneration report

##### Opinion on the remuneration report

We have audited the Remuneration Report included in pages 8 to 12 of the Directors' report for the year ended 30 June 2020.

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

#### Responsibilities

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



Grant Thornton Audit Pty Ltd  
Chartered Accountants



N J Bradley  
Partner – Audit & Assurance

Sydney, 27 August 2020

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## Registered Office and Principal Place of Business

2 Paddington Street  
Paddington, NSW 2021

## Board of Directors

Barry Sechos (Non-executive Chairman)  
Leo Lee (Executive Director)  
Professor Graham Vesey (Executive Director)  
Dr John Chiplin (Non-executive Director)  
Dr Alan Dunton (Non-executive Director)

## Company Secretary

Sandra McIntosh

## Website

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## Auditors

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## Patent Attorneys

Spruson & Ferguson  
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Sydney, NSW 2000

## Share Registry

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## Stock Exchange Listing

Australian Stock Exchange  
ASX Code: RGS

