



PYC
Therapeutics

August 31, 2021

Preliminary Final Report – Appendix 4E

PERTH, Australia and SAN DIEGO, Calif. – August 31, 2021 – PYC Therapeutics (ASX: PYC), submits the following Appendix 4E – Preliminary Final Report, for the year ended 30th June 2021

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

CONTACTS:

INVESTORS

Deborah Elson/Matthew DeYoung
Argot Partners
deborah@argotpartners.com
matthew@argotpartners.com

MEDIA

Leo Vartorella
Argot Partners
leo@argotpartners.com

PYC Therapeutics Limited and its controlled entities
Appendix 4E
Preliminary final report



1. Company details

Name of entity: PYC Therapeutics Limited and its controlled entities
ABN: 48 098 391 961
Reporting period: For the year ended 30 June 2021
Previous period: For the year ended 30 June 2020

2. Results for announcement to the market

			\$
Revenues from ordinary activities	up	22% to	3,241,669
Loss from ordinary activities after tax attributable to the owners of PYC Therapeutics Limited and its controlled entities	up	160% to	(17,767,586)
Loss for the year attributable to the owners of PYC Therapeutics Limited and its controlled entities	up	160% to	(17,767,586)

Dividends

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

Comments

The loss for the Group after providing for income tax and non-controlling interest amounted to \$17,767,586 (30 June 2020: \$6,822,215).

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	1.54	0.86

4. Control gained / or lost over entities

Not applicable.

5. Dividends

Current period

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

Previous period

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

6. Dividend reinvestment plans

Not applicable.

7. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding	Contribution to profit/(loss) (where material)		
	Reporting period %	Previous period %	Reporting period \$	Previous period \$
Murdoch University Collaborations (no material contribution to profit/(loss))	50%	50%	-	-
<i>Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)</i>				
Profit/(loss) from ordinary activities before income tax			-	-

8. Foreign entities

The financial statements have been prepared in accordance with International Financial Reporting Standards, the *Corporations Act 2001* and other mandatory professional reporting requirements.

9. Audit qualification or review

The preliminary final report is based on accounts, that are in the process of being audited by PricewaterhouseCoopers.

10. Attachments

Details of attachments:

The attached financial report for the year ended 30 June 2021 forms part of this Appendix 4E. The report is based on accounts for the year ended 30 June 2021, which are in the process of being audited.

11. Signed

Signed



Date: 31 August 2021

Kevin Hart
Company Secretary
Perth

Commentary on Results

Financial performance

The consolidated results of the Group for the year reflects the Group's investment in advancing its drug development.

	2021	2020
	\$	\$
Loss for the year attributable to the owners of the Group	(17,767,586)	(6,822,215)
R&D tax incentive receipts	3,071,018	2,395,706

Financial position

The consolidated financial position of the Group includes the following key balances:

Group	2021	2020
	\$	\$
Cash position	18,435,199	7,242,343
Net current assets	48,483,940	24,855,514
Investments held in term deposits greater than 3 months	33,067,094	18,185,752

Review of Activities

Corporate

During the year the Group was focussed on drug discovery and development leveraging the Company's two complementary platform technologies (selective drug delivery and precision drug design). Core focus during the year was advancing the Company's two lead RNA therapeutic programs closer to clinical development while undertaking discovery efforts to further expand the Company's pipeline towards additional ocular and Central Nervous System (CNS) drug programs.

In October 2019 the Company announced a strategic partnership with the Lions Eye Institute (LEI) to develop treatments for blinding eye diseases. The Company's 90% owned (LEI-10%) subsidiary Vision Pharma Pty Ltd is progressing the first disease-modifying treatment for patients with a disease called Retinitis Pigmentosa - a leading cause of childhood blindness.

Through the year, the Company has continued to deepen its presence in the USA for two key reasons in order to unlock the full potential of the Company's platform technologies and support the transition to becoming a clinical stage drug development company:

- Access to critical drug development expertise and networks, including Regulatory engagement to support the accelerated progression of the Group's VP-001 drug program for Retinitis Pigmentosa type 11 towards first-in-human trials;
- Engagement with the world's leading business development partners and life science investors to establish the Company as a global leader in Ribonucleic Acid (RNA) therapeutics. The Company anticipates these engagements will create meaningful opportunities to more quickly progress and expand the Company's science and development programs.

Operational

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

- Successfully progressed VP-001 program for the treatment of Retinitis Pigmentosa Type 11 through important preclinical milestones. This included the commencement of larger animal studies with key data readouts expected from those in 2H 2021. The Company remains on-track for an Investigational New Drug application for this program in mid-2022;
- Advanced VP-002 program for the treatment of Autosomal Dominant Optic Atrophy through the achievement of effective delivery to target cells in the retina *in vivo* and the upregulation of the target OPA1 protein and correction of major functional deficits in patient-derived cells. Additional efficacy results from patient-derived cells and animal models anticipated in 2H 2021;
- Expanded application of the Company's PPMO technology to the CNS after demonstrating successful delivery of high levels of RNA therapeutic in mouse brains. Company remains on-track to nominate a first CNS development program in 2H 2021.

COVID-19

The company has been able to maintain progress on the VP-001 program with only minor developmental delays despite the COVID restrictions. Critical laboratory activities have continued, and the majority of personnel are working at PYC's offices.

PYC Therapeutics Limited and its controlled entities
Contents
30 June 2021



Consolidated statement of profit or loss and other comprehensive income	6
Consolidated statement of financial position	7
Consolidated statement of changes in equity	8
Consolidated statement of cash flows	9
Notes to the consolidated financial statements	10

For personal use only

PYC Therapeutics Limited and its controlled entities
Consolidated statement of profit or loss and other
comprehensive income
For the year ended 30 June 2021



	Note	2021 \$	2020 Restated* \$
Revenue			
Other income	5	3,241,669	2,665,236
Total revenue		<u>3,241,669</u>	<u>2,665,236</u>
Expenses			
Research and development expenditure	6	(14,003,715)	(5,877,835)
General and administrative expenses	7	(7,829,133)	(3,824,017)
Finance costs		(38,822)	(42,923)
Total expenses		<u>(21,871,670)</u>	<u>(9,744,775)</u>
Loss before income tax expense		(18,630,001)	(7,079,539)
Income tax expense	8	-	-
Loss after income tax expense for the year		(18,630,001)	(7,079,539)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		<u>(18,630,001)</u>	<u>(7,079,539)</u>
Loss for the year is attributable to:			
Non-controlling interest		(862,415)	(257,324)
Owners of PYC Therapeutics Limited and its controlled entities	20	<u>(17,767,586)</u>	<u>(6,822,215)</u>
		<u>(18,630,001)</u>	<u>(7,079,539)</u>
Total comprehensive income for the year is attributable to:			
Non-controlling interest		(862,415)	(257,324)
Owners of PYC Therapeutics Limited and its controlled entities		<u>(17,767,586)</u>	<u>(6,822,215)</u>
		<u>(18,630,001)</u>	<u>(7,079,539)</u>
		Cents	Cents
Basic loss per share	33	(0.57)	(0.26)
Diluted loss per share	33	(0.57)	(0.26)

* See note 5 for details regarding R&D tax incentive reclassification and note 7 for details regarding the restatement as a result of changing presentation of expenses from by nature to by function..

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

PYC Therapeutics Limited and its controlled entities
Consolidated statement of financial position
As at 30 June 2021



	Note	2021	2020
		\$	\$
Assets			
Current assets			
Cash and cash equivalents	9	18,435,199	7,242,343
Funds held in term deposits	10	33,067,094	18,185,752
Trade and other receivables	11	185,634	82,665
Other assets		93,057	50,359
Total current assets		<u>51,780,984</u>	<u>25,561,119</u>
Non-current assets			
Property, plant and equipment	13	745,507	355,912
Right-of-use assets	12	740,768	779,283
Intangibles	14	4,650,000	4,850,000
Other assets		23,595	-
Total non-current assets		<u>6,159,870</u>	<u>5,985,195</u>
Total assets		<u>57,940,854</u>	<u>31,546,314</u>
Liabilities			
Current liabilities			
Trade and other payables	15	2,928,128	380,568
Lease liabilities	16	187,530	152,967
Employee benefits	17	181,386	172,070
Total current liabilities		<u>3,297,044</u>	<u>705,605</u>
Non-current liabilities			
Lease liabilities	16	542,824	645,178
Employee benefits	17	176,725	-
Total non-current liabilities		<u>719,549</u>	<u>645,178</u>
Total liabilities		<u>4,016,593</u>	<u>1,350,783</u>
Net assets		<u>53,924,261</u>	<u>30,195,531</u>
Equity			
Issued capital	18	125,991,333	87,206,822
Reserves	19	8,069,960	4,495,740
Accumulated losses	20	(81,517,293)	(63,749,707)
Equity attributable to the owners of PYC Therapeutics Limited and its controlled entities		52,544,000	27,952,855
Non-controlling interest	21	<u>1,380,261</u>	<u>2,242,676</u>
Total equity		<u>53,924,261</u>	<u>30,195,531</u>

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

PYC Therapeutics Limited and its controlled entities
Consolidated statement of changes in equity
For the year ended 30 June 2021



	Issued capital \$	Share based payment reserve \$	Acquisition Reserve \$	Accumulated losses \$	Non-controlling interest \$	Total equity \$
Balance at 1 July 2019	61,951,088	1,275,772	-	(56,927,492)	-	6,299,368
Loss after income tax expense for the year	-	-	-	(6,822,215)	(257,324)	(7,079,539)
Other comprehensive income for the year, net of tax	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(6,822,215)	(257,324)	(7,079,539)
<i>Transactions with owners in their capacity as owners:</i>						
Contributions of equity, net of transaction costs (note 18)	25,255,734	-	-	-	-	25,255,734
Share-based payments (note 34)	-	719,968	-	-	-	719,968
Transfer between owners	-	-	2,500,000	-	(2,500,000)	-
Non-controlling interest arising on acquisition	-	-	-	-	5,000,000	5,000,000
Balance at 30 June 2020	<u>87,206,822</u>	<u>1,995,740</u>	<u>2,500,000</u>	<u>(63,749,707)</u>	<u>2,242,676</u>	<u>30,195,531</u>

	Issued capital \$	Share based payment reserves \$	Acquisition reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Non-controlling interest \$	Total equity \$
Balance at 1 July 2020	87,206,822	1,995,740	2,500,000	-	(63,749,707)	2,242,676	30,195,531
Loss after income tax expense for the year	-	-	-	-	(17,767,586)	(862,415)	(18,630,001)
Other comprehensive income for the year, net of tax	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	(17,767,586)	(862,415)	(18,630,001)
<i>Transactions with owners in their capacity as owners:</i>							
Contributions of equity, net of transaction costs (note 18)	38,784,511	-	-	-	-	-	38,784,511
Share-based payments (note 34)	-	3,628,776	-	-	-	-	3,628,776
Foreign currency translation reserve	-	-	-	(54,556)	-	-	(54,556)
Balance at 30 June 2021	<u>125,991,333</u>	<u>5,624,516</u>	<u>2,500,000</u>	<u>(54,556)</u>	<u>(81,517,293)</u>	<u>1,380,261</u>	<u>53,924,261</u>

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

PYC Therapeutics Limited and its controlled entities
Consolidated statement of cash flows
For the year ended 30 June 2021



	Note	2021	2020
		\$	\$
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of GST)		(15,010,040)	(8,353,629)
R&D tax rebate		3,071,018	2,395,706
Interest received		131,530	202,441
Interest paid leases		(38,822)	(42,923)
Government grants received		<u>55,000</u>	<u>50,000</u>
Net cash used in operating activities	31	<u>(11,791,314)</u>	<u>(5,748,405)</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(591,030)	(106,097)
Funds transferred to term deposits		(14,881,342)	(13,666,199)
Payments for security deposits		<u>(49,323)</u>	<u>-</u>
Net cash used in investing activities		<u>(15,521,695)</u>	<u>(13,772,296)</u>
Cash flows from financing activities			
Proceeds from issue of shares	18	41,079,179	26,880,424
Payment of transaction costs	18	(2,294,668)	(1,624,690)
Principal elements of lease payments		<u>(226,643)</u>	<u>(145,196)</u>
Net cash from financing activities		<u>38,557,868</u>	<u>25,110,538</u>
Net increase in cash and cash equivalents		11,244,859	5,589,837
Cash and cash equivalents at the beginning of the financial year		7,242,343	1,661,850
Effects of exchange rate changes on cash and cash equivalents		<u>(52,003)</u>	<u>(9,344)</u>
Cash and cash equivalents at the end of the financial year	9	<u><u>18,435,199</u></u>	<u><u>7,242,343</u></u>

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

PYC Therapeutics Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2021



Note 1. Significant accounting policies	11
Note 2. Critical accounting judgements, estimates and assumptions	15
Note 3. Financial risk management	15
Note 4. Operating segments	19
Note 5. Other income	19
Note 6. Research and development expenditure	20
Note 7. General and administrative expenses	21
Note 8. Income tax	21
Note 9. Cash and cash equivalents	23
Note 10. Funds held in term deposits	23
Note 11. Trade and other receivables	24
Note 12. Right-of-use assets	24
Note 13. Property, plant and equipment	25
Note 14. Intangibles	26
Note 15. Trade and other payables	26
Note 16. Lease liabilities	27
Note 17. Employee benefits	27
Note 18. Issued capital	28
Note 19. Reserves	29
Note 20. Accumulated losses	29
Note 21. Non-controlling interest	29
Note 22. Dividends	30
Note 23. Key management personnel disclosures	30
Note 24. Remuneration of auditors	30
Note 25. Related party transactions	30
Note 26. Parent entity information	31
Note 27. Acquisition of controlled entity	32
Note 28. Interests in subsidiaries	33
Note 29. Interests in joint operations	36
Note 30. Events after the reporting period	36
Note 31. Reconciliation of loss after income tax to net cash used in operating activities	36
Note 32. Non-cash investing and financing activities	37
Note 33. Earnings per share	37
Note 34. Share-based payments	38

PYC Therapeutics Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2021



Note 1. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

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

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

Going concern

The financial report has been prepared on a going concern basis which assumes the settlement of liabilities and the realisation of assets in the normal course of business. For the year ended 30 June 2021 the Group has incurred a loss attributable to the owners of the Group of \$17,767,586 (30 June 2020: loss of \$ 6,822,215) and at year end the Group had working capital of \$48,483,940 (30 June 2020: \$24,855,514) including a cash and cash equivalents balance of \$18,435,199 (30 June 2020: \$7,242,343) and \$33,067,094 in investments being term deposits with terms of greater than 3 months (30 June 2020: \$18,185,752). Cash used in operating activities in 2021 is \$11,791,314 (2020: \$5,748,405).

The Directors believe that it is appropriate to prepare the financial report on a going concern basis. The Group expects to receive an R&D rebate during the first half of the 2022 financial year, and with the opening cash balance, the Directors are of the view that this will be sufficient to cover expenditure for the period of 12 months from the date of approval of this financial report. The Group also has the option of selectively reducing expenditure where necessary.

Basis of preparation

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

The presentation of the income statement has been restated to disclose expenses by function rather than by nature to align to competitors/peers in the industry.

Historical cost convention

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

Critical accounting estimates

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

PYC Therapeutics Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2021



Note 1. Significant accounting policies (continued)

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 26.

Tax legislation

PYC and its Australian controlled entities are not consolidated for tax purposes.

Each entity is a taxable entity and continues to account for its own current and deferred tax amounts.

Foreign currency translation

The financial statements are presented in Australian dollars, which is PYC Therapeutics Limited and its controlled entity's functional and presentation currency.

Foreign currency transactions

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

Foreign operations

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

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

Revenue recognition

The Group recognises revenue as follows:

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Current and non-current classification

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

Note 1. Significant accounting policies (continued)

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

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

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

Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group has recognised its share of jointly held assets, liabilities, revenues and expenses of joint operations. These have been incorporated in the financial statements under the appropriate classifications.

Investments and other financial assets

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

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

Financial assets at amortised cost

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

Impairment of financial assets

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

Note 1. Significant accounting policies (continued)

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

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

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Fair value measurement

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

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

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

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

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

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

Note 1. Significant accounting policies (continued)

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2021. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Note 2. Critical accounting judgements, estimates and assumptions

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

Share-based payment transactions

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

Intangible assets

The Company's intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Refer to note 14 for details about amortisation methods and periods used by the Group for intangible assets.

Note 3. Financial risk management

Overview

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

- credit risk
- liquidity risk
- market risk

Note 3. Financial risk management (continued)

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

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

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

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

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

Credit risk

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

Trade and other receivables

The Group had no material credit risk with respect to trade and other receivables at 30 June 2021 or 30 June 2020.

Cash investments

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

Liquidity risk

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

Market risk

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

PYC Therapeutics Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2021



Note 3. Financial risk management (continued)

Currency risk

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

Interest rate risk

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

(i) Interest rate risk profile:

	2021 \$	2020 \$
At reporting date, the interest rate profile of the Group's interest bearing financial instrument was:		
Variable rate instruments		
- Financial assets	51,502,293	25,128,095

Fair value sensitivity analysis for fixed rate instruments:

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

Cash flow sensitivity analysis for variable rate instruments:

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

This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 30 June 2021.

	2021 100 bp increase	2021 100 bp decrease	2020 100 bp increase	2020 100 bp decrease
Variable rate instruments	515,023	(515,023)	251,281	(251,281)

(ii) Fair value

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

(iii) Credit risk

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

No receivables are past due or considered impaired at 30 June 2021 or 30 June 2020.

Note 3. Financial risk management (continued)

(iv) Foreign exchange risk

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

The group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollar, was as follows:

	2021 USD	2021 EUR	2020 USD	2020 EUR
Cash and cash equivalents	142,787	-	329,573	-
Trade payables	(335,011)	(235,207)	(931,823)	-

The aggregate net foreign exchange gains/losses recognised in profit or loss was \$3,803 (2020: loss \$9,344)

(v) Capital management

The operations of the Group are not presently cash positive and the Group is reliant upon developing additional revenue and raising further capital. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

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

(vi) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due and to close out market positions. At the end of the reporting period the Group held deposits at call of \$33,067,094 (2020: \$18,185,752) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors rolling forecasts of the group's liquidity reserve and cash and cash equivalents (note 9) on the basis of expected cash flows. This is generally carried out at local level in the operating companies of the group in accordance with practice and limits set by the group. These limits vary by location to take into account the liquidity of the market in which the entity operates. In addition, the group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios

The tables below analyse the group's financial liabilities into relevant maturity groupings based on their contractual maturities:

PYC Therapeutics Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2021



Note 3. Financial risk management (continued)

	Less than 6 months \$	6-12 months \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Total contractual cash flows \$	Carrying amount (assets)/lia bilities \$
2021						
Trade payables	2,346,173	-	-	-	-	2,346,173
Lease liabilities	130,908	130,908	246,867	330,078	838,761	730,354
Total financial liabilities	<u>2,477,081</u>	<u>130,908</u>	<u>246,867</u>	<u>330,078</u>	<u>838,761</u>	<u>3,076,527</u>
	Less than 6 months \$	6-12 months \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Total contractual cash flows \$	Carrying amount (assets)/lia bilities \$
2020						
Trade payables	97,290	-	-	-	-	97,290
Lease liabilities	100,158	106,008	212,016	538,194	956,376	798,145
Total financial liabilities	<u>197,448</u>	<u>106,008</u>	<u>212,016</u>	<u>538,194</u>	<u>956,376</u>	<u>895,435</u>

Note 4. Operating segments

Identification of reportable operating segments

The Group comprises a single business segment comprising discovery and development of novel RNA therapeutics, with a single geographical location in Australia. During the year, an office in the US was established to drive formal drug development activities including regulatory engagement as well as engagements with prospective investors and business development partners. At this stage the US locations is not considered a material segment separate from the Australian operations. The segment details are therefore fully reflected in the results and balances reported in the statement of comprehensive income and statement of financial position.

The Group is primarily focused on discovering and developing novel RNA therapeutics for the treatment of genetic diseases.

Accounting policy for operating segments

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 of the Group are considered to be the CEOs, Dr Rohan Hockings and Mr Sahm Nasser. The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Note 5. Other income

	2021 \$	2020 \$
R&D tax incentive	3,071,018	2,395,706
Interest income	108,498	207,030
Govt COVID Cash Boost	55,000	62,500
Net foreign exchange gain	3,803	-
Other	<u>3,350</u>	<u>-</u>
Other income	<u>3,241,669</u>	<u>2,665,236</u>

PYC Therapeutics Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2021



Note 5. Other income (continued)

The Research and Development (R&D) Tax Incentive Scheme is an Australian Federal Government program under which eligible companies with annual aggregated revenue of less than \$20 million can receive cash amounts equal to 43.5% of eligible research and development expenditures from the Australian Taxation Office (ATO). The R&D Tax Incentive Scheme relates to eligible expenditure incurred in Australia relating to the Group's R&D activities. The R&D tax incentive is applied annually to eligible expenditure incurred during the Group's financial year following annual application to AusIndustry, an Australian governmental agency, and subsequent filing of its Income Tax Return with the ATO after the financial year end.

R&D Tax Incentive is recognised when the receipts are deemed probable and the amounts can be measured reliably. Government grants are recognised when received.

The Company's R&D tax incentive is refundable in cash rather than as a tax credit. Prior year comparatives of R&D Tax Incentive have been restated by reclassifying \$2,395,706 from income tax to other revenue.

Note 6. Research and development expenditure

	2021	2020
	\$	\$
Research and development expenses	<u>14,003,715</u>	<u>5,877,835</u>

Accounting policy for research and development

The accounting standards do not permit the capitalisation of development expenditure in circumstances where the Group cannot demonstrate sustainable revenue generation derived from the results of the expenditure. Research expenditure must be expensed under accounting standards. The expenditure incurred in relation to obtaining and maintaining patent protection have been expensed.

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

Employee benefits expenses included in research and development expenditure:

	2021	2020
	\$	\$
Employee benefits expenses	<u>5,074,058</u>	<u>3,474,861</u>

PYC Therapeutics Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2021



Note 7. General and administrative expenses

	2021	2020
	\$	\$
Employee benefits expenses	2,101,726	1,559,020
Share-based payment expenses	3,628,776	719,968
Professional services	909,940	566,065
Depreciation and amortisation	622,362	547,113
Travel and accommodation	46,788	105,901
Audit	73,746	41,377
Other administrative expenses	445,795	284,573
	<u>7,829,133</u>	<u>3,824,017</u>

Refer to note 33 for details of share-based payments.

The Group has classified expenses by function and has therefore allocated employee benefits expenses, share-based payment expenses, professional services, depreciation and amortisation, travel and accommodation, audit and other administration expenses to general and administrative expenses as per above. These expenses were presented in the consolidated statement of profit or loss and other comprehensive income in the prior year and were therefore reclassified for comparative purposes.

Note 8. Income tax

	2021	2020
	\$	\$
(i) Income tax benefit		
The prima facie tax on the operating loss is reconciled to the income tax provided in the accounts as follows:		
Accounting profit/(loss)	(18,630,001)	(7,079,539)
Prima facie tax benefit on operating loss before income tax at 30% - PYC Therapeutics Ltd & Vision Pharma	4,840,347	2,123,861
Prima facie tax benefit on operating loss before income tax at 21% - PYC Therapeutics LLC	524,057	-
Non-recognition of US losses	(524,057)	-
Tax effect on permanent differences	214,686	(13,346)
Current period tax losses and temporary differences not brought to account	<u>(5,055,033)</u>	<u>(2,110,515)</u>
	<u>-</u>	<u>-</u>

PYC Therapeutics Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2021



Note 8. Income tax (continued)

(ii) Unrecognised deferred tax balances

(a) Deferred tax assets

	2021	2020
	\$	\$
The balance comprises temporary difference attributable to:		
Property, plant & equipment	-	114
Right-of use assets	219,106	239,444
Tax losses	13,693,390	8,872,746
	<u>13,912,496</u>	<u>9,112,304</u>
<i>Other</i>		
Employee benefits	107,433	44,014
Patents & intellectual property	105,000	45,095
S40-880 expenditure	870,953	487,661
Other	66,536	52,295
	<u>1,149,922</u>	<u>629,065</u>
Total deferred tax assets	<u>15,062,418</u>	<u>9,741,369</u>
Set-off deferred tax liabilities	(247,123)	(237,571)
Net unrecognised deferred tax assets	<u>14,815,295</u>	<u>9,503,798</u>

(b) Deferred tax liabilities

	2021	2020
	\$	\$
The balance comprises temporary differences attributable to:		
Right-of-use assets	222,230	233,785
<i>Other</i>		
Other current assets	24,893	3,786
Total deferred tax liabilities	<u>247,123</u>	<u>237,571</u>
Set-off deferred tax liabilities	(247,123)	(237,571)
Net deferred tax liabilities	<u>-</u>	<u>-</u>

Accounting policy for income tax

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

PYC Therapeutics Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2021



Note 8. Income tax (continued)

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

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

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

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

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

Note 9. Cash and cash equivalents

	2021	2020
	\$	\$
<i>Current assets</i>		
Cash and cash equivalents	<u>18,435,199</u>	<u>7,242,343</u>

Accounting policy for cash and cash equivalents

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

Included within the current assets is a cash amount of \$270,819 (30 June 2020: \$300,000) which is not considered available for general use. The balances are held within the Murdoch joint operations and may only be used in relation to joint operation expenditure.

Note 10. Funds held in term deposits

	2021	2020
	\$	\$
<i>Current assets</i>		
Funds held in term deposits	<u>33,067,094</u>	<u>18,185,752</u>

PYC Therapeutics Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2021



Note 11. Trade and other receivables

	2021	2020
	\$	\$
<i>Current assets</i>		
GST receivable	154,083	46,679
Interest receivable	4,884	27,916
Other receivable	26,667	8,070
	<u>185,634</u>	<u>82,665</u>

Accounting policy for trade and other receivables

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

Note 12. Right-of-use assets

	2021	2020
	\$	\$
<i>Non-current assets</i>		
Leasehold improvements - right-of-use	1,102,193	943,343
Less: Accumulated depreciation	<u>(361,425)</u>	<u>(164,060)</u>
	<u>740,768</u>	<u>779,283</u>

Reconciliations

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

	ROU Assets	Total
	\$	\$
Balance at 1 July 2019	943,343	943,343
Depreciation expense	<u>(164,060)</u>	<u>(164,060)</u>
Balance at 30 June 2020	779,283	779,283
Additions	158,850	158,850
Depreciation expense	<u>(197,365)</u>	<u>(197,365)</u>
Balance at 30 June 2021	<u>740,768</u>	<u>740,768</u>

Accounting policy for right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

PYC Therapeutics Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2021



Note 14. Intangibles

	2021	2020
	\$	\$
<i>Non-current assets</i>		
Intellectual property - at cost	5,000,000	5,000,000
Less: Accumulated amortisation	<u>(350,000)</u>	<u>(150,000)</u>
	<u>4,650,000</u>	<u>4,850,000</u>

Accounting policy for intangible assets

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

Intellectual property

Significant costs associated with intellectual property are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 25 years.

Note 15. Trade and other payables

	2021	2020
	\$	\$
<i>Current liabilities</i>		
Trade payables	2,346,173	97,290
Accrued expenses	391,717	211,221
PAYG withholding	151,462	71,642
Payroll tax payable	33,881	-
Other payables	<u>4,895</u>	<u>415</u>
	<u>2,928,128</u>	<u>380,568</u>

Accounting policy for trade and other payables

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

PYC Therapeutics Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2021



Note 16. Lease liabilities

	2021	2020
	\$	\$
<i>Current liabilities</i>		
Lease liability	<u>187,530</u>	<u>152,967</u>
<i>Non-current liabilities</i>		
Lease liability	<u>542,824</u>	<u>645,178</u>

Accounting policy for lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Note 17. Employee benefits

	2021	2020
	\$	\$
<i>Current liabilities</i>		
Annual leave	181,386	171,785
Superannuation	<u>-</u>	<u>285</u>
	<u>181,386</u>	<u>172,070</u>
<i>Non-current liabilities</i>		
Annual leave	135,253	-
Long service leave	<u>41,472</u>	<u>-</u>
	<u>176,725</u>	<u>-</u>

Accounting policy for employee benefits

Short-term employee benefits

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

PYC Therapeutics Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2021



Note 17. Employee benefits (continued)

Other long-term employee benefits

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

Note 18. Issued capital

	2021 Shares	2020 Shares	2021 \$	2020 \$
Ordinary shares - fully paid	<u>3,180,926,103</u>	<u>2,931,577,991</u>	<u>125,991,333</u>	<u>87,206,822</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2019	2,442,856,658		61,951,088
Shares issued		259,934,395	\$0.055	14,296,392
Shares issued		228,636,938	\$0.055	12,575,031
Shares issued		150,000	\$0.060	9,000
Share issue costs		-	\$0.000	(1,624,689)
Balance	30 June 2020	2,931,577,991		87,206,822
Issued shares		239,348,112	\$0.170	40,689,179
Issued shares		10,000,000	\$0.039	390,000
Share issue costs		-	\$0.000	(2,294,668)
Balance	30 June 2021	<u>3,180,926,103</u>		<u>125,991,333</u>

Ordinary shares

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

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

Share buy-back

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

Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

PYC Therapeutics Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2021



Note 18. Issued capital (continued)

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment. The Group is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The Group is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 30 June 2020 Annual Report.

Accounting policy for issued capital

Ordinary shares are classified as equity.

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

Note 19. Reserves

	2021	2020
	\$	\$
Foreign currency reserve	(54,556)	-
Share-based payments reserve	5,624,516	1,995,740
Acquisition reserve	<u>2,500,000</u>	<u>2,500,000</u>
	<u>8,069,960</u>	<u>4,495,740</u>

Note 20. Accumulated losses

	2021	2020
	\$	\$
Accumulated losses at the beginning of the financial year	(63,749,707)	(56,927,492)
Loss after income tax expense for the year	<u>(17,767,586)</u>	<u>(6,822,215)</u>
Accumulated losses at the end of the financial year	<u>(81,517,293)</u>	<u>(63,749,707)</u>

Note 21. Non-controlling interest

	2021	2020
	\$	\$
Non-controlling interest	<u>1,380,261</u>	<u>2,242,676</u>

PYC Therapeutics Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2021



Note 22. Dividends

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

Note 23. Key management personnel disclosures

Directors

The following persons were Directors of PYC Therapeutics Limited and its controlled entities during the financial year:

Executive Directors

Dr R Hockings
Mr S Nasseri

Chief Executive Officer
Chief Executive Officer US subsidiary
appointed 10 December 2020
Executive Director - retired 6 November 2020

Mr D Huey

Non-Executive Directors

Mr A Tribe
Dr M Rosenblatt

Non-Executive Chairman
Non-Executive Director - appointed 17 March 2021

Mr J Haddock

Non-Executive Director - appointed 29 March 2021

Dr B Hockings

Non-Executive Director - retired 26 March 2021

Compensation

The aggregate compensation made to Directors and other members of key management personnel of the Group is set out below:

	2021	2020
	\$	\$
Short-term employee benefits	1,081,210	886,324
Post-employment benefits	6,073	6,073
Long-term benefits	13,053	63,540
Share-based payments	<u>2,082,607</u>	<u>447,509</u>
	<u><u>3,182,943</u></u>	<u><u>1,403,446</u></u>

Note 24. Remuneration of auditors

	2021	2020
	\$	\$
Audit / review of financial statements - HLB Mann Judd	23,183	41,338
Audit of financial statements - PricewaterhouseCoopers	<u>50,563</u>	<u>-</u>
	<u><u>73,746</u></u>	<u><u>41,338</u></u>

Note 25. Related party transactions

Parent entity

The immediate parent and ultimate controlling party of the Group is PYC Therapeutics Limited.

PYC Therapeutics Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2021



Note 25. Related party transactions (continued)

Subsidiaries

Interests in subsidiaries are set out in note 28

Joint operations

Interests in joint operations are set out in note 29.

Key management personnel

Disclosures relating to key management personnel are set out in note 23 and the remuneration report included in the Directors' report.

Transactions with related parties

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

Receivable from and payable to related parties

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

Loans to/from related parties

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

Note 26. Parent entity information

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

Statement of profit or loss and other comprehensive income

	2021	2020
Loss after income tax	(21,860,051)	(1,095,945)
Total comprehensive income	<u>(21,860,051)</u>	<u>(1,095,945)</u>

Statement of financial position

	2021	2020
	\$	\$
Total current assets	<u>31,587,009</u>	<u>12,379,505</u>
Total assets	<u>56,394,994</u>	<u>31,334,130</u>
Total current liabilities	<u>1,767,507</u>	<u>493,421</u>
Total liabilities	<u>2,470,733</u>	<u>1,138,599</u>
Equity		
Issued capital	125,991,333	87,206,821
Share-based payments reserve	5,624,516	1,995,740
Accumulated losses	<u>(77,691,588)</u>	<u>(59,007,030)</u>
Total equity	<u>53,924,261</u>	<u>30,195,531</u>

PYC Therapeutics Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2021



Note 26. Parent entity information (continued)

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

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2021 and 30 June 2020.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2021 and 30 June 2020.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2021 and 30 June 2020.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, except for the following:

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

Note 27. 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. There were no acquisitions in the period ended 30 June 2021.

Details of the acquisition are as follows:

	Fair value
	\$
Cash and cash equivalents	15,000,000
Intellectual property	<u>5,000,000</u>
Net assets acquired	20,000,000
Goodwill	<u>-</u>
Total consideration	<u><u>20,000,000</u></u>
	2021
	\$
Cash used to acquire business, net of cash acquired:	
Cash acquired	- 15,000,000
Less: Cash consideration	<u>- (15,000,000)</u>
Net cash used	<u><u>-</u></u>
	2020
	\$

Accounting policy for business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

PYC Therapeutics Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2021



Note 27. Acquisition of controlled entity (continued)

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Note 28. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2021 %	2020 %
PYC Therapeutics LLC	USA	100%	100%

Note 28. Interests in subsidiaries (continued)

Accounting policy on consolidation of subsidiaries:

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

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

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

Name	Country of incorporation	Principal activities	Parent ownership interest 2021	Non-controlling interest Ownership interest 2021	Parent ownership interest 2020	Non-controlling interest Ownership interest 2020
			%	%	%	%
Vision Pharma Pty Ltd	Australia	Drug development	90%	10%	90%	10%

Accounting policy on interests in non-controlling interests:

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

PYC Therapeutics Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2021



Note 28. Interests in subsidiaries (continued)

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

	2021	2020
	\$	\$
<i>Summarised statement of financial position</i>		
Current assets	7,349,657	12,969,384
Non-current assets	9,669,337	9,867,760
Total assets	17,018,994	22,837,144
Current liabilities	3,216,382	410,388
Total liabilities	3,216,382	410,388
Net assets	<u>13,802,612</u>	<u>22,426,756</u>
<i>Summarised statement of profit or loss and other comprehensive income</i>		
Revenue	1,167,648	92,998
Expenses	<u>(9,791,792)</u>	<u>(2,759,236)</u>
Loss before income tax	(8,624,144)	(2,666,238)
Other comprehensive income	-	-
Total comprehensive income	<u>(8,624,144)</u>	<u>(2,666,238)</u>

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

	2021	2020
	\$	\$
Proportion of ownership interest and voting rights held by non-controlling interests (10%)		
Carrying amount of non-controlling interests acquired	2,242,676	-
Loss allocated to non-controlling interests	(862,415)	(257,324)
Non-controlling interest arising on acquisition	-	2,500,000
Accumulated non-controlling interest	<u>1,380,261</u>	<u>2,242,676</u>

PYC Therapeutics Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2021



Note 29. Interests in joint operations

The Group has recognised its share of jointly held assets, liabilities, revenues and expenses of joint operations. These have been incorporated in the financial statements under the appropriate classifications. Information relating to joint operations that are material to the Group are set out below:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2021 %	2020 %
PYC Therapeutics/Murdoch University collaboration	Academic-industry collaboration/Australia	50%	50%
Vision Pharma Pty Ltd/Murdoch University	Academic-industry collaboration/Australia	50%	50%

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

Note 30. Events after the reporting period

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

Note 31. Reconciliation of loss after income tax to net cash used in operating activities

	2021 \$	2020 \$
Loss after income tax expense for the year	(18,630,001)	(7,079,539)
Adjustments for:		
Depreciation and amortisation	622,362	547,113
Share-based payments	3,628,776	719,967
Foreign exchange differences	692	9,344
Change in operating assets and liabilities:		
Increase in trade and other receivables	(133,328)	(96,054)
Increase in trade and other payables	2,498,121	20,999
Increase in other provisions	222,064	129,765
Net cash used in operating activities	<u>(11,791,314)</u>	<u>(5,748,405)</u>

PYC Therapeutics Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2021



Note 32. Non-cash investing and financing activities

	2021	2020
	\$	\$
Lease liabilities at 1 July	798,145	943,341
Non-cash addition	158,851	-
Payments of lease liabilities	<u>(226,643)</u>	<u>(145,196)</u>
Lease liabilities at 30 June	<u>730,353</u>	<u>798,145</u>

Non-cash addition represents the new lease on the Company's office premises in 1-4 Leura Street that commenced on 24 February 2021.

Note 33. Earnings per share

	2021	2020
	\$	\$
<i>Earnings per share for loss</i>		
Loss after income tax	(17,767,586)	(6,822,215)
Non-controlling interest	<u>(862,415)</u>	<u>(257,324)</u>
Loss after income tax attributable to the owners of PYC Therapeutics Limited and its controlled entities'	<u>(18,630,001)</u>	<u>(7,079,539)</u>
Loss after income tax attributable to the owners of PYC Therapeutics Limited and its controlled entities used in calculating diluted earnings per share	<u>(18,630,001)</u>	<u>(7,079,539)</u>
	Cents	Cents
Basic loss per share	(0.57)	(0.26)
Diluted loss per share	(0.57)	(0.26)

	2021	2020
	Number	Number
Weighted average number of ordinary shares	3,091,647,104	2,746,156,156

Accounting policy for earnings per share

Basic earnings per share

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

Diluted earnings per share

As the Group incurred a loss for the year ended 30 June 2021, the options on issue have an antidilutive effect, therefore the diluted earnings per share is equal to the basic earnings per share.

PYC Therapeutics Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2021



Note 34. Share-based payments

(a) ESOP

At the Annual General Meeting held in November 2020, the Company renewed an employee share option programme (ESOP) that entitles key management personnel and senior employees to purchase shares in the Company.

(b) Options issued during the year

59,333,333 options were issued to Directors and senior executives during the year ended 30 June 2021 (30 June 2020: 45,000,000).

(c) Fair value and assumptions

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

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

The options have no performance conditions and the only condition is a service period.

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

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

Set out below are summaries of options granted under the plan:

	Number of options 2021	Weighted average exercise price 2021	Number of options 2020	Weighted average exercise price 2020
Outstanding at the beginning of the financial year	55,000,000	\$0.066	20,000,000	\$0.050
Granted	59,333,333	\$0.084	45,000,000	\$0.072
Forfeited	(23,333,333)	\$0.063	(9,850,000)	\$0.060
Exercised	(10,000,000)	\$0.039	(150,000)	\$0.060
Outstanding at the end of the financial year	<u>81,000,000</u>	\$0.117	<u>55,000,000</u>	\$0.066
Exercisable at the end of the financial year	<u>33,333,333</u>	\$0.095	<u>21,666,667</u>	\$0.037

2021

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
16/11/2018	16/11/2021	\$0.039	10,000,000	-	(10,000,000)	-	-
17/02/2020	28/02/2023	\$0.063	20,000,000	-	-	(13,333,333)	6,666,667
10/03/2020	28/02/2023	\$0.060	15,000,000	-	-	-	15,000,000
29/06/2020	29/06/2023	\$0.110	10,000,000	-	-	(10,000,000)	-
03/11/2020	28/02/2023	\$0.063	-	13,333,333	-	-	13,333,333
16/12/2020	30/11/2023	\$0.150	-	32,000,000	-	-	32,000,000
23/03/2021	23/03/2024	\$0.210	-	3,000,000	-	-	3,000,000
23/03/2021	28/02/2031	\$0.170	-	6,000,000	-	-	6,000,000
23/03/2021	23/03/2031	\$0.170	-	2,500,000	-	-	2,500,000
23/03/2021	29/03/2031	\$0.170	-	2,500,000	-	-	2,500,000
			<u>55,000,000</u>	<u>59,333,333</u>	<u>(10,000,000)</u>	<u>(23,333,333)</u>	<u>81,000,000</u>

PYC Therapeutics Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2021



Note 34. Share-based payments (continued)

2020

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
24/11/2017	30/05/2020	\$0.060	10,000,000	-	(150,000)	(9,850,000)	-
16/11/2018	16/11/2021	\$0.039	10,000,000	-	-	-	10,000,000
17/02/2020	28/02/2023	\$0.063	-	20,000,000	-	-	20,000,000
10/03/2020	28/02/2023	\$0.060	-	15,000,000	-	-	15,000,000
29/06/2020	29/06/2023	\$0.110	-	10,000,000	-	-	10,000,000
			<u>20,000,000</u>	<u>45,000,000</u>	<u>(150,000)</u>	<u>(9,850,000)</u>	<u>55,000,000</u>

Set out below are the options exercisable at the end of the financial year:

Grant date	Expiry date	2021 Number	2020 Number
17/02/2020	28/02/2023	6,666,667	6,666,667
10/03/2020	28/02/2023	10,000,000	5,000,000
03/11/2020	28/02/2023	6,666,666	-
16/12/2020	30/11/2023	10,000,000	-
16/11/2018	16/11/2021	-	10,000,000
		<u>33,333,333</u>	<u>21,666,667</u>

The weighted average remaining contractual life of options outstanding at the end of the financial year was 3.09 years (30 June 2020: 2.49 years).

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

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
03/11/2020	28/02/2023	\$0.128	\$0.063	100.000%	-	0.105%	\$2,266,667
16/12/2020	30/11/2023	\$0.150	\$0.150	100.000%	-	0.110%	\$2,931,194
23/03/2021	28/02/2031	\$0.170	\$0.170	100.000%	-	1.700%	\$912,330
23/03/2021	23/03/2031	\$0.170	\$0.170	100.000%	-	1.700%	\$380,610
23/03/2021	23/03/2024	\$0.170	\$0.210	100.000%	-	0.105%	\$292,154
29/03/2021	29/03/2031	\$0.170	\$0.170	100.000%	-	1.700%	\$380,610

Expenses arising from share-based payment transactions

	2021 \$	2020 \$
Equity - settled share-based payments issued:		
In FY 2018	-	11,216
In FY 2019	-	38,957
In FY 2020	565,537	669,795
In FY 2021	<u>3,063,239</u>	<u>-</u>
	<u>3,628,776</u>	<u>719,968</u>

Note 34. Share-based payments (continued)

Accounting policy for share-based payments

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

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

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

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

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

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

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

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

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

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