

HEXIMA LIMITED

2019 ANNUAL REPORT



2019

CHAIRMAN AND CEO LETTER

Dear fellow shareholders,

It is our pleasure to report on an exciting year at Hexima, during which Hexima continued to make excellent progress towards developing a novel topical treatment for onychomycosis, or fungal nail infections.

Hexima's lead drug candidate, HXP124, is an antifungal plant defensin which has been formulated for efficient nail penetration and is expected to reach the site of infection in amounts that effectively kill the fungi that are responsible for the infection. Furthermore, HXP124 has a fungicidal mode-of-action and kills fungal cells within 30 minutes. Together, we believe these attributes will make HXP124 a best-in-class treatment for onychomycosis.

During 2018-2019, Hexima completed the 3-month follow-up period for its phase I/IIa clinical trial which demonstrated that HXP124 has the potential to be an effective treatment for onychomycosis. HXP124 demonstrated an excellent safety profile with no treatment-related adverse events observed. HXP124 did not cause pain or irritation and the peptide was not detected in the bloodstream of patients. After daily treatment for just six weeks, patients treated with HXP124 saw greater clearing of the infected nail area and were more likely to have fungus cleared from the nail than Vehicle-treated patients.

This positive clinical data is a key development for Hexima and provides proof-of-concept evidence for the potential of HXP124 to be an effective treatment for onychomycosis.

In 2019, Hexima also commissioned a detailed commercial assessment conducted by ClearView Healthcare Partners (Boston, USA) which canvassed feedback from patients, clinicians and insurers in the USA. This assessment confirmed that the target product profile for HXP124 would be well received and has significant revenue potential in the US and worldwide.

Based on the positive phase I/IIa clinical data, Hexima is now raising capital to conduct a phase IIb clinical trial. This phase IIb trial is intended to assess the optimal target product profile for HXP124 in a larger cohort of patients to better assess safety and efficacy of HXP124. Capital raised will also fund the scale-up of manufacturing and additional animal toxicology studies to support the development program. To fund continued development of HXP124 through H2, 2019, Hexima recently closed a bridge financing of \$3 million in the form of convertible notes.

Hexima has commenced additional animal toxicology studies required to conduct the proposed phase IIb clinical trial and expects to commence the phase IIb study in H2, 2020. The phase IIb study is expected to run for 15 months and be completed by the end of 2021.

During the year Hexima also strengthened its management team and Board of Directors. Mr Michael Aldridge was appointed as Chief Business Officer and Executive Director. Based in San Francisco, Mr Aldridge brings a wealth of experience to Hexima, in particular his experience with Peplin Inc., where he led an Australian developed technology through clinical trials in the USA and ultimately to a major acquisition. Hexima also engaged Dr Peter Welburn as a consultant on its product development strategy. Dr Welburn has extensive pharmaceutical development experience and was CSO and VP Research & Development at Peplin Inc and General Manager at Leo Pharma Australia. We welcome Michael and Peter to the Hexima team and look forward to working with them to execute on our strategy for developing a novel, best-in-class, therapy for fungal nail infections.

Lastly, we would like to thank our dedicated and hardworking team at Hexima for a successful year and also thank you, our shareholders, for your continued support.



Jonathan West



Nicole van der Weerden

Hexima Limited

ANNUAL FINANCIAL REPORT

For the year ended 30 June 2019

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DIRECTORS' REPORT

The Directors present their report together with the financial report of Hexima Limited ("the Company" or "Hexima") and of the Group, being the Company and its subsidiaries for the financial year ended 30 June 2019 and the auditor's report thereon.

DIRECTORS

The Directors of Hexima at any time during or since the end of the financial year are:

Professor Jonathan West BA (University of Sydney), PhD (Harvard University)

Non-Executive Chairman

Professor Jonathan West was the founding Director of the Australian Innovation Research Centre. Prior to assuming that appointment, he taught for 18 years at the Harvard University Graduate School of Business Administration, where he was Associate Professor, founding Director of the Harvard University Life Sciences Initiative, and from 1998-1999 the Novartis Faculty Research Fellow. He has been Visiting Professor at Hitotsubashi University and the Nomura School of Advanced Management in Tokyo, Japan and Visiting Professor at the University de Paris IX-Dauphine, Sorbonne.

Professor West was Chairman of the Asia Advisory Council of Bunge Ltd, one of the world's largest agribusiness processing and trading companies, and has served as an advisor to other major corporations and several Governments around the world, including in the life sciences field, DuPont, Roche, Novartis, Syngenta and the J.R. Simplot Company, along with the Governments of Singapore, Japan, Hong Kong and France. He was a member of the Scientific Advisory Board of the Novartis Agricultural Discovery Institute in La Jolla, California. In Australia, he has served on the Prime Minister's Science, Engineering, Innovation Council's Working Group on Science and Technology in China and India and in 2006 was 'Eminent Thinker in Residence' with the Premier of NSW. Professor West is Non-Executive Chairman of Gowing Bros Limited and Non-Executive Director of Boundary Bend Limited and the Hydration Pharmaceuticals Trust.

Professor West has been a Director of the Company since 7 November 2005 and was appointed Non-Executive Chairman on 18 November 2014. He is a member of the Remuneration Committee and the Audit and Risk Management Committee.

Dr. Nicole van der Weerden BSc, PhD (La Trobe University)

Executive Director, Chief Executive Officer

Dr. Nicole van der Weerden completed her PhD in Biochemistry at La Trobe University in 2007. Her PhD research on the antifungal properties and mechanism of action of plant defensins led to the award of a prestigious Victoria Fellowship in 2006. Since completing her PhD, Dr. van der Weerden has worked for Hexima Limited and has led the gene discovery program for the Pioneer partnership on control of fungal diseases in corn. Dr. van der Weerden is an inventor on nine patent applications. Dr. van der Weerden completed an MBA in 2013 at Melbourne Business School and is a graduate of the Australian Institute of Company Directors. She was appointed Hexima's Chief Operating Officer in 2014 and Chief Executive Officer in December 2015.

Dr. van der Weerden has been a Director of the Company since 16 December 2014.

Professor Marilyn Anderson AO BSc (Hons) (The University of Melbourne), PhD (LaTrobe University)

Executive Director, Chief Science Officer

Professor Marilyn Anderson AO is a founding scientist of Hexima. She has over 40 years experience in scientific research in the area of plant biochemistry and genetics. After completing a BSc Honours at The University of Melbourne and a PhD in Biochemistry at La Trobe University, Professor Anderson spent seven years in the United States working on diabetes at the University of Miami, Florida and cancer at Cold Spring Harbor Laboratory in New York.

She is a Professor of Biochemistry at La Trobe University and a Member of the Australian Academy of Science Council. She was a Member of the La Trobe University Council until 2017. Professor Anderson was appointed Hexima's Chief Science Officer in July 2009.

DIRECTORS' REPORT

Professor Anderson was a director at South East Water Limited for over 10 years and of City West Water from 2008 until 2013. She is a Fellow of the Australian Academy of Science, of the Australian Academy of Technological Sciences and Engineering and of the Australian Institute of Company Directors.

Professor Anderson was appointed an Officer of the Order of Australia in January 2016.

She was appointed a Director of the Company on 23 November 2010 and was a Director between 2001 and 2007.

Michael Aldridge BSc (Chemistry) (University of Canterbury), M.A Applied Finance (Macquarie University)

Executive Director, Chief Business Officer

Mr Aldridge most recently served as Senior Vice President, Corporate & Strategic Development of Codexis from October 2016 until August 2018. Prior to that, from January 2012 to September 2014, Mr. Aldridge served as Senior Vice President, Corporate Strategic Development for Questcor Pharmaceuticals, Inc., a publicly-traded biopharmaceutical company acquired by Mallinckrodt Pharmaceuticals in 2014. From May 2010 to September 2012, Mr. Aldridge served as Chief Executive Officer and a member of the board of directors for Xenome Limited, a privately-held biopharmaceutical company headquartered in Australia.

Between 2003 and 2009, Mr. Aldridge served as Chief Executive Officer and a member of the board of directors and a strategic consultant of Peplin, Inc., a publicly-traded drug development company acquired by LEO Pharma A/S in 2009. Prior to that, Mr. Aldridge held investment banking positions at various financial firms, including Wilson HTM Investment Group, Bear, Stearns & Co., Volpe, Brown, Whelan & Company and S.G. Warburg Group. Mr. Aldridge received a B.S. in Chemistry from the University of Canterbury in Christchurch, New Zealand and an M.S. in Applied Finance from Macquarie University in Sydney, Australia.

Mr Aldridge has been a Director of the company since 21 May 2019.

Dr John Bedbrook BSc, PhD (Auckland University)

Non-Executive Director

Dr. John Bedbrook received his PhD in Molecular biology at Auckland University in 1974, was a Fulbright Fellow to Harvard Medical School, a Cabot Fellow to Harvard University and an EMBO fellow to The Plant Breeding Institute Cambridge England. Between 1979 and 2000, Dr. Bedbrook founded and or ran several agricultural biotechnology companies including Advanced Genetic Sciences, DNA Plant Technologies, Verdia Inc and was President of Maxygen Agriculture. He was CEO of Plant Science Ventures a venture firm investing in Biotechnology startups. After the acquisition of Verdia Inc. by DuPont in 2004 Dr. Bedbrook became Vice President of Research and Development for DuPont Agriculture and Nutrition, and subsequently Vice President of DuPont Agricultural Biotechnology. He retired from full time employment in 2013 and retained a part time role as Director Strategic Growth. Dr Bedbrook recently secured a highly valuable partnership for Dice Molecules Inc., where he is Executive Chairman, with global pharma company Sanofi targeting potential new small molecule therapeutics across a range of diseases.

Dr. Bedbrook has authored over 100 scientific papers and multiple patents. Dr. Bedbrook is Director of Plant Biosciences LTD., Executive Chairman of Dice Molecules Inc. and a Member of the Advisory Board of the College of Natural Resources at University of California Berkeley.

Dr. Bedbrook has been a Director of the Company since 3 June 2014. He is Chairman of the Remuneration Committee and a member of the Audit and Risk Management Committee.

G. F. Dan O'Brien BSc, BVMS (Murdoch University), MBA (Harvard University)

Non-Executive Director

Mr O'Brien is the founder and Chairman of The Hydration Pharmaceuticals Trust (HPT) which established the Hydralyte range of OTC pharmaceutical products. HPT sold the Hydralyte business in Australia and New Zealand to NYSE listed Prestige Brands Inc during 2014. HPT retains ownership of Hydralyte outside Australia and New Zealand.

Mr O'Brien has extensive experience including executive and non-executive roles with King Island Dairy Limited, Tasman Agriculture Limited, Colly Farms Cotton Limited, SPC Ardmona Limited, Coates Hire Limited, Mattel Asia Pacific and BIL Limited.

DIRECTORS' REPORT

Dan O'Brien was a Director of Hexima between 17 May 2002 and 2 October 2009 and was reappointed to the Board on 18 November 2015. He is Chairman of the Audit and Risk Committee and a member of the Remuneration Committee.

Justin Yap BCom (University of New South Wales)

Non-Executive Director

Mr Yap is an Executive Director of CathRx Limited, an Australian medical device company commercialising novel cardiac electrophysiology catheters for the treatment of heart rhythm disorders. He is a cofounder and Non-Executive Director of Wilhelm Integrated Solutions Pty Ltd, a leading supplier of integrated OR solutions to hospitals around Australia. Prior to this, he began his career in investment banking for Mosaic Risk Management Pty Ltd, a wholly owned subsidiary of Wilson HTM Limited specialising in derivatives risk management. He is a member of the Remuneration committee and the Audit and Risk Committee.

Mr Yap has been a Director since 17th July 2018.

Scott Robertson BSBA (University of Southern California), MBA (University of California)

Non-Executive Director

Mr. Robertson is currently Chief Financial Officer at DiCE Molecules. Prior to DiCE Molecules, Mr. Robertson served at DuPont where he was Business Development Director for DuPont Pioneer with responsibility for the business unit's crop genetics and precision agriculture M&A activity. He also held the position of portfolio manager with DuPont Ventures where he focused on strategic investment opportunities in production agriculture and the intersection of agriculture and downstream renewable technologies. Prior to joining DuPont, Mr. Robertson was an investment professional at MPM Capital, a life sciences-dedicated venture capital fund, and previous to that a member of the Healthcare Investment Banking groups at Merrill Lynch & Co. and Thomas Weisel Partners. He received a Bachelor of Science in Business Administration from the University of Southern California and an M.B.A. from the Haas School of Business at the University of California, Berkeley.

Mr Robertson has been a Director since 21 November 2018, and is a member of the Audit and Risk committee from November 2018 and the Remuneration committee.

Gordon S. Black BSc (University of New South Wales), MBA (Wharton)

Non-Executive Director (resigned 17th July 2018)

Mr Black is CEO and Founder of East West Capital Limited, an investment management company investing in early stage companies operating across the global life sciences industry

He has extensive work experience in the U.S. and the Asia Pacific region for corporations including: Merrill Lynch Capital Markets, New York; E.I. Du Pont de Nemours & Co. Inc (global head office Wilmington Delaware and Asia Pacific) and Ipoh Limited, Sydney, Australia.

He currently serves on the Board at NexSteppe Inc. a US proprietary hybrid seed company developing sorghum energy crops for the global bio-energy industry. Prior to this he served on the Board of the ASX listed drug developer Arana Therapeutics Limited before this company was acquired by Cephalon Inc from the US in June 2009 for \$334 million.

He has an MBA from The Wharton School of Business, University of Pennsylvania, and a Biochemistry/ Chemistry degree from the University of New South Wales, Sydney.

Mr Black had been a Director of the Company since 18 November 2015. He was a member of the Audit and Risk Committee and of the Remuneration Committee.

Company Secretary

Ms Elisha Larkin BComm(Hons) / BAgriSci(Hons), MCommercial Law (The University of Melbourne) was appointed as Company Secretary on 4 May 2012. Ms Larkin has been with Hexima since May 2006.

DIRECTORS' REPORT

Directors' Meetings

The number of Directors' meetings (including meetings of committees of Directors) and the number of meetings attended by each of the Directors of the Company during the financial year are:

	BOARD MEETINGS		AUDIT AND RISK MANAGEMENT COMMITTEE		REMUNERATION COMMITTEE	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
Jonathan West	12	12	2	2	1	1
Marilyn Anderson	12	11	-	-	1*	1
John Bedbrook	12	9	2	2	1	1
Nicole van der Weerden	12	12	-	-	1*	1
Dan O'Brien	12	12	2	2	1	1
Gordon Black	1	1	-	-	-	-
Michael Aldridge	2	2	-	-	-	-
Justin Yap	12	12	2	2	1	1
Scott Robertson	9	9	1	1	1	1

*Attended by invitation

CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance practices in place throughout the financial year.

The Board of Directors

The Board is responsible for the direction and supervision of Hexima's business on behalf of the Shareholders, by whom they are elected and to whom they are accountable.

The Board's responsibilities include:

- protecting and enhancing the value of Hexima's assets;
- setting strategies and directions, then monitoring and reviewing progress against these strategic objectives;
- reviewing and ratifying internal controls, codes of conduct and legal compliance;
- ensuring the significant risks facing Hexima have been identified and adequate control, monitoring and reporting mechanisms are in place;
- approving transactions relating to acquisitions, divestments and capital expenditure above delegated authority limits; and
- approving and monitoring financial and other reporting.

The Board has adopted a Board Charter, which sets out values and business behaviours necessary to maintain confidence in Hexima's integrity. It details the respective roles and responsibilities of the Board and management.

The Board has delegated responsibility for operation and administration of the Company to the Executive Directors and executive management. Responsibilities are delineated by formal authority delegations.

Directors and Executive Education

Incoming Directors and Executives participate in informal meetings to increase their understanding of the Company, its key assets and the competitive market in which it operates. Through these meetings, Directors and Executives review the Company's policies and procedures for good corporate governance, including delegations and reservations of authority and the roles of key personnel and Board committees. They have access to continuing education to update and enhance their skills and knowledge. A review of the performance of the Board will be undertaken annually by the Chairman, in consultation with the Board.

DIRECTORS' REPORT

Composition of the Board

The Constitution of the Company provides that the number of Directors shall not be less than three. There are currently eight Directors in office at the date of this report and their names and qualifications are set out on pages 3 to 5 of this Directors' Report.

The company is no longer listed on the ASX but the Board continues to consider the ASX corporate governance principles. The ASX best practice recommendations require a majority of the Board to be independent Directors and the chairperson to be an independent director. Currently, the Board has four directors who satisfy the ASX guidelines for independence (being Chairman Professor Jonathan West, Dr. John Bedbrook, Mr Justin Yap and Mr Scott Robertson). Mr Dan O'Brien is a Non-Executive Director but does not qualify as independent because of his shareholdings in Hexima. Professor Marilyn Anderson, Dr van der Weerden and Mr Michael Aldridge do not qualify as independent as they are Executive Directors. The Board considers their significant commitment as share and option holders (which aligns their interests with those of other shareholders) and broad experience as directors of other companies provide advantages to the Board which outweigh any disadvantage in them not satisfying the ASX guidelines for independence. The Board will review this position at least annually.

Board Committees

To assist in the execution of its responsibilities, the Board has established a number of board committees including a Nomination Committee, a Remuneration Committee and an Audit and Risk Management Committee. These Committees have written mandates and operating procedures, which are reviewed on a regular basis.

The full Board has monthly meetings scheduled for the coming year. Extraordinary meetings will be convened at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman. Submissions are circulated in advance. Executives are regularly involved in Board discussions.

Nomination Committee

The Board has in place a Nomination Committee to assist it in ensuring the Board has an effective composition, size and commitment.

The Nomination Committee develops criteria for Board membership, identifies specific individuals for nomination as Directors and establishes processes for the review of the performance of individual Directors and the Board as a whole. In addition, it is the policy of the Nomination Committee to meet as early as practicable prior to the expiration of the term of office of a Director to consider suitably skilled and experienced individuals for nomination as Directors.

Further details of the Nomination Committee's charter form part of the Board Charter, which is available on the Company's website.

Each of the non-executive Directors are currently on the Nomination Committee. The Board reviewed the structure of the Board and senior Executive teams throughout the current financial year within existing scheduled Board meetings.

No meetings were held during the year for the Nomination Committee.

Remuneration Committee

The Board reviews and rewards the performance of the senior management team. In doing so, they consider recommendations from the Remuneration Committee.

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to Key Executives and Directors. The Remuneration Committee Charter forms part of the Board Charter, which is available on the Company's website.

The Remuneration Committee will consist of at least three Directors, a majority of whom are Non-Executive Directors and at least one of whom is an independent director. This differs from the ASX best practice recommendations which require a majority of independent Directors and an independent Chairman. Hexima currently satisfies the ASX recommendations with an independent Chairman and three independent members. The current members are Dr. John Bedbrook (Chairman), Professor Jonathan West, Dan O'Brien, Justin Yap and Scott Robertson.

The Remuneration Committee meets as necessary, generally once a year in order to review and make

DIRECTORS' REPORT

recommendations to the Board. During the financial year ended 30 June 2019, the Remuneration Committee met separately on one occasion and also addressed remuneration issues at meetings of the full Board.

The Remuneration Committee may invite any executive management team members or other individuals to attend meetings of the Remuneration Committee as it considers appropriate. The Remuneration Report is set out on pages 13 to 18 and forms part of the Directors' Report for the financial year ended 30 June 2019.

Audit and Risk Management Committee

The Board has in place an Audit and Risk Management Committee to assist it in verifying and safeguarding the integrity of Hexima's financial reporting. The Audit and Risk Management Committee Charter forms part of the Board Charter, which is available on the Company's website.

The Audit and Risk Management Committee reviews the financial information which is provided to shareholders and others, the systems of internal controls which management and the Board have established and the audit process.

The Audit and Risk Management Committee also reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

- discuss the external audit, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- review the half-year and preliminary final report prior to lodgment with ASIC, and any significant adjustments required as a result of the auditor's findings, and to recommend board approval of these documents, prior to announcement of results;
- review the draft annual and half-year financial report, and recommend board approval of the financial report; and
- review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.

Audit and Risk Management Committee meetings are to be held periodically throughout the year. It is the policy of the Board that the members of the Audit and Risk Management Committee should be Non-Executive Directors, at least one of whom should also be independent. This differs from the ASX best practice recommendations which require a majority of independent Directors and an independent Chairman. Hexima satisfies the ASX recommendations as to a majority of independent members, however the Committee is Chaired by Non-Executive Director Mr Dan O'Brien, who does not meet the independence definition due to his shareholding in Hexima. The current Audit and Risk Management Committee comprises Mr Dan O'Brien (Chairman), Professor Jonathan West, Dr. John Bedbrook, Mr Justin Yap and Mr Scott Robertson.

The Chief Executive Officer, Company Secretary, Finance Manager and external auditors will generally attend all Audit and Risk Management Committee meetings. The Audit and Risk Management Committee met twice during the year and the committee members' attendance record is disclosed in the table of Directors' meetings on page 6.

The Chief Executive Officer and the Finance Manager have declared in writing that the records for the year have been properly maintained, the Company's financial reports for the year ended 30 June 2019 comply with accounting standards and present a true and fair view of the Company's financial condition and operating results. This statement is required annually by the Board.

Communication with Shareholders

Hexima's policy is to provide timely, open and accurate information to all stakeholders, including shareholders, regulators and the wider investment community. The Board Charter includes a continuous disclosure protocol to ensure compliance with the *Corporations Act 2001*.

In summary, the Company's continuous disclosure protocol operates as follows:

- the full Annual Financial Report and Half-Yearly results commentary are available on the Company's website and are sent to all shareholders who request them; and
- the Annual Financial Report and the Half-Yearly Accounts are sent to shareholders on request.

Hexima's communications strategy is set out in the Board Charter and is designed to promote effective communication with shareholders and encourage effective participation at general meetings.

DIRECTORS' REPORT

Risk Management

The Board is responsible for the assessment of risk.

Intellectual Property

Intellectual Property is Hexima's most important asset and protection of its IP portfolio is critical to the Company's ability to implement its business strategy. Hexima has consistently invested significant amounts in the development and maintenance of this IP portfolio.

Hexima's IP Committee, chaired by Dr Nicole van der Weerden, meets regularly to identify and monitor the creation of IP and to monitor and review claims filed by other companies in the same technical field. The Committee works closely with Hexima's US and Australian patent attorneys.

The Committee also develops and maintains appropriate protocols for recording research results and maintaining the confidentiality of know-how and information associated with Hexima's trials and technology.

Regulatory Framework (including Environmental Regulation)

The group is subject to environmental regulations and other licenses in respect of its research and development facilities. There are adequate systems in place to ensure compliance with relevant Federal, State and Local environmental regulations and the Board is not aware of any breach of applicable environmental regulations by the group. There were no significant changes in laws or regulations during the 2019 financial year or since the end of the year affecting the business activities of the group, and the Board is not aware of any such changes in the near future.

Financial Reporting

The Chief Executive Officer and the Finance Manager have declared in writing to the Board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Actual monthly results are reported against budgets approved by Directors and revised forecasts for the year are prepared regularly.

Funds Management

The Company's policy is to invest funds in term deposits or bank bills.

DIRECTORS' REPORT

Ethical Standards

All Directors, Executives and employees are expected to act with the utmost integrity at all times to enhance the reputation and performance of the Company. Every employee has a supervisor to whom they may refer any issues arising from their employment.

Conflicts of Interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The Board has procedures to assist Directors to disclose potential conflicts of interest.

Independent Advice

Each Director has the right of access to all relevant Company information and to the Company's Executives and, subject to prior consultation with the Chairman, may seek independent professional advice at the Company's expense. A copy of the advice received by the Director will be made available to all members of the Board.

DIRECTORS' REPORT

PRINCIPAL ACTIVITIES

The principal activity of the Group during the financial year was the research, development and commercialisation of plant-derived proteins and peptides for applications as human therapeutics. Hexima's lead drug candidate is the plant defensin, HXP124, which is being developed for treatment of fungal nail infections (onychomycosis). Hexima's principle activities in 2018-2019 included successfully completing a first-in-human clinical trial for HXP124 and producing a new expression strain to increase the yield of HXP124 in the manufacturing process.

OPERATING AND FINANCIAL REVIEW OF THE GROUP

Financial performance

	2019	2018
	\$	\$
Revenue	3,431,535	4,371,981
Results from operating activities	(2,914,607)	(1,846,133)
Net financing (expense)/income	23,129	(26,951)
Income tax expense	(4,054)	(78,144)
Net loss after tax attributable to members	(2,895,532)	(1,951,228)
Dividends	NIL	NIL

Summary and Outlook

The Group had net cash outflows from operating activities of \$1,639,073 for the year ended 30 June 2019, compared with \$2,211,083 for the prior year. The large variance is a result of 2 large 2018 debtor payments being received into the bank account early July 2018. The Group recorded a loss after tax of \$2,895,532 for the year ended 30 June 2019. A loss after tax of \$1,951,228 was recorded for the previous financial year. Net finance income for the Group for the financial year ended 30 June 2019 was \$23,129 (2018: expense \$26,951). The variance in net finance income/expense from the prior year is largely due to the movement of the exchange rate affecting the USD denominated bank account.

Financial position

Hexima has cash and receivables of \$4,314,281 at 30 June 2019 (2018: \$4,981,508).

Operational update

During 2018-2019, Hexima continued to make excellent progress towards developing a novel topical treatment for onychomycosis, or fungal nail infections. Hexima completed the 3-month follow-up period for its phase I/IIa clinical trial which demonstrated that HXP124 has the potential to be an effective treatment for onychomycosis.

The phase I/IIa clinical trial was a dose escalation study of HXP124 applied once daily for six weeks topically to the infected nails of patients with mild to moderate onychomycosis. The main purpose of the study was to assess the safety and tolerability of HXP124 in patients with onychomycosis. Secondary endpoints included assessment of clear nail growth and looking for clearance of fungi from the nail over a period of 3-12 months to determine whether HXP124 might be an effective and new treatment alternative.

A total of 48 patients were treated with either HXP124 (36 patients) or Vehicle (12 patients, using the same formulation as the HXP124 group but without the active peptide). After daily dosing for six weeks, patients were monitored for a further 6 weeks (12 weeks total).

HXP124 demonstrated an excellent safety profile with no treatment-related adverse events observed. HXP124 did not cause pain or irritation and the peptide was not detected in the bloodstream of patients.

After daily treatment for just six weeks, patients treated with HXP124 saw greater clearing of the infected nail area and were more likely to have fungus cleared from the nail than Vehicle-treated patients.

DIRECTORS' REPORT

A detailed commercial assessment conducted by ClearView Healthcare Partners (Boston, USA) which canvassed feedback from patients, clinicians and insurers in the USA confirmed that the target product profile for HXP124 would be well received and has significant revenue potential in the US.

Based on the positive phase I/IIa clinical data, Hexima is now raising capital to conduct a phase IIb clinical trial. This phase IIb trial is intended to assess the optimal target product profile for HXP124 in a larger cohort of patients to better assess safety and efficacy of HXP124. Capital raised will also fund the scale-up of manufacturing and additional animal toxicology studies to support the development program. Hexima recently closed a bridge financing of \$3 million in the form of convertible notes to fund continued development of HXP124 through H2, 2019.

The phase IIb clinical trial is intended to be conducted under an Investigational New Drug (IND) application with the FDA and would have sites in both the USA and Australia. In 2019, Hexima held a pre-IND meeting with the FDA and received feedback on its preclinical toxicology package, manufacturing process and clinical trial design. Hexima has commenced additional animal toxicology studies required to conduct the proposed phase IIb clinical trial under an IND and expects to open an IND with the FDA and commence the phase IIb study in H2, 2020. The phase IIb study is expected to run for 15 months and be completed by the end of 2021.

In May 2019, Hexima appointed Mr Michael Aldridge as Chief Business Officer and a member of the Board of Directors. Based in San Francisco, Mr Aldridge brings a wealth of experience to Hexima, in particular his experience with Peplin Inc., where he led an Australian developed technology through clinical trials in the USA and ultimately to a major acquisition.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Convertible notes of \$1,603,900 have been issued during the 2019 financial year. There were no other significant changes in the state of affairs of the Group that occurred during the financial year.

DIVIDENDS

The Company has not paid or declared any dividends during or since the end of the financial year ended 30 June 2019.

LIKELY DEVELOPMENTS

Further disclosure of information regarding likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because, in the opinion of the Directors, disclosure of the information may prejudice the interests of the Group.

ENVIRONMENTAL REGULATION

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Board believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group.

DIRECTORS' REPORT

UNAUDITED REMUNERATION REPORT

The remuneration report set out on pages 13 to 18 are not required under the Corporations Act 2001 as the Group is an unlisted disclosing entity. The Group has voluntarily included some of the disclosures.

Principles of Remuneration

Key management personnel (including Directors of the Company and other Executives) have authority and responsibility for planning and controlling the activities of the Group. For the financial year ended 30 June 2019, key management personnel comprised all Directors, Executives and the Company Secretary. This included Professor Jonathan West, Dr. Nicole van der Weerden, Dr. John Bedbrook, Professor Marilyn Anderson, Mr Dan O'Brien, Mr Gordon Black, Mr Justin Yap, Mr Scott Robertson, Mr Michael Aldridge and Ms Elisha Larkin. Remuneration levels for key management personnel are set to attract and retain appropriately qualified and experienced Directors and Executives. The Remuneration Committee obtains independent advice on remuneration packages and reviews remuneration at least on an annual basis.

Remuneration structures take into account the capability and experience of key management personnel. Remuneration includes a mix of fixed and variable remuneration as well as short and long term incentives.

Fixed Remuneration

Fixed remuneration consists of base remuneration, which is calculated on a total cost basis and includes any FBT charges related to employee benefits, as well as employer contributions to superannuation funds.

Performance Linked Remuneration

Performance linked remuneration may include short and long term incentives.

Short term incentive bonuses are based on the satisfaction of specified performance criteria, which may include financial or non-financial objectives. The Remuneration Committee approves the offer and payment of short term incentive bonuses to key management personnel and to other employees.

Long term incentives may be provided as options over the Company's ordinary shares and other securities. Details are provided on page 18 of the Directors' Report.

Consequences of Performance on Shareholder Wealth

Hexima is a development stage company and the remuneration of key management personnel is not determined by the level of revenue, profit or dividends. Instead, consideration is given to the progress of scientific programs, the commercialisation of those programs, the development of the Company's intellectual property and asset base and long-term share price performance.

Service Contracts

The Group has entered into service contracts with key management personnel, which outline the components of compensation paid to key management personnel, but do not prescribe how compensation levels are modified from year to year. Compensation levels are reviewed each year to take into account cost-of-living changes, any change in scope of the role performed by the senior Executive, and any changes required to meet the principles of the compensation policy.

All employment contracts may be terminated immediately for cause or for material underperformance.

Professor Marilyn A Anderson AO

Executive Director Professor Anderson was appointed Chief Science Officer from 1 July 2009. She was formerly Senior Vice President Research and Discovery. Professor Anderson is an employee of La Trobe University and Hexima contracts her services through a Research Agreement with the University. In addition to her employment by the University, Professor Anderson also has an employment contract with the Group.

DIRECTORS' REPORT

UNAUDITED REMUNERATION REPORT – (Continued)

Dr. Nicole van der Weerden

Executive Director Dr. van der Weerden has been a member of the Executive since 2012 and was appointed Chief Executive Officer in December 2015. Dr. van der Weerden is an employee of La Trobe University and Hexima contracts her services through a Research Agreement with the University. In addition to her employment by the University, Dr. van der Weerden also has an employment contract with the Group.

Elisha Larkin

Ms Larkin holds honours degrees in Commerce and Agricultural Science from the University of Melbourne and a Masters of Commercial Law also from the University of Melbourne. Ms Larkin was appointed Company Secretary on 4 May 2012 and held the position of Chief Operating Officer between May 2012 and July 2014. Ms Larkin is an employee of the Group.

Non-Executive Directors

The Constitution provides that Non-Executive Directors may be paid or provided fees or other remuneration for their services as a Director of Hexima (including as a member of any Directors' committee). The total amount or value of this remuneration must not exceed \$500,000 (including mandatory superannuation) per annum or such other maximum amount determined by the Company in a general meeting.

A Non-Executive Director may be paid remuneration for services outside the scope of ordinary duties of the Director. Non-Executive Directors may also be paid expenses properly incurred in attending meetings or otherwise in connection with the Company's business. Additional "per diem" fees may be paid where services rendered are above normal requirements.

Non-Executive directors have not received any cash payments since 1 January 2015, and have instead received equity compensation.

DIRECTORS' REPORT

UNAUDITED REMUNERATION REPORT – (Continued)

Directors' and Executive Officers' Remuneration

Details of the nature and amount of each major element of remuneration of each Director of the Company and each key management personnel are:

		Short Term	Share based payments	Post employment	Other		
		Fixed Remuneration (Salary & Fees)	Share Options Issued (1)	Employment Benefits - Superannuation	Leave Benefits	Total Remuneration	Value of options as proportion of remuneration
Non-executive Directors							
Jonathan West	2019	-	16,300	-	-	16,300	100%
	2018	-	15,763	-	-	15,763	100%
John Bedbrook	2019	-	28,710	-	-	28,710	100%
	2018	-	17,476	-	-	17,476	100%
GF Dan O'Brien	2019	-	8,150	-	-	8,150	100%
	2018	-	7,882	-	-	7,882	100%
Gordon Black	2019	-	26	-	-	26	100%
	2018	-	7,882	-	-	7,882	100%
Scott Robertson	2019	-	8,062	-	-	8,062	100%
	2018	-	-	-	-	-	-
Justin Yap	2019	-	6,099	-	-	6,099	100%
	2018	-	-	-	-	-	-
Executive Directors							
Marilyn Anderson (2)	2019	75,404	10,280	7,163	17,521	110,368	9%
	2018	65,979	4,797	6,268	7,780	84,824	6%
Nicole van der Weerden (4)	2019	87,218	20,560	8,286	21,540	137,604	15%
	2018	96,598	9,595	7,208	7,547	120,948	8%
Michael Aldridge	2019	34,433	9,067	-	-	43,500	21%
	2018	-	-	-	-	-	-

DIRECTORS' REPORT

Executive							
Elisha Larkin (3)	2019	98,081	2,056	9,318	24,715	134,170	2%
	2018	74,924	959	7,118	7,924	90,925	1%
Total	2019	295,136	109,310	24,767	63,776	492,989	22%
	2018	237,501	64,354	20,594	23,251	345,700	19%

DIRECTORS' REPORT

UNAUDITED REMUNERATION REPORT – (Continued)

Directors' and Executive Officers' Remuneration (Continued)

Notes in relation to the table of Directors' and Executive officers' remuneration

1. The fair value of options is calculated at grant date using the Black-Scholes Pricing model, and allocated to each period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognized in this reporting period.
2. Professor Anderson is employed by La Trobe University. The Company engages her services through a Research Agreement with the University and through a separate direct employment agreement. Professor Anderson's total remuneration from the Company and La Trobe University (in relation to services performed for Hexima) was \$193,909, comprising \$110,368 paid and payable directly by the Company and \$83,541 paid by La Trobe University (for services performed for Hexima). The amount shown in the table above represents payments made directly to Professor Anderson by the Group only. Professor Anderson is the Chief Science Officer for Hexima Limited as well as an Executive Director of the Company.
3. Ms Elisha Larkin was appointed Company Secretary on 4 May 2012 and is employed on a part-time basis.
4. Dr. Nicole van der Weerden was appointed Chief Executive Officer in December 2015 and has been an Executive Director since 16th December 2014. She is employed by La Trobe University. The Company engages Dr. van der Weerden's services through a Research Agreement with the University and through a separate direct employment agreement. Dr van der Weerden's total remuneration from the Company and La Trobe University (in relation to services performed for Hexima) was \$275,298, comprising \$137,604 paid and payable directly by the Company, and \$137,694 paid by La Trobe University (for the services performed for Hexima). The amount shown in the table above represents payments made directly to Dr. van der Weerden by the Group only.

DIRECTORS' REPORT

UNAUDITED REMUNERATION REPORT – (Continued)

Equity instruments

All options refer to options over ordinary shares of Hexima Limited, which are exercisable on a one-for-one basis.

Options over equity instruments granted as compensation

Details on options over ordinary shares in the Company granted to key management personnel and Executives during the reporting period.

	No. of Options Granted	Exercise Price	Grant Date	Fair value per option at grant date	Expiry Date	No. of options vested during 2019
Jonathan West	500,000	\$0.50	01/01/2019	\$0.027	01/01/2024	-
John Bedbrook	250,000	\$0.50	01/01/2019	\$0.027	01/01/2024	-
GF Dan O'Brien	250,000	\$0.50	01/01/2019	\$0.027	01/01/2024	-
Justin Yap	125,000	\$0.20	07/07/2018	\$0.033	01/01/2023	-
	250,000	\$0.50	01/01/2019	\$0.027	01/01/2024	-
Scott Robertson	1,000,000	\$0.50	22/02/2019	\$0.037	22/02/2024	-
Michael Aldridge	5,000,000	\$0.50	18/06/2019	\$0.141	18/06/2029	-
Total	7,375,000					

DIRECTOR'S INTERESTS

Set out below are details of the interests of the Directors at the date of this report in the shares of the Company, rights or options over such instruments. Interests include those held directly and indirectly.

Director	Total shares	Options over shares
Jonathan West	3,200,000	2,500,000
Marilyn Anderson	4,061,096	750,000
John Bedbrook	500,000	2,450,000
Nicole van der Weerden	214,400	2,000,000
GF Dan O'Brien	15,035,894	1,000,000
Justin Yap	-	375,000
Scott Robertson	-	1,100,000
Michael Aldridge	-	5,000,000
Gordon Black	-	625,000
Total	23,011,390	15,800,000

100,000 options were issued to Scott Robertson in the prior year pre his Directorship.

A related party of Justin Yap, holds 14,148,768, shares in the Company.

DIRECTORS' REPORT

SHARE OPTIONS

Unissued shares under option

At the date of this report, unissued ordinary shares of the Company under option are:

Expiry Date	Exercise Price	Number of Shares
26 August 2019	\$0.50	640,000
15 September 2019	\$0.50	508,000
18 November 2019	\$0.50	700,000
11 December 2020	\$0.50	2,750,000
12 February 2022	\$0.08	2,350,000
12 February 2022	\$0.20	1,250,000
31 December 2022	\$0.20	200,000
1 January 2023	\$0.20	1,759,000
1 January 2024	\$0.50	1,250,000
22 February 2024	\$0.50	1,000,000
18 June 2029	\$0.50	5,000,000
		17,407,000

Conversion of convertible notes to shares and the subsequent share price are dependent on the event causing conversion. Refer to Note 15 for the conversion terms.

Shares issued on exercise of options

During the reporting period, 250,000 options were exercised by a Director at \$0.08 that had been granted as compensation (2018: nil)

The Group's policies prohibit those that are granted share-based payments as part of their remuneration from entering into other arrangements that limit their exposure to losses that would result from share price decreases. The Group requires all Executives and Directors to sign annual declarations of compliance with this policy throughout the period.

DIRECTORS' REPORT

AUDITORS

Audit Services	2019	2018
	\$	\$
Audit of the annual financial report	37,950	27,820
Review of half year financial report	13,100	13,100
	51,050	40,920

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

No indemnities were given or insurance premiums paid during the financial year for any person who was an auditor of the Company. During the financial year ended 30 June 2019, the Company paid insurance premiums in respect of Directors' and Officers' liability and legal expenses insurance contracts. This covered both current and former Directors and Officers of the Company. The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a willful breach of duty or improper use of information or position to gain personal advantage.

EVENT SUBSEQUENT TO REPORTING DATE

Subsequent to year end, the Group completed the convertible notes issue where \$1,400,000 (terms and conditions set out in Note 15) was received on the 26 July 2019, bringing the total to \$3,003,900. These convertible notes were subscribed to by Director Dan O'Brien and related party Dato Yap. Furthermore, an additional 500,000 share options were issued to other employees on 15 July 2019.

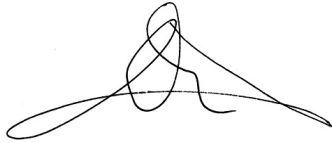
Other than the matter noted above, there have been no events subsequent to balance date which would have a material effect on the Group's financial statements as at 30 June 2019.

DIRECTORS' REPORT

LEAD AUDITORS' INDEPENDENCE DECLARATION UNDER SECTION 370C OF THE CORPORATIONS ACT 2001

The Lead Auditor's Independence Declaration is set out on page 60 and forms part of the Directors' Report for the year ended 30 June 2019.

This report is made pursuant to a resolution of the Directors.



Professor Jonathan West
Non-Executive Chairman



Dr Nicole van der Weerden
Executive Director and Chief Executive Officer

Dated this 18th day of September 2019

HEXIMA LTD

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

		Consolidated	
	Notes	2019	2018
		\$	\$
Revenue	6	3,431,535	4,371,981
Contracted research expenditure		(2,719,090)	(2,708,539)
Other research & development expenditure	7	(1,791,307)	(1,966,116)
Patent and legal expenses		(259,016)	(516,508)
Marketing and business development		(392,189)	(43,428)
Employee benefits expense		(760,064)	(560,163)
Depreciation expense		(172,484)	(182,613)
Other expenses	8	(251,992)	(240,747)
		(6,346,142)	(6,218,114)
Results from operating activities		(2,914,607)	(1,846,133)
Finance income	9	40,307	21,546
Finance expense	9	(17,178)	(48,497)
Net financing income/(expense)		23,129	(26,951)
Loss before income tax		(2,891,478)	(1,873,084)
Income tax expense	10(a)	(4,054)	(78,144)
Loss for the period		(2,895,532)	(1,951,228)
Other comprehensive income for the period, net of income tax		-	-
Total comprehensive income/(loss) for the period		(2,895,532)	(1,951,228)
Loss attributable to:			
Owners of the Company		(2,895,532)	(1,951,228)
Loss for the period		(2,895,532)	(1,951,228)
Total comprehensive loss attributable to:			
Owners of the Company		(2,895,532)	(1,951,228)
Total comprehensive loss for the period		(2,895,532)	(1,951,228)

The accompanying notes form part of these financial statements

HEXIMA LTD

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

		Consolidated	
	Notes	2019	2018
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	11	1,950,569	1,916,417
Receivables	12	2,363,712	3,065,091
TOTAL CURRENT ASSETS		4,314,281	4,981,508
NON-CURRENT ASSETS			
Plant and equipment	13	1,436,522	1,607,925
TOTAL NON-CURRENT ASSETS		1,436,522	1,607,925
TOTAL ASSETS		5,750,803	6,589,433
CURRENT LIABILITIES			
Trade and other payables	14	1,975,098	1,846,917
Loans and Borrowings	15	1,603,900	-
Employee benefits	16	353,444	174,001
TOTAL CURRENT LIABILITIES		3,932,442	2,020,918
TOTAL LIABILITIES		3,932,442	2,020,918
NET ASSETS		1,818,361	4,568,515
EQUITY			
Share capital	17	61,006,378	60,976,378
Reserves	17	1,453,399	1,338,021
Accumulated losses		(60,641,416)	(57,745,884)
TOTAL EQUITY		1,818,361	4,568,515

The accompanying notes form part of these financial statements

HEXIMA LTD

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

Consolidated

	Note	Ordinary Shares \$	Equity Option reserve \$	Equity compensation reserve \$	Capital Raising Reserve \$	Accumulated Losses \$	Total equity \$
2019							
Opening balance at 1 July 2018		60,976,378	200,000	1,138,021	-	(57,745,884)	4,568,515
Total comprehensive income for the period							
Net (loss) for the period		-	-	-	-	(2,895,532)	(2,895,532)
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income/(loss) for the period		-	-	-	-	(2,895,532)	(2,895,532)
Transactions with owners recorded directly in equity							
<i>Contributions by and distributions to owners</i>							
Capital raising		-	-	-	-	-	-
Capital raising costs		-	-	-	-	-	-
Share based payment expenses				115,278	-	-	115,278
Amount received on issue of options		-	-	100	-	-	100
Issue of shares on exercise of options		30,000	-	-	-	-	30,000
Total contributions by and distributions to owners		30,000	-	115,378	-	-	145,378
Transfer of capital raising costs to share capital		-	-	-	-	-	-
Closing balance at 30 June 2019		61,006,378	200,000	1,253,399	-	(60,641,416)	1,818,361
	Note	Ordinary Shares \$	Equity Option reserve \$	Equity compensation reserve \$	Capital Raising Reserve \$	Accumulated Losses \$	Total equity \$
2018							
Opening balance at 1 July 2017		61,556,496	200,000	1,057,137	(579,368)	(55,794,656)	6,439,609
Total comprehensive income for the period							
Net (loss) for the period		-	-	-	-	(1,951,228)	(1,951,228)
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income/(loss) for the period		-	-	-	-	(1,951,228)	(1,951,228)
Transactions with owners recorded directly in equity							
<i>Contributions by and distributions to owners</i>							
Capital raising		-	-	-	-	-	-
Capital raising costs		-	-	-	(750)	-	(750)
Share based payment expenses		-	-	80,594	-	-	80,594
Amount received on issue of options		-	-	290	-	-	290
Total contributions by and distributions to owners		-	-	80,884	(750)	-	80,134
Transfer of capital raising costs to share capital		(580,118)	-	-	580,118	-	-
Closing balance at 30 June 2018		60,976,378	200,000	1,138,021	-	(57,745,884)	4,568,515

The accompanying notes form part of these financial statements

HEXIMA LTD

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

		Consolidated	
	Notes	2019 \$	2018 \$
CASH FLOWS USED IN OPERATING ACTIVITIES			
Cash receipts from government grants & collaboration agreements		3,538,065	3,511,167
Cash paid to suppliers and employees		(5,177,138)	(5,722,250)
Net cash (used in) operating activities	19(b)	(1,639,073)	(2,211,083)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		10,478	21,546
Payments for plant and equipment		(1,081)	(5,929)
Net cash (used in) / from investing activities		9,397	15,617
CASH FLOWS FROM / (USED IN) FROM FINANCING ACTIVITIES			
Payments received on issue of options		100	290
Capital raising costs		-	(750)
Issue of shares on exercise of options		30,000	-
Cash from Convertible note issue		1,603,900	-
Net cash from / (used in) financing activities		1,634,000	(460)
Net increase / (decrease) in cash and cash equivalents		4,324	(2,195,926)
Effect on movements in exchange rates on foreign currency denominated cash at bank		29,828	(48,497)
Cash and cash equivalents at 1 July		1,916,417	4,160,840
Cash and cash equivalents at 30 June	19(a)	1,950,569	1,916,417

The accompanying notes form part of these financial statements

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

1. REPORTING ENTITY

Hexima Limited (the “Company”) is a Company domiciled in Australia and is a for-profit entity. The address of the Company’s registered office is Level 4, LIMS 2, La Trobe University, Victoria, 3086. The consolidated financial statements of the Company as at and for the year ended 30 June 2019 comprises the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”). The Group is actively engaged in the research and development of technology for the protection and enhancement of commercial crops, primarily to enhance their resistance to insects and fungal pathogens, and the treatment of disease in humans.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on 18th September 2019.

(b) Basis of measurement

The financial report has been prepared on the basis of historical cost, except for share options and the embedded derivative in respect of convertible debt which has been measured at fair value.

(c) Functional and presentation currency

The financial statements are presented in Australian dollars, which is the Group’s functional currency.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The 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. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Measurement of fair values

A number of the Group’s accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. The Group engages a third party to perform fair value calculations for share options issues which is reviewed by the finance team. Significant valuation issues are reported to the Group Audit Committee.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

2. BASIS OF PREPARATION *(continued)*

(d) Use of estimates and judgements *(continued)*

Measurement of fair values (continued)

The Group measure the following assets/liabilities at fair value: Share-based payment transactions and convertible notes.

Share-based payment transactions

The fair value of employee share options at grant date is measured using the Binomial Approximation Option Pricing method. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 15 – convertible notes. Refer to Note 15.
- Note 18 – measurement of share-based payments

(e) Changes in accounting policies

The Group has initially applied AASB 9 and AASB 15 from 1 July 2018 but they do not have a material effect on the Group's financial statements. Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

A. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 July 2018). Accordingly, the information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information. There has been no impact from adoption of AASB 15.

B. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Group's approach was to include the impairment of trade receivables in other expenses. There has been no impact as there were no impairment losses on trade receivables.

(f) Going concern basis of accounting

The financial report is prepared on a going concern basis, which contemplates continuity of normal operations and the realisation of assets and settlement of liabilities in the ordinary course of operations. In making this assessment, the directors have considered future events and conditions for a period of at least 12 months following the approval of these financial statements.

The Group has a history of losses and incurred a loss after tax of \$2,895,532 (2018: loss after tax of \$1,951,228). Given the history of losses, the going concern assumption of the Group is dependent on the continued income from collaboration fees, successfully raising capital and the receipt of the R&D tax incentive from the Government.

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

2. BASIS OF PREPARATION *(continued)*

(f) Going concern basis of accounting *(continued)*

Notwithstanding the history of operating losses, the Directors consider that it is appropriate to prepare the financial statements on a going concern basis based on the following mitigating factors:

- The Group has sufficient cash and receivables at 30 June 2019 to meet its obligations at that date and the Group forecasts that it will continue to meet its obligations for a period of at least 12 months following the approval of these financial statements;
- The Group has not entered into any long term contractual commitments and its major expenditure (R&D) can be curtailed in line with the cash resources available;
- The Group has demonstrated it has the ability to negotiate creditor settlement terms with its major research services provider to align with cash resources available to it;
- The Group has successfully completed a \$3m convertible notes issue where \$1,603,900 was received by 30 June 2019 and \$1,400,000 has been received in July 2019;
- The Group has successfully raised capital in prior periods; and
- The Group has engaged an investment bank to raise sufficient capital to fund a phase 2b clinical trial of HXP124, which is expected to close in late 2019.

The Group's ability to continue to operate as a going concern is dependent upon successful capital raising and negotiating creditor settlement terms, the completion of which is uncertain at the date of approval of these financial statements. These conditions give rise to a material uncertainty as to whether the Group will be able to continue as a going concern. Should the Group be unable to continue as a going concern it may be required to realise assets at an amount different to that recorded in the statement of financial position, settle liabilities other than in the ordinary course of business and make provisions for other costs which may arise.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods by Group entities.

Certain comparative amounts have been reclassified to conform to the current year's presentation.

(a) Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Financial Instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets – Policy applicable from 1 July 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Financial Instruments *(continued)*

(ii) Classification and subsequent measurement (continued)

Financial assets – Policy applicable from 1 July 2018 *(continued)*

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 July 2018

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss. There were no financial assets at FVTPL during or at year end.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses are recognized in profit or loss any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. There were no debt investment at FVOCI during or at year end.

Financial Liabilities: Policy applicable from 1 July 2018

The group issued convertible notes denominated in AUD that will be converted to ordinary shares. The value and number of shares to be issued is dependent on the event triggering the conversion.

Equity investments at FVOCI

These asset are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss. There were no equity investment at FVOCI during or at year end.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Financial Instruments *(continued)*

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Financial Instruments *(continued)*

PRIOR YEAR

(i) Non-derivative financial instruments

The Group initially recognises receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents comprise cash balances and call term deposits. Term deposits are classified as cash as the Group can convert the deposits as available cash in reasonable time with minimal break costs to the Group.

(ii) Non-derivative financial liabilities

Financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Plant and equipment

(i) Recognition and measurement

Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of plant and equipment have different useful lives, they are accounted for as separate items of plant and equipment. Cost includes expenditures that are directly attributable to the acquisition of the asset.

(ii) Subsequent costs

The Company recognises in the carrying amount of an item of plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset. Depreciation is recognised in profit or loss on a straight-line or diminishing value basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives for the current and comparative periods are as follows:

	2019	2018
Plant and equipment	15% - 37.5%	15% - 37.5%
Office equipment	33% - 66.7%	33% - 66.7%
Plant and equipment - Building	5%	5%

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(d) Foreign Currency

Transactions in foreign currencies are translated to the functional currency of Group entities at exchange rates at the dates of the transactions.

(e) Impairment

(i) Non-derivative financial assets

Policy applicable from 1 July 2018

Financial instruments and contract assets

The Group recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI. The Group did not have any debt investment of FVOCI during and as at 30 June 2019; and
- contract assets.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Impairment *(continued)*

(i) Non-derivative financial assets (continued)

Policy applicable from 1 July 2018 *(continued)*

Financial instruments and contract assets (continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 180 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

(e) Impairment (*continued*)

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

PRIOR YEAR

(i) *Non-derivative financial assets*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

(ii) *Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

In respect of assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

The recoverable amount of an asset or cost generating unit is the greater of its fair value and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (the "cash generating unit").

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Revenue

Revenue recognition under AASB 15 (applicable from 1 January 2018)

Performance obligations and revenue recognition policies

Type of product/service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 July 2018)
Research and collaboration fees – recognised over time	<p>Customer obtains control as the underlying research services are performed. This usually occurs when the underlying activities are undertaken by the Group over time.</p> <p>Where an agreement contains a right to access the Group's IP this is also recognised over time.</p>	Revenue is recognised when the underlying expenses underpinning the delivery of services are incurred.

PRIOR YEAR

Grant revenue and R&D tax incentive

Government grant income and R&D tax incentive that compensates the Group for expenses incurred is recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred.

Research grants and collaboration fees

Research grants and collaboration fees represents revenue received from entities who fund and/or participate in the collaborative research initiatives of the Group. When services in respect of collaborative research activities are performed by an indeterminate number of acts over a specified period of time, revenue is recognised on a straight line basis over the period of the collaborative research agreement. Unrecognised revenue, representing payments received during the year for services to be provided in the future, is recognised as deferred income.

(g) Research and development expenditure

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognised in the income statement as an expense as incurred. Patent costs relating to research activities are expensed as incurred. Plant and equipment acquired to perform research activities are capitalised where the plant and equipment are not specific in nature to the Group's research activities and can be sold or leased to third parties. Plant and equipment specific to the research activities of the Group are expensed on acquisition.

Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. No costs were capitalised during the period. Other development expenditure is recognised in the profit and loss as incurred.

(h) Finance income and expenses

Finance income comprises interest income on term deposits. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

(i) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Income tax *(continued)*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences where the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

The Company and its Australian subsidiaries are part of a Tax Consolidated Group and subject to tax as a single entity. The US subsidiary is tax a single entity in the US.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(j) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position. Cash flows are included in the statements of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(k) Segment Reporting

The Group determines and presents operating segments based on the information that internally is provided to the Group's chief operating decision maker. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

The Group primarily operates in one sector, being the biotechnology industry, developing and/or commercialising biotechnology research. The majority of operations are in Australia. All assets are located in Australia.

(l) Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit under which the entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as a personnel expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Short term benefits

Short-term employee benefit obligations are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Long term employee benefits

The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on costs; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted.

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Share based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do not meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(n) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(o) New standards and interpretations

A number of new standards are effective for annual periods beginning after 1 July 2018 and earlier application is permitted, however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

(i) AASB 16 Leases

AASB 16 replaces existing leases guidance, including AASB 117 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after July 2019. Early adoption is permitted for entities that apply AASB 15 at or before the date of initial application of AASB 16.

AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group has not yet completed its detailed assessment of the potential impact on its financial statements.

4. FINANCIAL RISK MANAGEMENT

Overview

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

- credit risk
- liquidity risk
- market risk
- operational risk.

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 oversight of risks. The Group maintains a control environment in which all employees understand their roles and obligations.

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's receivables from the Government and University in respect of research grants and accrued interest receivable from banks.

4. FINANCIAL RISK MANAGEMENT *(continued)*

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.

The Group prepares and monitors budgets to manage its liquidity for the short and long term.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The Board of Directors oversee market risk exposures to optimise returns.

Currency risk

The Group's currency risk is limited to trade and other receivables, payables and cash and cash equivalents that are denominated in a currency other than the functional currency of the Group entities, primarily US dollar, Euro and GBP. Given the minimal value of foreign currency transactions the Group does not enter into contracts to hedge currency risk. At 30 June 2019, there were receivables of \$NIL and payables of \$309,943 denominated in foreign currencies (2018 receivable: \$682,929, payable: \$54,776). At 30 June 2019 the Group had US \$574,801 in a US dollar denominated bank account.

Interest rate risk

The Group's interest expense relates to the convertible notes detailed in note 15. Interest income is earned on term deposits and cash at bank, which are based on prevailing market rates.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management of the Group. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

4. FINANCIAL RISK MANAGEMENT (continued)

Capital management

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. As the Group is a development stage business, the Board of Directors monitors the Group's performance with particular regard to the progress of scientific programs, the commercialisation of those programs, the development of the Group's intellectual property and asset base and long-term share price performance. 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.

5. SEGMENT REPORTING

The Group primarily operates in one sector being the biotechnology industry developing and/or commercialising biotechnology research and therefore the Group's financial information is the same as the operating segment information. The majority of operations are in Australia.

6. REVENUE

	Consolidated	
	2019	2018
	\$	\$
Government Grant – Other	88,364	94,182
Government – R&D Tax Incentive	2,136,058	2,138,753
Rental Income	409,434	401,900
Collaboration and Service fees	797,679	1,737,146
	3,431,535	4,371,981

7. OTHER RESEARCH AND DEVELOPMENT EXPENDITURE

Other research and development expenditure	1,791,307	1,966,116
	1,791,307	1,966,116

8. OTHER EXPENSES

Administration and compliance costs	180,439	100,934
Other expenses	71,553	139,813
	251,992	240,747

9. FINANCE INCOME AND EXPENSE

Interest income on term deposit and cash at bank	10,478	21,546
Interest expense on convertible note issue	(17,178)	-
Foreign exchange gain/(loss)	29,829	(48,497)
Finance income/(expense)	23,129	(26,951)

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

10. INCOME TAX

(a) Income tax expense

	Consolidated	
	2019	2018
	\$	\$
Loss before tax	(2,808,090)	(1,873,084)
Income tax using the domestic corporation tax rate of 27.5% (2018: 27.5%)	(772,225)	(515,098)
Increase/(decrease) in income tax expense due to:		
R & D adjustment	1,345,082	1,356,655
Non-assessable R&D tax incentive	(587,416)	(587,635)
Non-deductible share based payment	31,701	22,163
Other	(6,134)	3,550
Temporary differences and tax losses not brought to account	(11,008)	9,785
Tax losses utilised not previously brought to account	-	(211,276)
Adjustment to prior year tax	4,054	-
Income tax expense/(benefit) on pre-tax net profit	4,054	78,144

Income tax expense can arise due to the add-back of R&D expenses which is claimed under the R&D Tax Incentive Scheme. Tax losses are not fully available to offset against all taxable income arising as a result of the available fraction rules.

(b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items

Temporary differences	707,747	698,303
Tax losses	8,865,673	8,864,109
Total	9,573,420	9,562,412

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group could utilize the benefits subject to passing the continuity of ownership and/or same business test. Comparative amounts have been restated to reflect assessed balances.

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

11. CASH AND CASH EQUIVALENTS

	Consolidated	
	2019	2018
	\$	\$
Cash on hand	852	1,015
Cash at bank	1,949,717	1,915,402
	1,950,569	1,916,417

12. RECEIVABLES

	Consolidated	
	2019	2018
	\$	\$
Current		
Trade receivables	114,389	797,467
R&D Tax Incentive Receivable – ATO	2,129,622	2,145,984
Prepayments and other receivables	119,701	121,618
	2,363,712	3,065,069

The Group's exposure to credit and currency risks and impairment losses related to trade receivables is disclosed in note 21.

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

13. PLANT AND EQUIPMENT

Consolidated	Plant and Equipment	Office Equipment	Total
Cost	\$	\$	\$
Balance at 1 July 2018	3,424,934	18,656	3,443,590
Additions	-	1,081	1,081
Disposals	-	-	-
Balance at 30 June 2019	3,424,934	19,737	3,444,671
Balance at 1 July 2017	3,421,731	15,930	3,437,661
Additions	3,203	2,726	5,929
Disposals	-	-	-
Balance at 30 June 2018	3,424,934	18,656	3,443,590
Accumulated depreciation			
Balance at 1 July 2018	1,823,019	12,646	1,835,665
Depreciation for the year	169,267	3,217	172,484
Disposals	-	-	-
Balance at 30 June 2019	1,992,286	15,863	2,008,149
Balance at 1 July 2017	1,642,794	10,258	1,653,052
Depreciation for the year	180,225	2,388	182,613
Disposals	-	-	-
Balance at 30 June 2018	1,823,019	12,646	1,835,665
Carrying amounts			
At 1 July 2018	1,601,915	6,010	1,607,925
At 30 June 2019	1,432,648	3,874	1,436,522

The glasshouse facility forming part of plant and equipment which has a cost of \$2,365,709 and accumulated depreciation of \$1,130,623 has been wholly leased to a third party. Refer to note 24.

14. TRADE AND OTHER PAYABLES

	Consolidated	
	2019	2018
Current	\$	\$
Trade payables	1,069,312	234,163
Other payables & accrued expenses	713,867	827,925
Customer contract liability	191,919	784,829
	1,975,098	1,846,917

The majority of trade payables relate to La Trobe University.

Exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 21.

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

15. LOANS AND BORROWINGS

	Consolidated	
	2019	2018
Current	\$	\$
Convertible Note	1,603,900	-
	1,603,900	-

Terms and Repayment Schedule

Type	Currency	Interest rate	Year of Maturity	30 June 2019		30 June 2018	
				Face Value	Carrying Amount	Face Value	Carrying Amount
Convertible Notes	AUD	6%	2021	1,603,900	1,603,900	-	-

The convertible notes may be paid prior to maturity date should certain conditions be satisfied, refer to conversion terms below.

Convertible Notes

Proceeds from issue of Convertible Notes	1,603,900
Net Proceeds	1,603,900
Accreted Interest	17,178
Carrying amount of Liability at 30 June 2019	1,621,078

Conversion terms:

The convertible note carries a fixed coupon rate of 6%. The convertible note, including any accrued interest, is mandatorily convertible from issue date through to the maturity date of 30 December 2020 in the event of (a) additional finance being raised above \$5m or (b) a transaction occurring in relation to funding and development of HXP124 with a third party. The conversion price is \$0.50 per share, however reduces over time to \$0.20 per share under scenario (a) depending on the number of months that have elapsed prior to the additional finance being raised from 30 June 2019 (through to the maturity date). Under a third scenario (c), in the event of a sale of all, or substantially all of the shares in the Company prior to maturity, the face value of the notes and any accrued interest will be repaid in cash at 250%. In the event that the maturity date is reached with none of the events (a), (b) or (c) occurring, the instrument (comprising the face value and any accrued interest) will be mandatorily converted at a rate of \$0.20 per share.

The convertible note has been recorded including the fair value of embedded derivative. The Monte Carlo valuation approach has been used to determine the fair value of the embedded derivative. Key inputs include volatility at 100%, face value of \$1,603,900, risk free rate of 1.5% and probabilities of 60%, 10%, 10% and 20% respectively for the events a) to d) listed above occurring.

Reconciliation of movements of liabilities to cash flows arising from financing activities

Proceeds from issue of convertible notes of \$1,603,900 have been included as a financing activity in the statement of cash flows.

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

16. EMPLOYEE BENEFITS

	Consolidated	
	2019	2018
Current	\$	\$
Accrued salary and wages	130,201	-
Superannuation	17,557	9,059
Liability for annual leave	48,168	54,652
Liability for long service leave	157,518	110,290
	353,444	174,001

17. CAPITAL AND RESERVES

Reconciliation of movement in capital and reserves

Consolidated and the Parent Entity

Ordinary Shares	Number of shares		Amount	
	2019	2018	2019	2018
			\$	\$
On issue at 1 July	129,888,789	129,888,789	60,976,378	61,556,496
Issued via rights issue for cash	-	-	-	-
Issue of shares on exercise of options	350,000	-	30,000	-
Transfer of capital raising costs to share capital	-	-	-	(580,118)
On issue at 30 June – fully paid	130,238,789	129,888,789	61,006,378	60,976,378

The Company does not have authorised capital or par value in respect of its issued shares. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

17. CAPITAL AND RESERVES (continued)

Equity option reserve	Number of options		Amount	
	2019	2018	2019 \$	2018 \$
On issue at 1 July	-	-	200,000	200,000
Issued	-	-	-	-
Lapse of share options	-	-	-	-
On issue at 30 June – fully paid	-	-	200,000	200,000

Equity compensation reserve	Number of options		Amount	
	2019	2018	2019 \$	2018 \$
On issue at 1 July	10,507,000	8,548,000	1,138,021	1,057,137
Issued as compensation	7,375,000	1,959,000	115,378	80,884
Exercise of share options	(350,000)	-	-	-
Lapse of share options	(125,000)	-	-	-
On issue at 30 June – fully paid	17,407,000	10,507,000	1,253,399	1,138,021

Capital Raising Reserve	2019 \$	2018 \$
At beginning of the year	-	(579,368)
Capital raising costs incurred during the year	-	(750)
Transfer to share capital	-	580,118
At end of the year	-	-
Total reserves at 30 June	1,453,399	1,338,021

Equity Option Reserve

The equity option reserve comprises the accumulated amount of share options issued to other parties.

Equity Compensation Reserve

The equity compensation reserve represents the accumulated amount of share options granted to key management personnel and other personnel under compensation schemes.

Capital Raising Reserve

The capital raising reserve represents costs in respect of the capital raising. On finalisation of all capital raising costs the amount in the reserve account is transferred to the share capital account.

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

18. SHARE-BASED PAYMENTS

The terms and conditions of the grants for options outstanding at 30 June 2019 are as follows. All options are to be settled by physical delivery of shares.

Grant date / parties entitled	Number of instruments	Vesting conditions	Contractual life of options
Options granted to key management on 26 th August 2014	540,000	Immediate vesting	5 years
Options granted to key management on 18 th November 2014	500,000	Immediate vesting	5 years
Options granted to key management on 18 th November 2014	200,000	Vesting on earlier of 31 st December 2016 or sale of the company	5 years
Options granted to other personnel on 26 th August 2014	100,000	Immediate vesting	5 years
Options granted to other personnel on 15 th September 2014	508,000	Immediate vesting	5 years
Options granted to key management on 11 th December 2015	1,500,000	Immediate vesting	5 years
Options granted to key management on 11 th December 2015	1,250,000	Vesting 11 th December 2016	5 years
Options granted to key management on 12 th February 2017	1,250,000	Vesting 31 st December 2017	5 years
Options granted to key management on 12 th February 2017	2,350,000	Vesting on earlier of 25% at the completion of each year post grant or on completion of deal meeting specified criteria	5 years
Options granted to other personnel on 1 st January 2018	364,000	Vested 1 st January 2018	5 years
Options granted to other personnel on 1 st January 2018	145,000	Vesting upon completion and delivery of deliverables	5 years
Options granted to key management on 1 st January 2018	1,125,000	Vesting 31 st December 2018	5 years
Options granted to other personnel on 1 st January 2018	100,000	Vesting on completion and delivery of deliverables on 30 th June 2019	5 years
Options granted to other personnel on 15 th February 2018	100,000	Vesting on completion and delivery of deliverables on 30 th June 2019	5 years
Options granted to key management on 7 th July 2018	125,000	Vesting 31 st December 2019	5 years
Options granted to key management on 1 st January 2019	1,250,000	Vesting 31 st December 2019	5 years
Options granted to key management on 22 nd February 2019	1,000,000	250,000 vesting on 31 st December 2019 with the remainder vesting on completion and delivery of deliverables	5 years
Options granted to key management on 18 th June 2019	5,000,000	Partially vesting on 1 st April 2020 with remaining in monthly increments	10 years
Total share options	17,407,000		

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

18. SHARE-BASED PAYMENTS *(continued)*

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2019	2019	2018	2018
Outstanding at 1 July	\$0.30	10,507,000	\$0.32	8,548,000
Exercised during the period	\$0.09	(350,000)	-	-
Lapsed during period	\$0.20	(125,000)	-	-
Granted during the period	\$0.49	7,375,000	\$0.20	1,959,000
Outstanding at 30 June	\$0.39	17,407,000	\$0.30	10,507,000

The options outstanding at 30 June 2019 have various exercise prices (\$0.08, \$0.20 and \$0.50) and a weighted average remaining contractual life of 4.6 years.

Measurement of fair values

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using the Black Scholes Model. This model is generally used to calculate a theoretical price of an option on a stock that does not pay dividends using the five key variables of an option's price being the current spot price, future exercise price, volatility, time to expiration, and the risk-free interest rate.

The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans issued to directors (key management personnel) in FY19 were;

Non executive Directors; 1,250,000 options with Risk-free rate 2.26%, exercise price of \$0.50, fair value at grant date \$0.0273, expected volatility (annualised) 85.12%, expected life of 5 years, and an annualised dividend rate of 0%.

Non executive Director; 1,000,000 options with Risk-free rate 1.71%, exercise price of \$0.50, fair value at grant date \$0.0373, expected volatility (annualised) 100.00%, expected life of 5 years, and an annualised dividend rate of 0%.

Executive Director; 5,000,000 options with Risk-free rate 1.37%, exercise price of \$0.50, fair value at grant date \$0.1412, expected volatility (annualised) 100.00%, expected life of 10 years, and an annualised dividend rate of 0%.

Non executive Director: 125,000 options with Risk-free rate 2.24%, exercise price of \$0.20, fair value at grant date \$0.0326, expected volatility (annualised) 72.27%, expected life of 5 years, and an annualised dividend rate of 0%.

The inputs used in the prior year for share options issued to directors, key management staff and other employees were:

Executive and Non executive Directors: 1,959,000 options with Risk-free rate 2.26%, exercise price of \$0.20, fair value at grant date \$0.0378, expected volatility (annualised) 80.00%, expected life of 5 years and an annualised dividend rate of 0%.

Modification of options during the year

The vesting condition of the 2,600,000 options issued to 3 directors and 1 key management personnel on 12 February 2017 was modified due to the change in the company strategy. The original vesting condition was upon successful completion of deal satisfying specified criteria. These options now vest 25% on 31 December 2018 and 25% each anniversary of this date unless the original deal terms are met in which case all remaining options will vest at that time. The impact of the modification was \$26,637. The valuation method used was Black/Scholes-Merton.

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

18. SHARE-BASED PAYMENTS *(continued)*

Employee expenses

	Consolidated	
	2019	2018
Current	\$	\$
Share options granted	115,278	80,594
Total expense recognised as employee costs	115,278	80,594

19. NOTES TO THE STATEMENT OF CASHFLOW

19a. RECONCILIATION OF CASH

	Note	Consolidated	
		2019	2018
Reconciliation of cash at the end of the period (as shown in the statement of cash flows) to the related items in the accounts is as follows:		\$	\$
Cash on hand and at bank	11	1,950,569	1,916,417

19b. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated	
	2019	2018
Cash flows from operating activities	\$	\$
Loss for the period	(2,895,532)	(1,951,228)
<i>Adjustments for:</i>		
Interest received and foreign exchange differences – classified as investing activity and movement in cash	(23,129)	26,951
Depreciation	172,484	182,613
Equity settled share based payment expense	115,278	80,594
Operating loss before changes to working capital	(2,630,899)	(1,661,070)
(Increase)/decrease in trade and other receivables and prepayments	701,393	(701,833)
Increase/(decrease) in payables and employee benefits	290,433	151,820
Net cash from/(used in) operating activities	(1,639,073)	(2,211,083)

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

20. AUDITOR'S REMUNERATION

Audit Services	Consolidated	
	2019	2018
Auditors of the Company	\$	\$
KPMG Australia		
- Audit of the annual financial report	37,950	27,820
- Review of half year financial statements	13,100	13,100
	51,050	40,920

21. FINANCIAL INSTRUMENTS

Credit Risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at 30 June was:

	Note	Consolidated	
		2019	2018
		\$	\$
Trade and other receivables	12	114,389	797,467
R&D Tax Incentive – ATO	12	2,129,622	2,145,984
GST receivable – ATO		77,803	67,426
Cash on hand and at bank	11	1,950,569	1,916,417
		4,272,383	4,927,294

Cash on hand and at bank include deposits with the National Australia Bank.

Impairment Losses

The Group has receivables past due of \$NIL (2018: \$NIL) and no impairment losses have been recognised (2018: \$NIL).

The Group is in the development phase of its research and development program. The Group's income is currently limited to interest on cash and term deposits, Australian government grants and collaborative research agreements where income is received in advance. Accordingly, risk of impairment losses is minimal.

Liquidity Risk

The Group has trade and other payables and employee provisions with a carrying value of \$2,328,542 (2018: \$2,020,918) (notes 14 and 16), which are payable in cash and have a maturity of less than 6 months. Long Service leave current liability which is also included in Note 16, totals \$157,518 (2018: \$110,290). The Group also has a convertible notes of \$1,603,900 (2018: nil) (note 15).

Term deposits were held during the year and at year end there are currently NIL term deposits.

Currency risk

At 30 June 2019, there were no receivables of another currency, and payables of EUR 375 (2018: EUR 34,099) and USD \$215,483 (2018: USD \$NIL). Of the cash on hand at 30 June 2019, the Group held USD \$574,801 (AUD \$810,606) (2018: USD \$160,736; AUD equivalent of \$216,078) in a US dollar denominated account.

Interest Risk

Exposure to interest rate risks arises in the normal course of the Group's business in respect of interest income on cash at bank (note 11). The weighted average interest rate in respect of interest income in 2019 was 0.85% (2018: 1.23%).

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

21. FINANCIAL INSTRUMENTS *(continued)*

Fixed rate instruments

In respect of term deposits held during the year a 100 basis points increase in interest rates would have decreased the loss by \$2,167 (2018: \$4,500). A 100 basis points decrease in interest rates would have increased the loss by \$2,167 (2018: \$4,500).

Variable rate instruments

In respect of cash at bank a 100 basis points increase in interest rates would have decreased the loss by \$9,877 (2018: \$12,929). A 100 basis points decrease in interest rates would have increased the loss by \$9,877 (2018: \$12,929).

Estimation of fair values

The fair value of a financial asset or a financial liability is the amount at which the asset could be exchanged, or liability settled in a current transaction between willing parties after allowing for transaction costs. The carrying value of financial assets and liabilities approximates their fair value at 30 June 2019.

Fair value hierarchy

No financial instruments are carried at fair value at 30 June 2019, however, as noted above the carrying amounts approximate fair value in respect of financial assets and liabilities.

22. CONTINGENCIES

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

Guarantee and Indemnification

The Company has an Institutional Biosafety Committee (IBC) to advise on certain aspects of the Group's field trial applications. The Group has agreed to indemnify, release and forever discharge the members of the IBC from and against any claim or liability, incurred by the members, arising in connection with the conduct of field trials and related applications being undertaken by the Group. The financial exposure from this arrangement is expected to be nil.

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

23. RELATED PARTIES

Directors

The following were key management personnel of the Group and the Company at any time during the reporting period and unless otherwise indicated were Directors for the entire period:

Non-Executive Chairman

Professor Jonathan West

Executive Directors

Professor Marilyn Anderson, Chief Science Officer
Dr. Nicole van der Weerden, Chief Executive Officer
Mr Michael Aldridge (appointed 21st May 2019)

Non-Executive Directors

Dr. John Bedbrook
Mr GF Dan O'Brien
Mr Gordon S Black (retired 17th July 2018)
Mr Justin Yap (appointed 17th July 2018)
Mr Scott Robertson (appointed 21st November 2018)

Executives

Ms Elisha Larkin, Company Secretary

The key management personnel compensation included in 'employee benefits expense' is as follows:

	Consolidated	
	2019	2018
	\$	\$
Short term employee benefits	295,136	237,501
Post employment benefits	24,767	20,594
Share based payments	109,310	64,354
Other leave benefits	63,776	23,251
	492,989	345,700

Individual Directors and Executive compensation disclosures

The fixed remuneration and superannuation that La Trobe university pay to Dr van der Weerden and Professor Anderson is not included in this note.

Apart from the details disclosed in this note, no Director has entered into a material contract with the Group and the Company since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year end.

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

23. RELATED PARTIES (continued)

Options and rights over equity instruments

The movement during the reporting period in the number of options over ordinary shares in the Company held directly, indirectly or beneficially, by each key management person including their related parties, is as follows:

Key Management Personnel 2019	Held at 1 July 2018	Exercised	Lapsed at 1 July 2019	Granted as Compensation	Held at 30 June 2019	Vested and exercisable at reporting date
J West	2,000,000	-	-	500,000	2,500,000	2,000,000
M Anderson	1,000,000	(250,000)	-	-	750,000	500,000
N van der Weerden	2,000,000	-	-	-	2,000,000	1,500,000
E Larkin	140,000	-	-	-	140,000	90,000
J Bedbrook	2,200,000	-	-	250,000	2,450,000	1,200,000
G Black	750,000	-	(125,000)	-	625,000	625,000
GF O'Brien	750,000	-	-	250,000	1,000,000	750,000
J Yap	-	-	-	375,000	375,000	125,000
S Robertson *	100,000	-	-	1,000,000	1,100,000	100,000
M Aldridge *	-	-	-	5,000,000	5,000,000	-
	8,940,000	(250,000)	(125,000)	7,375,000	15,940,000	6,890,000

*Scott Robertson was appointed a Director on 21 November 2018, and Michael Aldridge appointed on 21 May 2019.

Key Management Personnel 2018	Held at 1 July 2017	Exercised	Lapsed at 1 July 2018	Granted as Compensation	Held at 30 June 2018	Vested and exercisable at reporting date
J West	1,500,000	-	-	500,000	2,000,000	1,500,000
M Anderson	1,000,000	-	-	-	1,000,000	500,000
N van der Weerden	2,000,000	-	-	-	2,000,000	1,000,000
E Larkin	140,000	-	-	-	140,000	40,000
J Bedbrook	1,950,000	-	-	250,000	2,200,000	950,000
G Black	500,000	-	-	250,000	750,000	500,000
GF O'Brien	500,000	-	-	250,000	750,000	500,000
S Robertson	-	-	-	100,000	100,000	-
	7,590,000	-	-	1,350,000	8,940,000	4,990,000

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

23. RELATED PARTIES (continued)

Movement in shares

The movement during the reporting period in the number of ordinary shares in the Company held directly, indirectly, or beneficially by each key management personnel, including their related parties, is as follows:

2019	Held at 1 July 2018	Shares issued under offer	Purchases	Received on exercise of options	Sales	Held at 30 June 2019
Key Management Personnel						
Jonathan West	3,200,000	-	-	-	-	3,200,000
Nicole van der Weerden	214,400	-	-	-	-	214,400
Elisha Larkin	115,142	-	-	-	-	115,142
Marilyn Anderson	3,811,096	-	-	250,000	-	4,061,096
GF Dan O'Brien	15,035,894	-	-	-	-	15,035,894
John Bedbrook	500,000	-	-	-	-	500,000
Gordon Black	-	-	-	-	-	-
Justin Yap	-	-	-	-	-	-
Scott Robertson	-	-	-	-	-	-
Michael Aldridge	-	-	-	-	-	-
	22,876,532	-	-	250,000	-	23,126,532

2018	Held at 1 July 2017	Shares issued under offer	Purchases	Received on exercise of options	Sales	Held at 30 June 2018
Key Management Personnel						
Jonathan West	3,200,000	-	-	-	-	3,200,000
Nicole van der Weerden	214,400	-	-	-	-	214,400
Elisha Larkin	115,142	-	-	-	-	115,142
Marilyn Anderson	3,811,096	-	-	-	-	3,811,096
GF Dan O'Brien	15,023,394	-	12,500	-	-	15,035,894
John Bedbrook	500,000	-	-	-	-	500,000
Gordon Black	-	-	-	-	-	-
	22,864,032	-	12,500	-	-	22,876,532

Dato Lim Sen Yap, a major shareholder (10.86% shareholding as of 30 June 2019), became a related party on the 17th July 2018 when his son Justin Yap became a director of the Company.

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

23. RELATED PARTIES *(continued)*

Key management personnel and directors' transactions

Professor Anderson and Dr van der Weerden are employees of La Trobe University. During the course of the financial year ended 30 June 2019, amounts (including GST) totalling \$3,133,808 (2018: \$3,886,039) were paid or payable by Hexima to La Trobe University for research work carried out on behalf of the Group. These transactions were conducted on normal commercial terms. Trade accounts and/or accruals payable to La Trobe University at 30 June 2019 were \$1,252,171 (exclusive of GST) (2018: \$674,306).

24. OPERATING LEASES

Leases as lessor

Lease rentals are receivable as follows:

	2019	2018
	\$	\$
Less than one year	300,000	400,000
Between one and five years	-	300,000
	300,000	700,000

25. GROUP ENTITIES

	Country of incorporation	Ownership Interest	
Parent Entity		2019	2018
Hexima Limited	Australia		
Significant subsidiaries			
Hexima Holdings Limited	Australia	100%	100%
Pharmagra Pty Ltd	Australia	100%	100%
Hexima Operations USA, Inc	USA	100%	-

Pharmagra Pty Ltd is incorporated in Australia and is a 100% owned subsidiary of the Company. Pharmagra Pty Ltd has total assets and net assets of \$2.00 at 30 June 2019.

Hexima Holdings Pty Ltd is incorporated in Australia and is a 100% owned subsidiary of the Company. Hexima Holdings Pty Ltd has total assets of \$1,235,086 at 30 June 2019, which comprises the Hexima glasshouse located at La Trobe University.

Hexima Operation USA, Inc was incorporated in the USA on 23 May 2019 and has total net deficiency of (\$130,187) at 30 June 2019 comprising salary accruals.

HEXIMA LTD Notes to financial statements for year ended 30 June 2019

26. PARENT ENTITY DISCLOSURES

	Company	
	2019	2018
	\$	\$
<i>Result of the Parent Entity</i>		
Loss for the period	(2,765,331)	(1,951,228)
Other Comprehensive income	-	-
Total Comprehensive loss for the period	(2,765,331)	(1,951,228)
<i>Financial Position of the Parent entity at year end</i>		
Current assets	4,314,245	4,981,486
Total assets	5,750,803	6,589,433
Current liabilities	3,802,242	2,020,918
Total liabilities	3,802,242	2,020,918
<i>Total equity of the Parent entity comprising of:</i>		
Share capital	61,586,496	61,556,496
Reserves	873,280	757,903
(Accumulated losses)	(60,511,215)	(57,745,884)
Total Equity	1,948,561	4,568,515

Parent entity contingent liabilities

Refer to note 22.

27. SUBSEQUENT EVENTS

Subsequent to year end, the Group completed the convertible notes issue where \$1,400,000 (terms and conditions set out in Note 15) was received on the 26 July 2019, bringing the total to \$3,003,900. These convertible notes were subscribed to by Director Dan O'Brien and related party Dato Yap. Furthermore, an additional 500,000 share options were issued to other employees on 15 July 2019.

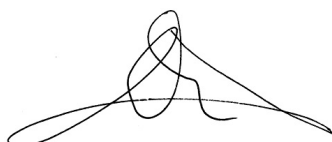
Other than the matter noted above, there have been no events subsequent to balance date which would have a material effect on the Group's financial statements as at 30 June 2019.

DIRECTORS' DECLARATION

- 1) In the opinion of the Directors of Hexima Limited ("the Company"):
 - a) The consolidated financial statements and notes that are set out on pages 22 to 55, are in accordance with the Corporations Act 2001, including:
 - i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the financial year ended on that date;
 - ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - b) There are reasonable grounds to believe that the Company will be able pay its debts as and when they become due and payable.
- 2) The Directors draw attention to Note 2(a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

Dated at Melbourne this 18th day of September 2019.



Professor Jonathan West
Non-Executive Chairman



Dr Nicole van der Weerden
Executive Director and Chief Executive Officer



Independent Auditor's Report

To the shareholders of Hexima Limited

Opinion

We have audited the **Financial Report** of Hexima Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- *Consolidated statement of financial position* as at 30 June 2019
- *Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows* for the year then ended
- Notes including a summary of significant accounting policies
- *Directors' Declaration*.

The **Group** consists of Hexima Limited (the Company) and the entities it controlled at the year end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty related to going concern

We draw attention to Note 2(f), "Going Concern" in the Financial Report. The conditions disclosed in Note 2(f), indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the Financial Report. Our opinion is not modified in respect of this matter.

Other Information

Other Information is financial and non-financial information in Hexima Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.



A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our Auditor's Report.

A handwritten signature of the KPMG firm, written in blue ink.

KPMG

A handwritten signature of Adrian Nathanielsz, written in blue ink.

Adrian Nathanielsz
Partner

Melbourne

18 September 2019



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Hexima Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Hexima Limited for the financial year ended 30 June 2019 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Adrian Nathanielsz
Partner

Melbourne

18 September 2019