

PYC Therapeutics Limited

(Formerly Phylogica Limited)

ACN 098 391 961

Appendix 4D

Half-Year Report

Period ended 31 December 2019

Results for announcement to the market

Operating Performance	% Increase/ (Decrease)	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Revenue from ordinary activities	23	58	47
(Loss) from ordinary activities after tax attributable to members	122	(2,100)	(946)
Net (loss) for the half year attributable to members	122	(2,100)	(946)

Comment

The increase in net loss compared to the previous half year is due to investment in machine learning capabilities, and R&D consumables required to advance lead program, through Vision Pharma, and expansion of the Company's drug development pipeline.

Dividends

There are no dividend or distribution reinvestment plans in operation and there have been no dividend or distribution payments during the financial half year ended 31 December 2018.

Net tangible assets per ordinary security	31 December 2019	31 December 2018
Net tangible assets	\$28,602,223	\$9,349,753
Number of shares on issue at reporting date	2,931,432,190	2,442,856,658
Net tangible assets per ordinary security	0.98 cents	0.38 cents

Control Gained or Lost over Entities

Not applicable

Associates and joint ventures

Vision Pharma Pty Ltd
PYC Therapeutics LLC

Foreign Entities Accounting Framework

Not applicable

Audit/Review Status

This Appendix 4D and the attached interim financial statements are based on accounts which have been subjected to review. The accounts are not subject to dispute or qualification.

The attached interim financial statements for the half year ended 31 December 2019 form part of this Appendix 4D. This half year report is to be read in conjunction with the PYC Therapeutics Limited (formerly Phylogica Limited) 2019 annual financial statements and the notes contained therein.



PYC Therapeutics Limited
(Formerly Phylogica Limited)

ACN 098 391 961

Condensed Consolidated
Interim Financial Statements

For the Half Year Ended 31 December 2019

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Corporate Directory

Directors

Mr Alan Tribe
Chairman

Mr Douglas Huey
Executive Director, CEO

Dr Rohan Hockings
Executive Director, Chief Strategic Officer

Dr Bernard Hockings
Non-Executive Director

Company Secretary

Mr Kevin Hart

Share Registry

Automic Group
Level 2, 267 St Georges Terrace
Perth, Western Australia 6000

Telephone: (02) 8072 1400

Auditors

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130 Stirling Street
Perth WA 6000

Registered Office

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Mt Pleasant WA 6053
Telephone: 08 9316 9100
Facsimile: 08 9315 5475

Postal Address

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Mt Pleasant WA 6153

Principal Place of Business

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Telephone: 08 6151 0992
Facsimile: 08 9315 5475

Website

www.pyctx.com

Incorporated in Western Australia
October 2001

Listed on:
Australian Securities Exchange (ASX)
Home Exchange: Perth

Directors' Report

For the Half Year Ended 31 December 2019

The directors present their interim report on PYC Therapeutics Limited (referred to in these financial statements as "the Company" or "PYC") together with the financial statements for the half year ended 31 December 2019 and the review report thereon.

DIRECTORS

The Directors who held office at any time during or since the end of the half-year are:

Executive

Mr Douglas Huey Executive Director, CEO (Appointed 11 February 2020)
Dr Rohan Hockings Executive Director, Chief Strategic Officer

Non-executive

Mr Alan Tribe Non-executive Chairman
Dr Bernard Hockings Non-executive Director

Unless otherwise indicated, all Directors held their position as a Director throughout the entire half year and up to the date of this report.

REVIEW OF OPERATIONS

During the period the Company changed its name to PYC Therapeutics Limited. The primary driver for re-branding is to acknowledge the transition that the Company has undertaken from drug discovery to drug development.

In November 2019 the Company completed an underwritten accelerated non-renounceable entitlement issue of 488,571,332 shares at an issue price of \$0.055 raising \$26.8 million before costs. The funds raised are being used for the development of the Company's lead molecule through its 90% ownership in Vision Pharma Pty Ltd.

Lead program

The Company finalised its lead drug molecule (a treatment for a form of Retinitis Pigmentosa, the leading cause of childhood blindness) in the final quarter of 2019. The Company anticipates starting Investigational New Drug (IND)-enabling studies for this drug molecule in the first half of 2020. Upon successful completion of IND-enabling studies, the drug is expected to progress to clinical testing in humans next year.

PYC's lead drug is comprised of two primary elements joined together:

1. A drug cargo - an RNA therapeutic or a 'precision medicine' known as an Anti-Sense Oligonucleotide (ASO); and
2. A delivery vehicle: A Cell Penetrating Peptide (CPP) that delivers the drug cargo to the diseased cell and across the cell membrane to the target in the diseased cell's nucleus.

Upcoming milestones

The Company has an exciting path both to and through the clinic. This will include:

- i) A final additional assessment of PYC's lead drug's ability to reverse a disease process in human cells that have the target disease (Retinitis Pigmentosa) – known as a 'phagocytosis assay', this provides an assessment of whether our drug can restore the diseased cells' ability to rid themselves of toxic build up (anticipated at the end of Q1 2020);
- ii) A 'clinical trial on a benchtop' with 'optic cups'/retinal organoids' from patients likely to be enrolled in our phase 1 study (anticipated at the end of Q1 2020); and
- iii) Initiation of IND-enabling studies demonstrating the safety of the lead drug candidate in larger animal species (anticipated to begin in Q2 2020).

Directors' Report (Cont.)

For the Half Year Ended 31 December 2019

Pipeline expansion

The Company has added six new programs to its retinal drug development pipeline. These opportunities were developed within PYC's majority owned subsidiary, Vision Pharma Pty Ltd (PYC 90% : LEI 10%), which combines the expertise of PYC with those of the Lions Eye Institute ('LEI').

The expansion of the Company's retinal drug pipeline highlights the power of combining LEI's understanding of retinal diseases with PYC's ability to design and deliver RNA therapeutics – high quality drug programs can be efficiently designed and validated.

Building on the Company's Retinitis Pigmentosa lead program, the expanded pipeline targets a broad set of retinal diseases, an area of substantial unmet patient need. The specific target indications being pursued will remain commercial in confidence while the Company finalises the intellectual property protection for these new programs.

The relatively short amount of time required to design a new RNA therapeutic once the target opportunity has been identified is a major advantage of this class of drugs. PYC expects to progress a subset of these opportunities through to an IND-enabling decision by the end of 2020.

As the Company progresses its retinal drug pipeline, it continues to explore other areas where it can leverage its growing capability in 'precision medicines' (drugs that act inside affected cells). An animal model of Duchenne Muscular Dystrophy has recently been used to evaluate PYC's ability to deliver an ASO (antisense oligonucleotide) to a muscle cell using one of its CPPs (cell penetrating peptides).

RESULTS OF OPERATIONS

The operating loss after tax for the half year ended 31 December 2019 was \$2,172,489 (31 December 2018: loss after tax \$945,554). The loss includes a one-off investment in machine learning capabilities of \$405,000, increased research and development consumables required to advance the lead program and expansion of the drug development pipeline.

The accounting standards do not permit the capitalisation of development expenditure in circumstances where the Company cannot demonstrate probable future economic benefits derived from the results of the expenditure. The expenditure incurred in relation to obtaining and maintaining patent protection is allowed to be capitalised under the standards but the Company has adopted a policy of expensing such expenditure as it is incurred. All research expenditure is expensed as incurred.

From this amount the following expenditures have been undertaken (all amounts \$ million, excluding the impact of tax):

	Prior to 30 June 2018	Year to 30 June 2019	Half Year to 31 December 2019	Total
Research & Development:				
Contract Research	33.16	2.68	-	35.84
Personnel (allocation)	7.69	-	2.12	9.81
Laboratory Consumables	8.11	1.84	1.67	11.62
	<u>48.97</u>	<u>4.52</u>	<u>3.79</u>	<u>57.28</u>
IP Maintenance	4.12	0.08	0.01	4.21
	<u>53.08</u>	<u>4.60</u>	<u>3.80</u>	<u>61.48</u>

Financial Position

The Company's cash position at 31 December 2019 was \$6.9 million, with a further \$22.5 million in investments being a Term Deposit with a term greater than 3 months. Expenditure for the half year was \$4.5 million.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration under s307C of the Corporations Act 2001 is set out on the following page and forms part of the Directors' report for the half-year ended 31 December 2019.

Signed in accordance with a resolution of the directors pursuant to s306(3) of the Corporations Act 2011.



Mr Alan Tribe
Chairman
28 February 2020

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the consolidated financial report of PYC Therapeutics Limited for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Perth, Western Australia
28 February 2020



B G McVeigh
Partner

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HLB Mann Judd (WA Partnership) is a member of HLB International, the global advisory and accounting network.

Condensed Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2019

	Note	31 Dec 2019 \$	31 Dec 2018 \$
Continuing Operations			
Interest Income		58,491	47,010
Other Income		-	250
Contract Research Costs		(22,624)	(2,001,223)
Personnel Expenses		(2,118,440)	(603,901)
Depreciation and amortisation		(241,758)	(40,124)
Professional Services		(347,057)	(284,229)
Travel and Accommodation		(65,098)	(39,796)
Intellectual Property Maintenance		(11,114)	(51,957)
Laboratory Consumables		(1,666,490)	(787,457)
Interest expense – Operating Leases		(22,434)	-
Occupancy costs		(1,047)	(1,299)
Other Operating Expenses		(130,624)	(86,948)
Loss Before Income Tax Expense		(4,568,195)	(3,849,674)
Income Tax Benefit		2,395,706	2,904,120
Net loss for the period after tax	3	(2,172,489)	(945,554)
Net Loss for the Period attributable to:			
• Owners of the parent		(2,100,842)	(945,554)
• Non-controlling interests		(71,647)	-
		(2,172,489)	(945,554)
Other Comprehensive Income attributable to:			
• Owners of the parent		(2,100,842)	(945,554)
• Non-controlling interests		(71,647)	-
		(2,172,489)	(945,554)
		Cents	Cents
Basic Loss Per Share		(0.09)	(0.04)
Diluted Loss Per Share		(0.09)	(0.04)

The condensed consolidated statement of comprehensive income is to be read in conjunction with the accompanying notes to the financial statements.

Condensed Consolidated Statement of Financial Position

As at 31 December 2019

	Note	31 Dec 2019 \$	30 June 2019 \$
Current assets			
Cash and cash equivalents		6,945,033	6,181,403
Trade and other receivables	5	157,591	10,827
Prepayments		65,720	26,143
Funds held in Term Deposits		22,500,000	-
Total current assets		<u>29,668,344</u>	<u>6,218,373</u>
Non-current assets			
Plant and equipment		451,970	482,869
Right -of-use assets	6	861,613	-
Intangible assets	7	4,950,000	-
Total non-current assets		<u>6,263,583</u>	<u>482,769</u>
Total assets		<u>35,931,927</u>	<u>6,701,242</u>
Current liabilities			
Trade and other payables	11	531,026	359,569
Employee benefits		115,621	42,305
Lease liabilities	12	149,200	-
Total current liabilities		<u>795,847</u>	<u>401,874</u>
Non-current liabilities			
Lease liabilities	12	722,245	-
Total non-current liabilities		<u>722,245</u>	<u>-</u>
Total liabilities		<u>1,518,092</u>	<u>401,874</u>
Net assets		<u>34,413,835</u>	<u>6,299,368</u>
Equity			
Issued capital	2	87,207,385	61,951,088
Reserves		3,806,431	1,275,772
Accumulated losses		(59,028,334)	(56,927,492)
Equity attributable to owners of the parent		31,985,482	6,299,368
Non-controlling interests		2,428,353	-
Total equity		<u>34,413,835</u>	<u>6,299,368</u>

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

Condensed Consolidated Statement of Cash Flows

For the half year ended 31 December 2019

	<i>Note</i>	31 Dec 2019	31 Dec 2018
		\$	\$
Cash flows from operating activities			
Other income received		-	-
Cash paid to suppliers and employees		(4,326,076)	(4,084,741)
Cash used in operations		(4,326,076)	(4,084,741)
R&D Tax rebate		2,395,706	2,904,120
Interest received		32,010	31,701
Interest paid - lease		(22,454)	-
Net cash used in operating activities		(1,920,814)	(1,148,920)
Cash flows from investing activities			
Acquisition of property, plant and equipment		(10,254)	-
Disposal of property, plant and equipment		-	250
Funds transferred to term deposits		(22,500,000)	-
Net cash acquired on acquisition of Vision Pharma	16	-	-
Net cash provided by/(used in) investing activities		(22,510,254)	250
Cash flows from financing activities			
Net proceeds from the issue of share capital		25,256,298	8,616,799
Repayment of lease liabilities		(71,854)	-
Net cash provided by financing activities		25,184,444	8,616,799
Net increase/(decrease) in cash and cash equivalents		763,630	7,468,129
Cash and cash equivalents at 1 July		6,181,403	3,147,306
Cash and cash equivalents at 31 December		6,945,033	10,615,435

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

Condensed Consolidated Statement of Changes in Equity

For the half year ended 31 December 2019

	Note	Issued Capital \$	Accumulated Losses \$	Reserves \$	Attributable to owners of the parent \$	NCI \$	Total \$
Balance at 1 July 2018		53,334,289	(52,847,724)	1,160,712	1,647,277	-	1,647,277
Net loss for the period		-	(945,554)	-	(945,554)	-	(945,554)
Other comprehensive loss for the period, net of tax		-	-	-	-	-	-
Total comprehensive loss for the period		-	(945,554)	-	(945,554)	-	(945,554)
Shares issued		9,120,000	-	-	9,120,000	-	9,120,000
Costs of share issue		(503,201)	-	-	(503,201)	-	(503,201)
Share based payments	13	-	-	31,231	31,231	-	31,231
Balance at 31 December 2018		61,951,088	(53,793,278)	1,191,943	9,349,753	-	9,349,753
Balance at 1 July 2019		61,951,088	(56,927,492)	1,275,772	6,299,368	-	6,299,368
Net loss for the period		-	(2,100,842)	-	(2,100,842)	(71,647)	(2,172,489)
Other comprehensive loss for the period, net of tax		-	-	-	-	-	-
Total comprehensive loss for the period		-	(2,100,842)	-	(2,100,842)	(71,647)	(2,172,489)
Shares issued		26,871,423	-	-	26,871,423	-	26,871,423
Transfer between owners		-	-	2,500,000	2,500,000	-	2,500,000
Costs of share issue		(1,615,126)	-	-	(1,615,126)	-	(1,615,126)
Share based payments	13	-	-	30,659	30,659	-	30,659
Non-controlling interest arising on acquisition		-	-	-	-	2,500,000	2,500,000
Balance at 31 December 2019		87,207,385	(59,028,334)	3,806,431	31,985,482	2,428,353	34,413,835

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

Notes to the Condensed Consolidated Interim Financial Statements

For the half year ended 31 December 2019

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

PYC Therapeutics Limited is a company domiciled in Australia.

The annual financial statements of the Company as at and for the year ended 30 June 2019 are available upon request from the Company's registered office at the address or at the web site shown earlier in this report.

(a) Statement of Compliance

The interim financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards AASB 134: Interim financial reporting and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with IAS 34: Interim Financial Reporting.

The interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the annual financial statements of the Company as at and for the year ended 30 June 2019 and any public announcements made by the Company during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

The interim financial statements of the Company for the six months ended 31 December 2019 were authorised for issue by the directors on 28 February 2020.

(b) Basis of preparation

The half-year financial report has been prepared on a historical cost basis. Cost is based on the fair value of the consideration given in exchange for assets. The company is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise noted.

For the purpose of preparing the interim financial statements, the half year has been treated as a discrete reporting period.

(c) Accounting Policies and Methods of Computation

The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding interim reporting period. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

(d) Segment Reporting

Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the board of PYC Therapeutics Limited.

(e) Significant Accounting Judgments and Key Estimates

The preparation of an interim financial report in conformity with AASB 134 *Interim Financial Reporting* requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

In preparing these interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 30 June 2019.

(f) Financial Risk Management

The Company's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 30 June 2019.

Notes to the Condensed Consolidated Interim Financial Statements (Cont.)

For the half year ended 31 December 2019

(g) Adoption of New and Revised Standards

New Standards and Interpretations applicable for the half year ended 31 December 2019

For the period ended 31 December 2019, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group and effective for the current reporting period. Those which have a material impact on the Group are set out below.

AASB 16 Leases

The Group has applied AASB 16 from 1 July 2019 using the modified retrospective approach, with no restatement of comparative information.

The impact on the accounting policies, financial performance and financial position of the Group from the adoption of AASB 16 is detailed in Notes 6,12 and 15.

Other than the above, there is no material impact of the new and revised Standards and Interpretations on the Group.

New Standards and Interpretations in issue not yet adopted

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet adopted for the period ended 31 December 2019. As a result of this review the Directors have determined that there is no material impact of the Standards and Interpretations in issue not yet adopted on the Group and, therefore, no change is necessary to Group accounting policies.

(h) Going Concern

The half year financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The Directors have reviewed the Company's financial position and are of the opinion that the use of the going concern basis is appropriate.

(i) Intangibles

Intangible assets acquired separately

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

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

Patents for pharmaceuticals: 25 years

Intangible assets acquired in a business combination

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

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

Impairment of tangible and intangible assets other than goodwill

The Group assesses at each balance date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, 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.

Notes to the Condensed Consolidated Interim Financial Statements (Cont.)

For the half year ended 31 December 2019

NOTE 2: ISSUED CAPITAL

(i) Issued capital:	Six Months to 31 Dec 2019	Year to 30 June 2019
	\$	\$
2,931,427,990 ordinary shares fully paid 30 June 2019: (2,442,856,658)	87,207,385	61,951,088

Movements in capital during the year:

	Six months to December 2019		Year to June 2019	
	2019 Shares	2019 \$	Shares	\$
Ordinary Shares				
Balance at the beginning of the period	2,442,856,658	61,951,088	2,138,856,650	53,334,289
Shares issued during the period:				
- Issued at \$0.055	259,934,394	14,296,392	-	-
- Issued at \$0.055	228,636,938	12,575,031	-	-
- Issued at \$0.03	-	-	304,000,008	9,120,000
- Share issue costs	-	(1,615,126)	-	(503,201)
Balance at the end of the year	2,931,427,990	87,207,385	2,442,856,658	61,951,088

Options:

Description	Number at 30 June 2019	Movement During the Half Year	Number of Options as at 31 December 2019	Expiry Date	Exercise Price
Unquoted Options	10,000,000	-	10,000,000	30 May 2020	\$0.06
Unquoted Options	10,000,000	-	10,000,000	16 Nov 2021	\$0.039
	10,000,000	-	20,000,000		

NOTE 3: NET LOSS FOR THE PERIOD

The following items are relevant in explaining the financial performance for the half year:

<i>Expenditure</i>	31 Dec 2019	31 Dec 2018
	\$	\$
Lab consumables	405,000	-

Lab consumables in the half year ended 31 December 2019 included one off expenditure of \$405,000 in respect of a machine learning program (Dec 2018: Nil).

NOTE 4: FUTURE INCOME TAX BENEFIT

Deferred tax assets have not been recognised as at 31 December 2019 because, at this stage of the Company's development, it cannot be considered as "probable" that future taxable profits will be available against which the Company can utilise the benefits.

NOTE 5: TRADE AND OTHER RECEIVABLES

	31 Dec 2019	30 June 2019
	\$	\$
GST receivable	120,283	-
Accrued Interest	37,308	10,827
	157,591	10,827

Notes to the Condensed Consolidated Interim Financial Statements (Cont.)

For the half year ended 31 December 2019

NOTE 6: RIGHT-OF-USE-ASSETS	31 Dec 2019	30 June 2019
Carrying value	\$	\$
Cost	943,671	-
Accumulated depreciation	(82,058)	-
Carrying value as at 31 December 2019	<u>861,613</u>	<u>-</u>

Reconciliation	Note	Premises
		\$
Recognised on 1 July 2019 on adoption of AASB 16	15	943,671
Depreciation expense		<u>(82,058)</u>
Closing balance		<u>861,613</u>

AASB 16 Has been adopted during the period, refer Note 15 for details

NOTE 7: INTANGIBLE ASSETS	31 Dec 2019	30 June 2019
	\$	\$
Intellectual Property Rights acquired through Vision Pharma Pty Ltd	5,000,000	-
Less: accumulated amortisation	<u>(50,000)</u>	<u>-</u>
	<u>4,950,000</u>	<u>-</u>

NOTE 8: SEGMENT INFORMATION

The Company comprises a single business segment comprising discovery and development of novel therapeutics and a single geographical location being Australia. The segment details are therefore fully reflected in the results and balances reported in the interim statement of comprehensive income and statement of financial position.

NOTE 9: EVENTS SUBSEQUENT TO BALANCE DATE

On 12th February 2020 the company announced the appointment of Mr Douglas Huey as Director and CEO, to will establish the PYC US office in Boston, and drive investor relations, business development and regulatory engagement efforts in the US as PYC progresses into clinical drug development. The US entity PYC Therapeutics LLC was incorporated on 29 January 2020.

As part of his remuneration package, Mr Huey was issued 10,000,000 unlisted options, with an exercise price of \$0.039 expiring on 16 November 2021.

Other than the above there have been no events subsequent to the balance date which are sufficiently material to warrant disclosure.

NOTE 10: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities or contingent assets as at 31 December 2019.

NOTE 11: TRADE AND OTHER PAYABLES

Current	31 Dec 2019	30 June 2019
	\$	\$
Trade payables (1)	415,059	193,742
Accrued expenses	12,500	24,000
GST Payable	-	38,945
Payroll tax	14,893	36,431
PAYG withholding	71,767	57,468
Other	16,807	8,983
	<u>531,026</u>	<u>359,569</u>

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

Notes to the Condensed Consolidated Interim Financial Statements (Cont.)

For the half year ended 31 December 2019

NOTE 12: LEASE LIABILITIES

Current	31 Dec 2019	30 June 2019
	\$	\$
Current liabilities	149,200	-
Non-current liabilities	722,245	-
	<u>871,445</u>	<u>-</u>

Reconciliation	Note	Premises
		\$
Recognised on 1 July 2019 on adoption of AASB 16	15	943,671
Principal repayments		<u>(71,854)</u>
Closing balance		<u>871,445</u>

AASB 16 Has been adopted during the period, refer Note 15 for details.

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

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

	Lease payments due					
	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years
	\$	\$	\$	\$	\$	\$
Lease payments	188,616	188,616	188,616	188,616	188,616	47,154
Interest	(39,417)	(31,783)	(23,759)	(15,325)	(6,459)	(1,674)
Net present values	<u>697,496</u>	<u>533,379</u>	<u>369,263</u>	<u>205,146</u>	<u>41,029</u>	<u>-</u>

NOTE 13: SHARE BASED PAYMENTS

i. The following share-based payments arrangements existed at 31 December 2019:

Security	Grant Date	Share Based Expense
		\$
10,000,000 Unquoted options	24 November 2017	11,216
10,000,000 Unquoted options	16 November 2018	<u>19,443</u>
		<u>30,659</u>

NOTE 14: FINANCIAL INSTRUMENTS

Fair value measurement

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy.

The three levels are defined based on the observe ability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying amount of the current receivables and current payables are considered to be a reasonable approximation of their fair values.

Notes to the Condensed Consolidated Interim Financial Statements (Cont.)

For the half year ended 31 December 2019

NOTE 15: NEW STANDARDS ADOPTED

AASB 16 Leases

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements (Cont.)

For the half year ended 31 December 2019

NOTE 15: NEW STANDARDS ADOPTED Continued

AASB 16 Leases continued

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

Impact on adoption of AASB 16

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of AASB 117. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to lease liabilities on 1 July 2019 was 5%.

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

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

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

The net impact on retained earnings on 1 July 2019 was \$nil.

Practical expedients applied

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

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

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

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

	\$'000
Operating lease commitments disclosed as at 30 June 2019	496,375
Discounted using the lessee's incremental borrowing rate at the date of initial application	476,649
Less: Short term leases recognised on a straight-line basis as an expense	-
Less: Low value leases recognised on a straight-line basis as an expense	-
Less: Contracts reassessed as service agreements	-
Add: Adjustment as a result of a different treatment of extension and termination options	467,112
Lease liabilities as at 1 July 2019	<u>943,671</u>

Notes to the Condensed Consolidated Interim Financial Statements (Cont.)

For the half year ended 31 December 2019

NOTE 16: ACQUISITION OF CONTROLLED ENTITY

Acquisition

On 14 November 2019, PYC Therapeutics Limited acquired 90% of the voting shares of Vision Pharma Pty Ltd.

The total cost of the combination was \$20,000,000 and comprised the assignment of Intellectual Property Rights and cash.

Consideration transferred

Acquisition date fair value of the consideration transferred

	\$'000
Intellectual Property assignment	5,000
Cash	13,050
Amount owing to Vision Pharma	1,950
Total consideration	<u>20,000</u>
Direct costs relating to the acquisition	-

Assets acquired and liabilities assumed at the date of acquisition

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

Provisional business combination accounting is as follows:

	Fair value \$'000
Cash and cash equivalents	13,050
Receivable PYC	1,950
Intellectual Property	5,000
Provisional fair value of identifiable net assets	<u>20,000</u>
Total Consideration	<u>20,000</u>
Cash acquired	13,050
Cash consideration	<u>(13,050)</u>
Net cash acquired	<u>-</u>

Directors' Declaration

In the opinion of the directors of PYC Therapeutics Limited (the Company):

1. the financial statements and notes set out on pages 6 to 17 are in accordance with the Corporations Act 2001 including:
 - (a) giving a true and fair view of the financial position of the Company as at 31 December 2019 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
 - (b) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



Mr Alan Tribe
Chairman

Perth
28 February 2020

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of PYC Therapeutics Limited.

Report on the Condensed Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of PYC Therapeutics Limited ("the company") which comprises the condensed consolidated statement of financial position as at 31 December 2019, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes, and the directors' declaration, for the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of PYC Therapeutics Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

Perth, Western Australia
28 February 2020



B G McVeigh
Partner