Factor Therapeutics Limited
Financial Report
For the Six-month Transitional Financial Year
ended 31 December 2017

ABN: 45 101 955 088

CONTENTS

DIRECTORS' REPORT

Your Directors present their report on Factor Therapeutics Limited ("Company") and Controlled Entities, ("Group") for the six-month transitional financial year ended 31 December 2017. The names and qualifications of Directors in office during the transitional financial year and up to the date of this report are detailed below. Directors were in office for the entire period unless noted otherwise.

Cherrell Hirst, AO	Chairman
Christian Behrenbruch	Non-Executive Director
Tim Hughes	Non-Executive Director
Robert Ryan	Non-Executive Director
John Michailidis	Non-Executive Director

Cherrell Hirst AO, FTSE MBBS BEdSt DUniv FAICD
Non-executive Chairman
Appointed Non-Executive Director 30 June 2009; appointed Chairman 7 April 2015
Cherrell Hirst AO has had a distinguished clinical career in the detection and diagnosis of breast cancer as Director of the Wesley Breast Clinic for 20 years; and extensive and respected achievements as a director of multiple commercial, government and not-for-profit organisations including two ASX top 50 companies and numerous life sciences start-ups. She is a Director of the Gold Coast Hospital and Health Service and RSL Care RDNS Limited and the John Villiers Charitable Trust. Dr Hirst is also the Chairman of the Advisory Board of the Institute of Molecular Biosciences at the University of Queensland. During the previous three years, Dr Hirst has served as Non-Executive Director, ImpediMed Limited (ASX:IPD) (August 2005 to November 2017) and Medibank Private Limited (ASX:MPL) (December 2009 to August 2017). Dr Hirst is an Adjunct Professor at the University of Queensland and is a Fellow of the Academy of Technological Sciences and Engineering.

Christian Behrenbruch, BEng(Hons) DPhil(Oxon) MBA JD GAICD
Non-Executive Director
Appointed Executive Director 12 October 2015; Non-Executive Director effective 1 June 2017
Christian Behrenbruch has over 15 years of C-level leadership experience in the medtech, biotechnology and healthcare IT space, and has significant experience as a director of commercial and non-profit organisations. His former CEO/Director-level appointments include Mirada Solutions (now Siemens Plc), Fibron Technologies and ImaginAb, Inc. He is a former director of Momentum Biosciences LLC, Siemens Molecular Imaging Ltd, Radius Health Ltd (now Adaptix), Cell Therapies P/L (Peter MacCallum Cancer Centre) and the Oncidium Foundation. He is currently the Managing Director and CEO of Telix Pharmaceuticals Limited (ASX:TLX), a Director of Amplia Therapeutics Pty Ltd, Chairman of Monash Engineering and IT Foundation Board and is a Professorial Fellow at Monash University.

Tim Hughes, BSc(Hons) BA (Hons) MNatRes
Non-Executive Director
Appointed Non-Executive Director 1 November 2014
Tim Hughes has over thirty years' experience in senior roles in the investment management and investment banking industries. He previously spent thirteen years as a senior executive at Rothschilds, where he was a board director and executive committee member. Mr Hughes has a strong track record in business development and strategic thinking and brings financial focus to the Board. Currently Mr Hughes is a Director of Value Capital Management Pty Limited and South Endeavour Pty Limited; and sits on the Investment Committee of HESTA.

Robert Ryan, PhD (Toxicology), MS (Pharmacokinetics), MS (Genetics), BS (Biology)
Non-Executive Director
Appointed Non-Executive Director 13 September 2016
Robert Ryan, President and CEO of Innova Therapeutics, and Co-Founder and former CEO of Scioderm, has more than 27 years of research, pharmaceutical and biotech experience, spanning the global development process from preclinical through Phase IV. Dr Ryan previously held senior regulatory positions

at three of the top five leading CRO's, PPD, INC Research, and Quintiles. Dr Ryan's diverse pharmaceutical career covered senior preclinical, regulatory and clinical activities with Roche, Bristol-Myers Squibb (BMS), UCB, Atherogenics and Pfizer. Prior to working in the pharmaceutical/biotech industry, Dr Ryan conducted research for several years at the National Institutes of Health's environmental division. Dr Ryan graduated with a doctorate degree in Toxicology from the University of North Carolina at Chapel Hill, and is board certified in Toxicology. In addition, Dr Ryan has advanced degrees in Genetics and Pharmacokinetics. Currently Dr Ryan is Director of Vida Therapeutics Inc., member of Scientific Advisory Board of Renovion, Board Member of US Dystrophic Epidermolysis Bullosa Research Association (DEBRA) and also Board Member of Make-A-Wish Foundation, NC Chapter.

John Michailidis, BSc (Hons) EMBA (HARV) MAICD
Non-Executive Director
Appointed Non-Executive Director 14 February 2017
Mr. Michailidis is a seasoned pharmaceutical executive and brings 30 years of commercial pharmaceutical experience to Factor, most recently as Managing Director for TEVA Pharma Pty Ltd where he set up operations in Australia and New Zealand. His career has ranged from global franchise and regional executive leadership roles with F. Hoffman – La Roche (Roche) to CEO experience with growth-stage biopharmaceutical companies, such as AviPep and Orphan Australia (acquired by Sigma). Mr. Michailidis holds a BSc in Genetics from LaTrobe University, and executive business qualifications from Harvard Business School and INSEAD.

DIRECTORS' INTERESTS IN COMPANY SECURITIES

	Number of Ordinary Shares	Number of Options
Cherrell Hirst	3,323,810	300,000
Christian Behrenbruch	2,857,142	4,000,000
Tim Hughes	-	300,000
Robert Ryan	-	1,000,000
John Michailidis	-	1,000,000

COMPANY SECRETARY

Melanie Farris (AGIA, ACIS) BComn Grad Dip ACG

Ms Farris is an experienced governance, communications and operations professional. Melanie is currently Chair of Synapse Australia Limited, and in governance roles with Factor Therapeutics Limited (ASX:FTT), Telix Pharmaceuticals Limited (ASX:TLX), Invion Limited (ASX:IVX), Amplia Therapeutics Pty Ltd and Menzies Research Centre Limited. Melanie's previous roles include with HRH The Prince of Wales's Office, Global Asset Management, Imperial Cancer Research Fund, and The Prince's Foundation. Melanie holds a Bachelor of Communication (Public Relations), and a Graduate Diploma in Applied Corporate Governance. She is an Associate of the Governance Institute of Australia and an Associate of the Institute of Chartered Secretaries (UK).

PRINCIPAL ACTIVITIES

Factor Therapeutics is a clinical-stage life sciences group. The principal activities during the year were the development and commercialisation of the Company's proprietary intellectual property in wound healing and tissue regeneration. There were no significant changes in the nature of the Group's principal activities during the year.

OPERATING RESULTS AND DIVIDENDS

The loss after tax of the Group for the six-month transitional financial year ended 31 December 2017 was $2,937,847. A proportion of the loss ($416,757) was non-cash in nature and comprised the expensing of options, depreciation and net foreign exchange differences. No dividend was proposed or paid.

CORPORATE STRUCTURE

Factor Therapeutics Limited is an entity incorporated and domiciled in Australia. Factor is listed on the Australian Securities Exchange with the code FTT (ASX:FTT).

REVIEW OF OPERATIONS

Factor Therapeutics' lead program, VF001, is an advanced biologic product for wound care that harnesses a targeted growth factor approach to accelerate the healing process. This is a platform technology with multiple clinical applications and is currently being developed to heal chronic wounds (venous leg ulcer, VLU) that can persist for months or even years. During the six-month transitional financial year ended 31 December 2017 the Company focused primarily on recruiting patients into a Phase 2b clinical trial of VF001 for the treatment of VLU (study VF00102), whilst continuing its pipeline expansion program.

The Company has maintained five major areas of operational focus for the period:

1. Cost Control and Expenditure Focus on Clinical Activities

The Company has maintained a modest basic burn-rate and continued to focus on managing costs in the most effective way to achieve clinical and commercial goals. Specifically, to complete and generate a readout of the Phase 2b trial and further pipeline development, this objective was achieved through robust financial controls and judicious use of high-value contractors rather than in-house headcount.

2. Team Development

The Company's primary effort is in its research and development program and employee retention has been a continued area of focus, retaining key personnel and knowledge in support of the innovation process.

3. Phase 2b Clinical Trial – VF00102

In November 2017 the Company passed the key milestone of 50% recruitment in its multi-centre, randomised, placebo-controlled Phase 2b trial being conducted in the United States to evaluate the Company's lead molecule (VF001) in healing VLU. Designated VF00102 (clinicaltrials.gov: NCT02973893), the trial employs a highly sophisticated design to enrich the study population with patients whose hard-to-heal ulcers the Company believes will derive the most benefit from VF001. The trial is expected to complete enrolment during calendar Q2 2018 with read-out shortly thereafter. Completion of VF00102 will allow the Company to generate the data required to revisit a submission for CE mark approval in Europe, to prepare for end of Phase 2 regulatory interactions with the US FDA and to drive business development and partnering discussions. With the passing of the key 50% recruitment milestone the trial finished the year on the "home stretch" and the Company continues to support sites, staff and patients through to a successful conclusion and delivery of a high-quality data set.

4. Indication Expansion

Both VF001 and the Company's general IP platform have broad potential utility in a variety of advanced wound care applications. The Company has previously invested resources in its diabetic foot ulcer (DFU) program as well as the potential use of its technologies for ocular wound care. Whilst the Company has focused primarily on recruitment to its Phase 2 program during the period, management has taken advantage of a brief pause in development of these additional indications to consult with medical and scientific advisers as to the most effective way to proceed from a technical perspective. As such, substantial planning is underway for additional high-value applications of VF001 that not only expand the market opportunity for the Company's investment in its lead program, but also enable the Company to capture new intellectual property.

5. Pipeline Expansion

Beyond the indication expansion around VF001, the Company continued to pursue early, cost-effective expansion of its pipeline. This involves evaluating new constructs based on the Company's vitronectin-based targeted growth factor pipeline, primarily with ocular indications in mind. The Company also progressed a collaboration with Monash University around a novel wound care / dermatology collaboration focused on harlequin ichthyosis – a rare, but serious, congenital condition whereby the skin fails to form a complete barrier. This collaboration has the potential to incorporate more external opportunities and yield an orphan drug candidate that is well aligned with the Company's high-value, advanced wound care and dermatology assets.

FINANCIAL RESULTS

These Financial Statements are prepared on a going concern basis. As a clinical-stage drug development company, and as in prior years, the Company has recorded an operating loss for the period. Similar to other companies in the biotechnology sector, in order for the Company to execute its plans, opportunities to obtain additional capital may need to be identified by the Board to meet operational and program development needs.

The primary expense areas for the Group over the period have been in R&D and corporate costs. R&D expenses consist primarily of salaries and related employee benefits for R&D staff, costs associated with clinical trials, non-clinical activities such as regulatory and medical activities, and research-related overhead expenses.

Corporate expenses consisted primarily of salaries and related employee expenses for corporate staff, professional service fees including legal and accounting, compliance-related costs, as well as general overhead including rent and occupancy.

CHANGES IN ISSUED CAPITAL

Options

On 21 August 2017, the Company issued 3,500,000 unlisted Share Options to the management team under the Company's ESOP Plan. The options vest equally over three years, have an exercise price of $0.11 (11c) and will expire on 21 August 2022.

On 17 November 2017, following Shareholder approval at the Company's Annual General Meeting, the Company issued 1,000,000 unlisted Share Options to Non-Executive Director, Mr John Michailidis. 500,000 options vested immediately following shareholder approval, and the remaining of the options vest equally over two years, have an exercise price of $0.11 (11c) and will expire on 17 November 2022.

FORWARD STRATEGY

The company has four major execution elements to its business strategy over the next 12 months:

1. Execution of the Phase 2b clinical trial VF00102 in the US

Successful execution of this Phase 2b trial has the potential to accomplish three main outcomes:

- Demonstration of clinical efficacy in a commercially meaningful patient population. This in turn may provide the company with sufficient decision-making information to determine the feasibility of a Phase 3 trial. The multi-centre nature of the ongoing Phase 2b trial will position the company well to execute a Phase 3 trial if warranted.
- Establishment of a data package that is of sufficient robustness and completeness to properly engage in partnering-related discussions.
- The design of the Phase 2b trial is intended to comply with the data-gathering requirements outlined by the European Medicines Agency (EMA) during the Company's prior application for CE Marking. In conjunction with modest non-clinical activity, the data from the Phase 2b trial could be included in a CE Mark resubmission to EMA.

2. Indication expansion for the lead clinical program (VF001)

Although the current clinical activity is focused on VF001 for VLU, the Company is actively considering partnership/collaboration and capital requirements to expand the indications for use.

3. Pipeline expansion for the Company's core technology

The Company has a significant intellectual property portfolio that it intends to continue to expand through modest in-house R&D activities and third-party collaborations and in-licensing. The Company believes that the strength of its technology platform is conducive to the vision of a diversified biopharmaceutical company with a specialty focus on advanced wound care. Although the most significant value inflection for the Company lies in the Phase 2b VLU program for VF001, the Company continues to pursue several business development opportunities that may be captured to realise the value of the Company's significant investment in its intellectual property.

4. Partnering / Collaborations

The readout of VF00102, if successful, will be a major commercial value inflection point for the company. The Company reasonably expects that positive data will be the catalyst for collaborations, partnerships and potential M&A activity around the lead asset. Both board-level and executive hires reflect the Company's preparedness for this event.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Subsequent to the balance date, on 23 January 2018, the Board of Factor Therapeutics Limited resolved to change the Company's financial year end date from 30 June to 31 December. This change has been made to facilitate the Company's preparations for the readout from the Phase 2b clinical trial ongoing in the US. As a result, the Company has a six-month transitional financial year beginning on 1 July 2017 and ending on 31 December 2017. Thereafter, the Company will revert to a twelve-month financial year, commencing on 1 January and ending on 31 December 2018.

On 14 March 2018, the Group announced a capital raising of approximately $4.17 million, before issue costs, by way of a fully underwritten non-renounceable 1-for-7 entitlement offer at an issue price of $0.04 per New Share. The proceeds of the entitlement offer will be used to drive the lead programme (VF001 in VLU), in particular the ongoing Phase 2b clinical trial and to progress pipeline assets to the next milestones.

There were no other significant events subsequent to the Balance Date and up to the date of this Report which materially affect or may materially affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Total equity is recorded at the balance date at $7,610,470 (compared to $10,309,402 at 30 June 2017), being a decrease of $2,698,932. The movement is largely the result of a reduction in net assets in the form of cash and cash equivalents. There were no other significant changes in the state of affairs of the Group during the financial year.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The likely developments in the operations of the Company and the expected results from those operations in future financial years will be affected by the success of management in securing one or more commercial transactions for one or more of the Company's drug assets.

The Company has identified material risks, including but not limited to those below, that may impact success in the above plans, and which are considered common to companies in the life sciences/ drug development sector. The strategies in place to manage each are detailed below.

1 - Clinical development risk: The Company seeks to mitigate clinical and regulatory risk by maintaining an awareness of current clinical and regulatory issues and trends, and through the use of expertise in the development of onward clinical development plans, including draft clinical trial protocols for future activities.

2 - Competition: one or more competitor product candidates may be sufficiently safe and effective so as to minimise the real or perceived value of the Company's product candidates, thereby negatively affecting the value placed upon our products for licensing or partnering. The Company aims to manage competition risk through ongoing market monitoring and analysis of the development pipelines and the competitor landscape.

3 - Funding risk: The Company has a structured business development program, however to the extent the Company does not find an appropriate partner for its programs, it may need to raise further funds, which may not be available when required or only available on unfavourable terms.

4 - Key Person Dependency risk: The Company recognises that key-persons, being those with special proven skills and critical knowledge behind those skills, are essential to the business and that the Company is exposed to key person dependency risk when its programs and reputation could be damaged by the departure of one or a few key-persons.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. Nonetheless, the Company is committed to high standards of environmental care.

UNISSUED SHARES: SHARE OPTIONS

At the date of this report there were 36,209,320 (30 June 2017: 31,709,320) unissued ordinary shares under options as detailed in the table below. Option holders do not have any rights to participate in any issues of shares or other interests of the Company or any other entity. During the six-month transitional financial year ended 31 December 2017, no ordinary shares of Factor Therapeutics Limited were issued on the exercise of share options granted.

Grant Date	Expiry Date	Exercise Price	Number of Options
14-Sep-15	14-Oct-19	$0.080	630,000
01-Dec-15	01-Dec-20	$0.110	1,600,000
01-Jul-16	30-Jun-21	$0.110	7,000,000
03-Aug-16	04-Jul-20	$0.035	1,400,000
24-Aug-16	24-Aug-21	$0.110	1,500,000
23-Nov-16	23-Nov-21	$0.110	1,000,000
23-Jun-17	23-Jun-22	$0.110	18,579,320
21-Aug-17	21-Aug-22	$0.110	3,500,000
17-Nov-17	17-Nov-22	$0.110	1,000,000
			36,209,320

DIRECTORS' MEETINGS

The number of meetings of Directors and committees of Directors held in the six-month transitional financial year ended 31 December 2017, and the number of meetings attended by each Director, is listed below.

	Directors' Meetings		Audit and Risk Management Committee		Nomination Committee		Remuneration Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
C Hirst	7	7	-	-	1	1	-	-
T Hughes	7	6	3	3	1	1	-	-
C Behrenbruch	7	7	3	3	1	1	1	1
R Ryan	7	6	3	3	1	1	1	-
J Michailidis	7	7	-	-	-	-	1	1

COMMITTEE MEMBERSHIP

The Board reviewed its Committee Membership in June 2017. At the date of this report the Board's Committees and their membership are as follows:

- Audit and Risk Management Committee, the members of which are independent Non-Executive Directors Mr Tim Hughes (Chairman) and Dr Robert Ryan; and Non-Executive Director Dr Christian Behrenbruch. Dr Cherrell Hirst is appointed ex-officio.

- Remuneration Committee, the members of which are independent Non-Executive Directors, Mr John Michailidis (Chairman) and Dr Robert Ryan; and Non-Executive Director, Dr Christian Behrenbruch. Dr Cherrell Hirst is appointed ex-officio.

- Nomination Committee, the members of which are independent Non-Executive Directors, Dr Cherrell Hirst (Chairman), Mr Tim Hughes and Dr Robert Ryan; and Non-Executive Director Dr Christian Behrenbruch.

REMUNERATION REPORT (AUDITED)

This Remuneration Report for the six-month transitional financial year ended 31 December 2017 outlines the remuneration arrangements for the Company in accordance with the requirements of the *Corporations Act 2001* and its regulations. This information has been audited as required by section 308(3C) of the *Corporations Act 2001*.

Factor Therapeutics' remuneration framework and practices are designed to align remuneration outcomes with shareholder interests and to attract and retain persons with appropriate and relevant capability. This remuneration report details the remuneration arrangements for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any Director, whether executive or otherwise.

For the purposes of this report, the term "Director" refers to Non-executive Directors (NEDs) only. "KMP" refers to Executive Directors and other key management personnel.

The names and details of the Directors and KMP of the Company in office during the six-month transitional financial year and until the date of this report are detailed below. Unless otherwise noted, Directors and KMP listed are in office at the date of the report. There were no changes to KMP after the Balance Date and before the date this financial report was authorised for issue.

<u>Non-Executive Directors</u>

Cherrell Hirst	Chairman
Tim Hughes	Non-Executive Director
Robert Ryan	Non-Executive Director
John Michailidis	Non-Executive Director
Christian Behrenbruch	Non- Executive Director

Other Key Management

Dr Rosalind Wilson	Chief Executive Officer
Mr Nigel Johnson	Chief Operating Officer
Saskia Jo	Director of Finance

Non-executive Director Remuneration

In accordance with the company's constitution and ASX Listing Rules, the aggregate remuneration of Non-executive Directors is determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 28 November 2011 when shareholders approved an aggregate annual remuneration pool of $400,000. The total non-Executive Director remuneration of Factor Therapeutics Limited for the six-month transitional financial year ended 31 December 2017 is $176,890 (12 months ended 30 June 2017: $243,628). There were two additional directors appointed during the year ended 30 June 2017. The Board is not seeking an increase to the non-Executive remuneration pool at the Annual General Meeting for six-month transitional financial year ended 31 December 2017.

The amount of aggregate remuneration sought to be approved by shareholders and the fees paid to Directors are reviewed annually. Each Director receives an annual fee for being a Director of the Company, which reflects their obligations and responsibilities and takes into account the overall situation of the company and its cash position. Directors fees include statutory superannuation. There are no retirement benefits. The remuneration of non-Executive Directors consists only of Director's fees - currently no additional fees are paid for chairmanship or membership of board committees.

Key Management Personnel Remuneration

The Group aims to reward management personnel at Director level or above with a mix of remuneration and at a level commensurate with their position and responsibilities within the Group so as to:

- attract and retain appropriately capable and talented individuals;
- reward personnel for corporate, team and individual performance;
- align the interest of personnel with those of shareholders; and
- build a strong cohesive leadership team which can deliver execution excellence against the strategy.

Remuneration consists of:

- total fixed remuneration – base salary and superannuation; and
- 'at risk' remuneration – short-term incentives (STI) and long-term incentives (LTI).

The STI payable to the CEO is equivalent to 25% of fixed remuneration and for other staff 20% of fixed remuneration.

To ensure that the Group continues to attract, retain and motivate talented staff at a competitive cost, Factor will:

- aim to align total fixed remuneration to the median rate of the relevant market, with consideration given to experience, qualifications, performance and other non-financial benefits; and
- ensure 'at risk' remuneration provides an incentive for performance aligned with the strategic objectives of the company.

Adjustments to fixed remuneration and 'at risk' remuneration are paid/issued following:

- the annual performance and remuneration review, which is conducted by executive management based on achievement against the KPIs and recommended to the Remuneration Committee;
- review by the Remuneration Committee and recommendation ot the Board; and
- approval by the Board.

Performance and Remuneration Review

Performance and salary reviews are combined into a single review and conducted on an annual cycle which runs from 1 July to 30 June. There are no automatic adjustments to individual remuneration other than those required by law.

Position descriptions are prepared and reviewed, for all positions, when necessary due to internal or external changes, and are considered as part of the annual performance and remuneration assessment.

To provide a framework for the assessment of performance and remuneration, each year, KPIs are determined on a corporate and individual basis, based on the Board-approved annual operational plan. Corporate KPIs are approved by the Board, and individual KPIs (other than for the CEO) are set by the CEO and agreed with the board.

The relative contributions of corporate and individual KPIs for company personnel for the 17/18 year are:

- For the CEO 90% corporate, 10% individual;
- For other personnel 50% corporate, 50% individual

Achievement of KPIs will be assessed against realistic, stretch and minimum target metrics with the level of achievement calculated as follows:

- Achieved at Stretch: 125%;
- Achieved at Realistic: 100%; and
- Achieved at Minimum: 75%.

The KPIs for the twelve months ending 30 June 2018 are heavily weighted towards recruitment into the Phase 2b clinical trial, as the key operational focus for the company during this period; but also include milestones related to other, longer-term, strategic goals. Details will be included in the Remuneration Report for the year ending 31 December 2018.

'At risk' remuneration – short-term incentives (STI): cash payment

Calculation of STI awards is based on achievement of KPIs according to the metrics described above. For the twelve months ending 30 June 2018, the maximum achievable STI (i.e. if all corporate and individual KPIs are met at the Stretch level) is 31.25% of fixed remuneration for the CEO and 25% for other personnel.

'At risk' remuneration – long-term incentives (LTI): equity grants

LTIs are offered to incentivise, reward and retain personnel, and to further align the interests of personnel and shareholders.

As part of the annual review cycle, the Remuneration Committee will consider the recommendation of the CEO regarding the issue of LTIs in light of the performance, financial position and current issued capital of the company. There will be no automatic grant of LTIs following each performance and remuneration review.

The terms of any LTI grant are determined by the Board. LTI grants normally take the form of the issue of unlisted share options. Share options are normally issued under the company's employee share option plan (ESOP). All grants of equity are determined by the Board, following a recommendation by the Remuneration Committee.

Options are typically granted to vest in equal portions over a period of up to five years, at a specific exercise price, with the first vesting period occurring generally up to 12 months after the grant date. The terms of the options including in the event of cessation of employment, are at the discretion of the Board. However generally, on cessation of employment, unvested options are forfeited and vested options must be exercised within 30 days after the last date of employment.

In August 2017 the Board granted 3,500,000 Options, issued under the ESOP, to reward and retain personnel. The exercise price of these options is $0.11, the expiry date is 21 August 2022 and they vest equally over three years on the anniversary date.

At the date of this report there were 36,209,320 Options on issue under the ESOP. The exercise price, vesting conditions and expiry dates of these Options are variable.

Details of Remuneration for the Period 1 July to 31 December 2017

Details of remuneration of the Directors and Key Management Personnel of Factor Therapeutics Limited are set out as below. Performance conditions associated with the remuneration disclosed in the table below is as noted.

Remuneration for the six-month transitional financial year ended 31 December 2017

							Performance Related	
	Salaries/ Fees	Super	Other	STI (Cash)	LTI (Options)	Total	STI	LTI
	$	$	$	$	$	$	%	%
Non-Executive Directors								
C Hirst	34,500	3,278	-	-	-	37,778	-	-
C Behrenbruch[i]	27,271	-	-	-	6,202	33,473	-	18.5%
T Hughes	24,905	2,366	-	-	-	27,271	-	-
R Ryan[ii]	34,575	-	-	-	5,379	39,954	-	13.5%
J Michailidis[iii]	24,905	2,366	-	-	11,143	38,414	-	29.0%
	146,156	**8,010**	**-**	**-**	**22,724**	**176,890**		
Other KMPs								
R Wilson[iv]	125,600	11,932	-	-	166,571	304,103	-	54.8%
N Johnson[v]	105,144	9,989	-	-	13,078	128,211	-	10.2%
S Jo[vi]	20,091	1,909	-	-	4,073	26,073	-	15.6%
	250,835	**23,830**	**-**	**-**	**183,722**	**458,387**		
Total	**396,991**	**31,840**	**-**	**-**	**206,446**	**635,277**		

i. Dr Behrenbruch was an Executive Director for the period when these options were granted in July 2016 following shareholder approval at the Company's 2016 EGM.
ii. Dr Ryan was issued options following shareholder approval at the Company's 2016 AGM. The director's fees for Dr Ryan, US-based director, are US$27,271.
iii. Mr Michailidis was issued options following shareholder approval at the Company's 2017 AGM.
iv. Dr Wilson was issued options following her commencement as Chief Executive Officer in June 2017.
v. Mr Johnson was issued options in September 2015, July 2016 and August 2017 under LTI.
vi. Ms Jo was on there months unpaid maternity leave during the period. Amounts under LTI (options) reflect the options issued in September 2015, July 2016 and August 2017.

Remuneration for the year ended 30 June 2017

	Salaries/ Fees	Super	Other	STI (Cash)	LTI (Options)	Total	Performance Related	
							STI	LTI
	$	$	$	$	$	$	%	%
Non-Executive Directors								
C Hirst[i]	65,550	6,227	1,462	-	-	73,239	-	-
T Hughesi	47,319	4,495	1,462	-	-	53,276	-	-
R Ryan[ii]	68,645	-	-	-	23,925	92,570	-	25.8%
J Michailidis[iii]	22,414	2,129	-	-	-	24,543	-	-
	203,928	**12,851**	**2,924**	-	**23,925**	**243,628**		
Executive Directors								
C Behrenbruch[iv]	124,204	-	-	-	48,815	173,019	-	28.2%
	124,204	**-**	**-**	-	**48,815**	**173,019**		
Other KMPs								
R Wilson[v]	9,515	904	-	-	7,242	17,661	-	41.0%
N Johnson[vi]	200,288	23,023	-	42,060	30,564	295,935	14.2%	10.3%
S Jo[vi]	91,324	9,768	-	11,507	11,558	124,157	9.3%	9.3%
	301,127	**33,695**	**-**	**53,567**	**49,364**	**437,753**		
Total	**629,259**	**46,546**	**2,924**	**53,567**	**122,104**	**854,400**		

i. Amounts under Other reflect the expense of Options issued in 2016 in lieu of Director's fees.
ii. Dr Ryan commenced as Non-Executive Director on 13 September 2016. Dr Ryan is paid annual director fees of US$65,004, the same quantum as the Australian-based directors. Dr Ryan's director fees for the year ended 30 June 2017 was US$51,461 (A$68,645), and was issued options following shareholder approval at the Company's 2016 AGM.
iii. Mr Michailidis commenced as Non-Executive Director on 14 February 2017.
iv. Amounts under LTI (options) reflects the options issued to Dr Behrenbruch in July 2016 following shareholder approval at the Company's 2016 EGM.
v. Dr Wilson commenced as Chief Executive Officer on 19 June 2017
vi. Amounts under LTI (options) reflect the options issued in September 2015 and July 2016.

Shareholdings of Directors and Key Management Personnel for the six-month transitional financial year ended 31 December 2017

	Balance 1 July 2017	Shares issued from Options exercised	Net Acquired/(Disposed)	Balance 31 December 2017
C Hirst	3,323,810	-	-	3,323,810
C Behrenbruch	2,857,142	-	-	2,857,142
T Hughes	-	-	-	-
R Ryan	-	-	-	-
J Michailidis	-	-	-	-
R Wilson	-	-	-	-
N Johnson	-	-	-	-
S Jo	37,000	-	-	37,000
Total	**6,217,952**	-	**-**	**6,217,952**

Option Holdings of Directors and Key Management Personnel for the six-month transitional financial year ended 31 December 2017

	Balance 1 July	Options granted	Lapsed	Exercised	Balance 31 December	Vested 31 December	Exercisable 31 December	Unexercis-able 31 December
C Hirst	300,000	-	-	-	300,000	300,000	300,000	-
C Behrenbruch	4,000,000	-	-	-	4,000,000	2,666,666	2,666,666	1,333,334
T Hughes	300,000	-	-	-	300,000	300,000	300,000	-
R Ryan	1,000,000	-	-	-	1,000,000	750,000	750,000	250,000
J Michailidis	-	1,000,000	-	-	1,000,000	500,000	500,000	500,000
R Wilson	18,579,320	-	-	-	18,579,320	-	-	18,579,320
N Johnson	2,350,000	1,100,000	-	-	3,450,000	899,998	899,998	2,550,002
S Jo	890,000	250,000	-	-	1,140,000	343,333	343,333	796,667
Total	**27,419,320**	**2,350,000**	**-**	**-**	**29,769,320**	**5,759,997**	**5,759,997**	**24,009,323**

END OF REMUNERATION REPORT

INDEMNITY

Subject to the Corporations Act and the Constitution of the Company, the Company must indemnify each Director, Company Secretary and Executive Officer to the maximum extent permitted by law, against any liability incurred by them as, or by virtue of their holding office as and acting in the capacity of Director, Company Secretary or Executive Officer of the Company. Insurance premiums have been paid during the period in respect of a contract insuring Directors and Officers against legal costs incurred in defending proceedings against them. Details of the nature of liabilities covered or the amount of premiums paid are not disclosed as such disclosure is prohibited in the terms of the contract.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

A statement of independence has been provided by the Company's auditor, PKF Hacketts, and is attached to this Directors' Report.

Signed in accordance with a resolution of the Directors

Cherrell Hirst, AO
Chairman
22 March 2018

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001*
TO THE DIRECTORS OF
FACTOR THERAPEUTICS LIMITED

I declare that, to the best of my knowledge and belief, during the six-month transitional financial year ended 31 December 2017, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Factor Therapeutics Limited and the entities it controlled during the period.

PKF Hacketts

PKF HACKETTS AUDIT

SHAUN LINDEMANN
PARTNER

22 MARCH 2018
BRISBANE

FACTOR THERAPEUTICS LIMITED AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX-MONTH TRANSITIONAL FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	6 months to 31-Dec-17 $	12 months to 30-Jun-17 $
Continuing operations			
R&D tax rebate	2(b)	1,520,094	3,926,466
Interest received		12,536	91,897
Total revenue		1,532,630	4,018,363
Other income	2(a)	61,774	77,398
R&D expenses			
- Research projects		(205,482)	(435,368)
- Manufacturing development costs		(351,170)	(1,108,593)
- Clinical trials expenses		(1,856,876)	(4,360,398)
- Regulatory expenses		(19,799)	(482,244)
- Impairment of inventory		(33,903)	-
- Intellectual property		(117,047)	(201,480)
- Transport and logistics		(63,393)	(149,218)
Corporate and Administration expenses			
- Occupancy expenses		(111,742)	(255,429)
- Employee benefits expense		(862,067)	(1,322,453)
- Consultants		(83,367)	(148,578)
- Administration expenses		(304,754)	(617,310)
- Share based payment expense		(234,054)	(188,401)
- Amortisation of non-current inventory		-	(33,951)
- Depreciation		(20,924)	(42,766)
- Finance costs		(4,239)	(10,199)
- Gains/(Losses) on foreign exchange		(127,876)	(146,035)
- Other expenses		(135,482)	(187,488)
Loss before income tax	3	(2,937,771)	(5,594,150)
Income tax expense	4(a)	(76)	(242)
Net loss from continuing operations		(2,937,847)	(5,594,392)
Other comprehensive income			
Items that may be reclassified to profit or loss			
- Exchange differences on translation of foreign operations		4,861	3,429
Total comprehensive income for the year		(2,932,986)	(5,590,963)
Net loss attributable to members of the Company		(2,937,847)	(5,594,392)
Total comprehensive income attributable to members of the Company		(2,932,986)	(5,590,963)
Earnings per share for loss attributable to the ordinary equity holders of the Company:		Cents	Cents
Basic earnings per share	24	(0.40)	(0.77)
Diluted earnings per share	24	(0.40)	(0.77)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	31-Dec-17 $	30-Jun-17 $
CURRENT ASSETS			
Cash and cash equivalents	5	6,642,050	7,016,977
Trade and other receivables	6	76,037	127,367
Receivable: R&D tax rebate	2(b)	1,172,501	2,760,000
Inventories	7(a)	-	33,903
Other assets	8	82,475	165,429
TOTAL CURRENT ASSETS		7,973,063	10,103,676
NON-CURRENT ASSETS			
Inventories	7(b)	448,617	448,617
Property, plant & equipment	9	49,100	69,299
Intangible assets	10	557,250	557,250
TOTAL NON-CURRENT ASSETS		1,054,967	1,075,166
TOTAL ASSETS		9,028,030	11,178,842
CURRENT LIABILITIES			
Trade and other payables	11	1,197,675	638,824
Derivative financial instruments	17	29,523	-
Provisions	12(a)	156,768	170,688
Other liabilities	13(a)	30,046	29,964
TOTAL CURRENT LIABILITIES		1,414,012	839,476
NON-CURRENT LIABILITIES			
Provisions	12(b)	3,548	-
Other liabilities	13(b)	-	29,964
TOTAL NON-CURRENT LIABILITIES		3,548	29,964
TOTAL LIABILITIES		1,417,560	869,440
NET ASSETS		7,610,470	10,309,402
EQUITY			
Contributed equity	14	79,989,793	79,989,793
Reserves	15	412,656	173,741
Accumulated losses		(72,791,979)	(69,854,132)
TOTAL EQUITY		7,610,470	10,309,402

The accompanying notes form part of these financial statements.

FACTOR THERAPEUTICS LIMITED AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH TRANSITIONAL FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Share Capital $	Option Reserve $	Foreign Exchange Translation Reserve $	Accumulated Losses $	Total $
Balance at 1 July 2017	79,797,977	53,711	(71,800)	(64,259,740)	15,520,148
Comprehensive income:					
- Loss for the year	-	-	-	(5,594,392)	(5,594,392)
- Other comprehensive income for the year	-	-	3,429	-	3,429
Total comprehensive income for the year	-	-	3,429	(5,594,392)	(5,590,963)
Transactions with owners in their capacity as owners, and other transfers:					
- Issue of share capital	200,000	-	-	-	200,000
- Transaction costs	(8,184)	-	-	-	(8,184)
- Share option expense	-	188,401	-	-	188,401
Total transactions with owners and other transfers	191,816	188,401	-	-	380,217
Balance at 30 June 2017	79,989,793	242,112	(68,371)	(69,854,132)	10,309,402
Comprehensive income:					
- Loss for the year	-	-	-	(2,937,847)	(2,937,847)
- Other comprehensive income for the year	-	-	4,861	-	4,861
Total comprehensive income for the year	-	-	4,861	(2,937,847)	(2,932,986)
Transactions with owners in their capacity as owners, and other transfers:					
- Share option expense	-	234,054	-	-	234,054
Total transactions with owners and other transfers	-	234,054	-	-	234,054
Balance at 31 December 2017	79,989,793	476,166	(63,510)	(72,791,979)	7,610,470

The accompanying notes form part of these financial statements.

	Note	6 months to 31-Dec-17 $	12 months to 30-Jun-17 $
CASH FLOW FROM OPERATING ACTIVITIES			
Rental income received		85,259	87,480
Payments to suppliers and employees		(3,524,644)	(9,061,334)
Interest received		25,884	108,937
R&D tax rebate received		3,107,593	1,529,321
Income tax received (paid)		-	1,274
Net cash provided by/(used in) operating activities	23(b)	(305,908)	(7,334,322)
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(725)	(23,809)
Net cash provided by/(used in) investing activities		(725)	(23,809)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	200,000
Costs of share issue		-	(8,184)
Net cash provided by/(used in) financing activities		-	191,816
Net increase / (decrease) in cash held		(306,633)	(7,166,315)
Cash and cash equivalents at beginning of year		7,016,977	14,375,591
Effects of exchange rate fluctuations on cash and cash equivalents		(68,294)	(192,299)
Cash and cash equivalents at end of year	23(a)	6,642,050	7,016,977

The accompanying notes form part of these financial statements.

CORPORATE INFORMATION

Factor Therapeutics Limited is a public company limited by shares incorporated in Australia whose shares have been traded on the Australian Securities Exchange since 19 March 2004 (ASX: FTT). Factor Therapeutics is a clinical stage biotechnology company focussed on the development for commercial gain of treatments for advanced wound care and healing.

The Factor Therapeutics Group ("the Group") consists of Factor Therapeutics Limited ("the Company") and its Controlled Entities, Factor Therapeutics Europe Limited and Factor Therapeutics USA LLC.

This consolidated financial report of Factor Therapeutics Limited was authorised for issue in accordance with a resolution of the Directors on 22 March 2018.

Change Of Financial Year

On 23 January 2018, the Board of Factor Therapeutics Limited resolved to change the Company's financial year end date from 30 June to 31 December. The change has been made to facilitate the Company's preparation for the readout from the Phase 2b clinical trial ongoing in the US (VF00102).

As the current reporting period is a transitional financial year the numbers presented are for the transitional financial year, being six months from 1 July 2017 to 31 December 2017. The comparative period represented is for the last financial year being the twelve months ended 30 June 2017.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Except for cash flow information, the financial report has been prepared on an accruals basis, based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

a. Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent Factor Therapeutics Limited, and all of the subsidiaries. Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 27.

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

b. Income Tax

The income tax expense/(income) for the year comprises current income tax expense (income) and deferred tax expense (income). Current income tax expense/(income) charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current and deferred income tax expense/(income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

c. Research and Development expenditure

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

The Group has adopted the profit and loss approach to accounting for research and development tax offsets under the revised regime, pursuant to *AASB 120 Accounting for Government Grant and Disclosure of Government Assistance*. Under this approach the grant or incentive is recorded as part of profit and loss.

d. Intangibles

Licenses, Patents and Intellectual Property

Licenses and patents are recognised at cost of acquisition. They have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Licenses and patents are amortised over their useful life, which has been assessed as ten years from the date the intangible asset is in its intended use.

e. Employee benefits

Provision is made for the Group’s liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits with consideration given to employees’ wages increases and the probability that the employees may satisfy vesting requirements. Those cash flows are discounted using market yields on corporate bonds with terms to maturity that match the expected timing of cash flows attributable to employee benefits.

Equity settled Compensation

The Company operates equity-settled share-based payment employee share and option schemes (refer Note 18). The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments, and bank overdrafts.

g. Revenue recognition

Revenues are recognised at fair value of the consideration received net of any applicable taxes.

Interest revenue is recognised as it accrues taking into account the interest rates applicable to the financial assets.

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

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

h. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included in other receivables or payables in the Statement of Financial Position.

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

i. Property, plant and equipment

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

Plant and equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(m) for details of impairment).

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

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

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the Group commencing from the time the asset is held ready for use. The expected useful life for plant and equipment is 3 to 10 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of profit or loss and other comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

j. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Non-current inventories

The cost of the concentrated VF-001 protein to be used in the production of VF-001 final product (not expected to be used within the 12 months), and the related manufacturing development and quality management costs are classified as non-current work-in-progress.

k. Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. The amounts are unsecured and usually paid within 30 days of recognition.

l. Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

m. Impairment of assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income. Impairment testing is performed annually for intangible assets with indefinite lives. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

n. Comparative figures

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

o. Financial Instruments

Initial and Recognition Measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Non-current inventories

The cost of the concentrated VF-001 protein to be used in the production of VF-001 final product (not expected to be used within the 12 months), and the related manufacturing development and quality management costs are classified as non-current work-in-progress.

k. Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. The amounts are unsecured and usually paid within 30 days of recognition.

l. Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

m. Impairment of assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income. Impairment testing is performed annually for intangible assets with indefinite lives. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

n. Comparative figures

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

o. Financial Instruments

Initial and Recognition Measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

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

Classification and Subsequent Measurement

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Classification and Subsequent Measurement

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

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

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

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

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

p. Foreign Currency Transactions and Balances

Functional and Presentation Currency

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

Transactions and Balances

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

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

Group Companies

The financial results and position of foreign operations, whose functional currency is different from the Group's presentation currency, are translated as follows:

- assets and liabilities are translated at exchange rates prevailing at the end of the reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. The cumulative amount of these differences are recognised in profit or loss in the period in which the operation is disposed of.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

q. Critical Accounting Estimates and Judgments

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

Key Estimates — Impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. No impairment has been recognised in respect of intangible assets for the six months ended 31 December 2017.

Key Judgements – Tax losses available

Included in note 4(c) are tax losses not brought to account, which have resulted from current and prior periods. The ability of the Company to utilise these losses in future periods will depend on the satisfaction of the relevant tests applied by the Australian Taxation Office to the losses available.

r. Going concern

The Group has recorded a net current asset surplus of $6,559,051 (30 June 2017: $9,264,200), including cash and cash equivalents totalling $6,642,050 (30 June 2017: $7,016,977) as at 31 December 2017. The consolidated entity recorded a net loss from continuing operations after tax of $2,937,847 (12-months ended 30 June 2017: $5,594,392), and experienced net cash outflows from operating activities of $305,908 (12-months ended 30 June 2017: $7,334,322) for the six-month transitional financial year ended 31 December 2017. The ability of the Group to continue as a going concern and meet its strategic objectives in the mid to long-term is principally dependent upon obtaining additional funds for continuing research and development expenditure and other principal activities. The Group has recently announced a capital raising of approximately $4.17 million to be able to fund its projects.

The Directors are satisfied that, as a result of the above initiatives, adequate cash will be available to meet all obligations for a period of at least twelve months from the date of this report, and on that basis are satisfied that the going concern basis of preparation is appropriate.

s. New and Amended Accounting Policies Adopted by the Group

The Group has not applied any accounting standards or amendments for the first time for the reporting period commencing 1 July 2017.

	6 months to 31-Dec-17 $	12 months to 30-Jun-17 $
NOTE 2: OTHER INCOME, R&D TAX REBATE RECEIVABLE		
a) Rent and outgoings received in relation to sublease	61,774	77,398
Total other income	61,774	77,398
b) Movement of R&D tax rebate		
R&D tax rebate receivable	1,172,501	2,760,000
Under provision in prior years	347,593	1,166,466
Incentive – R&D claim revenue	1,520,094	3,926,466

	6 months to 31-Dec-17 $	12 months to 30-Jun-17 $

NOTE 2: OTHER INCOME, R&D TAX REBATE RECEIVABLE (Continued)

	6 months to 31-Dec-17 $	12 months to 30-Jun-17 $
Opening balance of R&D claim incentives receivable	2,760,000	362,855
Under provision in respect of prior year	347,593	362,855
R&D tax rebate – current year revenue	1,172,501	3,926,466
R&D tax rebate received	(3,107,593)	(1,529,321)
Closing balance of R&D claim incentives receivable	1,172,501	2,760,000

NOTE 3: EXPENSES

Loss before tax includes the following specific expenses:

	6 months to 31-Dec-17 $	12 months to 30-Jun-17 $
Amortisation of non-current inventory	-	33,951
Realised (gains)/losses on foreign exchange	(3,158)	(26,827)
Unrealised (gains)/losses on foreign exchange	131,034	172,862
Rental expense on operating leases – minimum lease payments	122,575	228,998

NOTE 4: INCOME TAX

a) The components of income tax expense comprises

	6 months to 31-Dec-17 $	12 months to 30-Jun-17 $
Current tax	(76)	(242)
Total income tax expense	(76)	(242)

b) The prima facie tax benefit on loss from ordinary activities before income tax is reconciled to the income tax benefit as follows

	6 months to 31-Dec-17 $	12 months to 30-Jun-17 $
Prima facie tax benefit on loss from ordinary activities before income tax at 27.5% (30-Jun-17: 30%)	1,225,913	2,856,185
Tax effect of:		
R&D expenditure taken as a cash offset	(741,236)	(1,903,448)
Other	74,079	(59,893)
Tax losses not recognised or deferred tax assets	(410,674)	(893,086)
Income tax expense	(76)	(242)

c) Deferred Tax Asset

Deferred tax assets not brought into account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur:

	6 months to 31-Dec-17 $	12 months to 30-Jun-17 $
Temporary differences	3,628,659	3,834,652
Tax losses – operating losses	16,560,650	16,151,621
	20,189,309	19,986,273

	31-Dec-17 $	30-Jun-17 $

NOTE 5: CASH AND CASH EQUIVALENTS

	31-Dec-17 $	30-Jun-17 $
Cash at bank	3,801,171	5,343,865
Short term bank deposits - at call *	2,840,879	1,673,112
	6,642,050	7,016,977

* The deposits were in interest bearing floating rate accounts. Interest rates for cash at bank and deposits varied between 0.0% and 2.70% (12 months to 30 June 2017: 0.0% to 3.55%).

NOTE 6: TRADE AND OTHER RECEIVABLES

	31-Dec-17 $	30-Jun-17 $
Current		
Trade debtors	2,417	16,902
GST/VAT receivable	47,245	83,532
Other receivables	26,375	26,933
	76,037	127,367

NOTE 7: INVENTORIES

	31-Dec-17 $	30-Jun-17 $
a) Current		
Syringes and stoppers	-	33,903
b) Non-current		
VF-001 – Work-in-progress – at cost	448,617	448,617

VF-001 work-in-progress includes concentrated VF-001 protein, production cells, and reference protein.

NOTE 8: OTHER ASSETS

	31-Dec-17 $	30-Jun-17 $
Current		
Prepayments	82,475	165,429

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

	31-Dec-17 $	30-Jun-17 $
Furniture and fixtures – at cost	61,707	60,982
Less: Accumulated depreciation	(54,782)	(52,696)
	6,925	8,286
Computer hardware and software – at cost	109,717	109,717
Less: Accumulated depreciation	(97,588)	(93,773)
	12,129	15,944
Fit out – at cost	209,747	209,747
Less: Accumulated depreciation	(179,701)	(164,678)
	30,046	45,069
	49,100	69,299

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial period are set out below.

CONSOLIDATED	Furniture and fixtures $	Computer hardware and software $	Fit out $	Total $
Carrying amount at 1 July 2016	2,615	9,106	75,034	86,755
Additions	9,766	15,543	-	25,309
Disposals	-	-	-	-
Depreciation expense	(4,095)	(8,705)	(29,965)	(42,765)
Carrying amount at 30 June 2017	8,286	15,944	45,069	69,299
Additions	725	-	-	725
Disposals	-	-	-	-
Depreciation expense	(2,086)	(3,815)	(15,023)	(20,924)
Carrying amount at 31 December 2017	6,925	12,129	30,046	49,100

	31-Dec-17 $	30-Jun-17 $

NOTE 10: INTANGIBLE ASSETS

Licenses, patents and intellectual property - at cost	557,250	557,250

Licences, patents and intellectual property are assessed to have finite useful lives. Amortisation shall begin when the asset is available for use, that is, when the Group commences commercial operations. There are no amortisation charges for licenses and patents for the current or prior financial periods.

NOTE 11: TRADE AND OTHER PAYABLES

Current		
Unsecured liabilities:		
Trade payables	860,586	437,451
Other payables and accruals	337,089	201,373
	1,197,675	638,824

NOTE 12: PROVISIONS

a) Current		
Provisions for annual leave	106,066	118,494
Provisions for long service leave	50,702	52,194
	156,768	170,688
b) Non-Current		
Provisions for long service leave	3,548	-

NOTE 13: OTHER LIABILITIES

a) Current liabilities		
Deferred lease incentives	30,046	29,964
b) Non-current liabilities		
Deferred lease incentives	-	29,964

NOTE 14: ISSUED CAPITAL

	31-Dec-17 Number	31-Dec-17 $	30-Jun-17 Number	30-Jun-17 $
Ordinary Shares fully paid	730,042,783	79,989,793	730,042,783	79,989,793
Movements in shares on issue				
Balance at beginning of year	730,042,783	79,989,793	724,328,499	79,797,977
Ordinary shares issued to Directors under Shortfall Placement, 26 July 2016 @3.5c	-	-	5,714,284	200,000
Transaction costs	-	-	-	(8,184)
Balance at end of year	730,042,783	79,989,793	730,042,783	79,989,793

NOTE 15: RESERVES

	31-Dec-17 $	30-Jun-17 $
Option reserve	476,166	242,112
Foreign exchange translation reserve	(63,510)	(68,371)
	412,656	173,741

a) Option Reserve

The option reserve records the share based payment expense on valuation of employee share options issued under the Company's ESOP, refer Note 18.

Movement	31-Dec-17 $	30-Jun-17 $
Balance at beginning of year	242,112	53,711
Option expense	234,054	188,401
Balance at end of year	476,166	242,112

b) Foreign Exchange Translation Reserve

The foreign exchange translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

Movement	31-Dec-17 $	30-Jun-17 $
Balance at beginning of year	(68,371)	(71,800)
Movement during the year	4,861	3,429
Balance at end of year	(63,510)	(68,371)

NOTE 16: CAPITAL MANAGEMENT

Management controls the capital of the Group in order to maintain an appropriate debt to equity ratio, and ensure that the Group can fund its operations and continue as a going concern. The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements. Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues. There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

NOTE 17: FINANCIAL RISK MANAGEMENT

Financial Risk Management Policies

The Group's financial instruments consist mainly of deposits with banks in functional and foreign currencies, short-term investments, and accounts receivable and payable.

Treasury Risk Management: The Board, at each of its meetings, analyses financial risk exposure and evaluates treasury management strategies in the context of the most recent economic conditions and forecasts. The Board's overall risk management strategy seeks to assist the Group in meeting its financial targets, whilst minimising potential adverse effects on financial performance. Risk management policies are approved and reviewed on a regular basis.

Financial Risk Exposures and Management: The main risks the Group is exposed to through its financial instruments are credit risk, interest rate risk, liquidity risk and foreign currency risk.

- *Credit risk exposures:* Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group. The credit risk on financial assets of the Group which have been recognised on the statement of financial position is generally the carrying amount, net of any provisions for doubtful debts.

- *Interest rate risk exposures:* Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments. At balance date, the Group does not have material exposure to interest rate risk.

- *Liquidity risk:* Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate facilities or financing options are maintained. At balance date, the Group does not have material exposure to liquidity risk.

- *Foreign currency risk:* Exposure to foreign currency risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the functional currency of the Group. The Group manages foreign currency risk by monitoring forecast foreign currency commitments and foreign exchange rates. At balance date, the Group's exposure to foreign currency risk arises from the holding of cash balances US$2,459,042, and EUR 45,461 at exchange rates of 1.2821 and 1.5314 respectively.

Net fair value of financial assets and liabilities: The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and the financial liabilities of the Group approximates their carrying amounts. The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

NOTE 17: FINANCIAL RISK MANAGEMENT (Continued)

Derivative Financial Instruments

- *Forward Exchange Contract:* Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments. At balance date, the Group does not have material exposure to interest rate risk.

  At balance date, the Group has open forward exchange contracts relating to highly probable forecast transactions and recognized financial assets and liabilities. These forward exchange contracts commit the Group to buy and sell specified amounts of foreign currencies in the future at specified exchange rates.

  The following table summaries the notional amounts of the Group's commitments in relation to forward exchange contracts. The notional amounts do not represent amounts exchanged by the transaction counterparties and are therefore not a measure of the exposure of the Group through the use of these contracts.

	Notional Amount		Average exchange rate	
	31-Dec-17	30-Jun-17	31-Dec-17	30-Jun-17
Buy USD / sell AUD				
Settlement – 28 September 2018				
- Buy USD with a variable asset value of AUD as at	639,821	-	0.7815	-
- Sell AUD for a fixed liability amount of	(669,344)	-	0.7470	-
Net gain/(loss)	(29,523)	-		

Sensitivity analysis: The Group has performed a sensitivity analysis relating to its exposure to interest rate and foreign currency exchange rate risks, to assess the effect on reported results and equity which could result from a change in these risks. Management have determined that, at 31 December 2017, the effect on profit and equity as a result of changes in foreign currency exchange rates by +100 basis points or -100 basis points would be $32,223 (30 June 2017: $53,354). The effect on profit and equity as a result of changes in interest rates by +100 basis points or -100 basis points would be $28,408 (30 June 2017: $198,951) additional, or less, interest revenue.

	6 months to 31-Dec-17 $	12 months to 30-Jun-17 $
NOTE 18: SHARE-BASED-PAYMENTS		
Recognition of share-based payment expense		
Expense arising from equity-settled share-based payment transactions	234,054	188,401

Types of share-based payment plans

Employee Share Option Plan (ESOP)

During the six-month transitional financial year ended 31 December 2017, 4,500,000 options were issued under the employee share option plan. No ordinary shares of Factor Therapeutics Limited were issued on the exercise of share options granted.

NOTE 18: SHARE-BASED PAYMENTS (Continued)

On 21 August 2017, the Company issued 3,500,000 unlisted Share Options to the management team under the Company's ESOP Plan. The options vest over three years, have an exercise price of $0.11 (11c) and will expire on 21 August 2022.

On 17 November 2017, following Shareholder approval at the Company's Annual General Meeting, the Company issued 1,000,000 unlisted Share Options to Non-executive Director, Mr John Michailidis. The options have an exercise price of $0.11 (11c) and varying vesting schedules. The Options expire on 17 November 2022.

The fair value of options granted during the six-month transitional financial year ended 31 December 2017 was calculated on the date of grant using the Black-Scholes option pricing model applying the following assumptions:

Options issued in	**August 2017**	**November 2017**
Dividend yield (%)	0.00	0.00
Expected volatility (%)	64	67
Average risk-free interest rate over life (%)	2.1	2.1
Expected life (months)	60	60
Weighted average share price ($)	$0.059	$0.060

Summary of options granted and lapsed during the six-month transitional financial year ending 31 December 2017

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options issued during the year:

	Number 31-Dec-17	**WAEP 31-Dec-17**	**Number 30-Jun-17**	**WAEP 30-Jun-17**
Outstanding at the beginning of year	31,709,320	$0.11	2,230,000	$0.10
Options issued during the year	4,500,000	$0.11	29,479,320	$0.11
Forfeited during the year	-	-	-	-
Options lapsed during the year	-	-	-	-
Options exercised during year	-	-	-	-
Outstanding at the end of the year	36,209,320	$0.11	31,709,320	$0.11
Exercisable at the end of the year	7,469,996	$0.10	3,309,998	$0.09
Weighted average remaining contractual life		4.07 years		4.49 years

NOTE 19: COMMITMENTS FOR EXPENDITURES

	31-Dec-17 $	30-Jun-17 $
Commitments for rental lease, clinical trials and stability study contracted for at the reporting date but not recognised as liabilities payable:		
Within one year	3,153,815	2,856,091
Later than one year but not later than five year	499,405	1,870,226
Later than five years	-	-
	3,653,220	4,726,317

NOTE 20: CONTINGENT LIABILITIES AND ASSETS

Directors are not aware of any contingent liabilities or assets that are likely to have a material effect on the results of the Group as disclosed in these financial statements.

NOTE 21: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Key management personnel compensation

Details of remuneration of the key management personnel are provided in the Remuneration Report in the Directors' Report on pages 9 to 14.

Transactions with other related parties

There were no other transactions with related parties during the year.

NOTE 22: SEGMENT INFORMATION

Operating segments are identified, and segment information disclosed, on the basis of internal reports that are regularly provided to, or reviewed by, the Company's chief operating decision maker which, for the Company, is the Board of Directors. In this regard, the Board of Directors confirms that the Company continues to operate in one operating segment, being biotechnology.

NOTE 23: CASH FLOW INFORMATION

a) Reconciliation of Cash

	6 months to 31-Dec-17 $	12 months to 30-Jun-17 $
Cash at end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:		
Cash and cash equivalents	6,642,050	7,016,977

b) Reconciliation of Cash Flow from Operations with Loss after Income Tax

	6 months to 31-Dec-17 $	12 months to 30-Jun-17 $
Loss after income tax expense	(2,937,847)	(5,594,392)
Non-cash flows in loss from ordinary activities		
Depreciation	20,924	42,766
Amortisation of deferred lease incentives	(29,882)	(15,106)
Impairment of inventory	33,903	-
Inventory write down to net realisable value	-	33,951
Net loss/(gain) on disposal of property, plant and equipment	-	(1,500)
Unrealised foreign exchange losses	131,034	172,862
Non-cash employee benefits expense – option based payments	234,054	188,401
Changes in operating assets and liabilities		
(Increase) / decrease in receivables	51,330	55,792
(Increase) / decrease in inventory	-	199,385
(Increase) / decrease in current tax assets	1,587,499	(2,442,613)
(Increase) / decrease in other assets	82,954	(1,470)
Increase / (decrease) in payables and provisions	490,600	27,602
Increase / (decrease) in derivative financial instruments	29,523	-
Cash flow from operating activities	(305,908)	(7,334,322)

	6 months to 31-Dec-17 $	12 months to 30-Jun-17 $

NOTE 24: EARNINGS PER SHARE

Loss after income tax benefit attributable to the Group	(2,937,847)	(5,594,392)
Weighted average number of shares used as the denominator	**No.**	**No.**
Weighted average number of ordinary shares outstanding during the year used in calculation of Basic EPS	730,042,783	729,651,394
Weighted average number of options outstanding which are considered potentially dilutive	-	-
Weighted average number of potential ordinary shares outstanding during the year used in calculation of Diluted EPS	730,042,783	729,651,394

The diluted EPS calculation includes that portion of the options considered to be potentially dilutive, weighted with reference to the date of conversion

	Cents	Cents
Basic earnings per share	(0.40)	(0.77)
Diluted earnings per share	(0.40)	(0.77)

NOTE 25: REMUNERATION OF AUDITORS

Audit services – PKF Hacketts Audit	27,500	42,750
Audit and review of financial reports and other audit work under the *Corporations Act 2001*		
	27,500	42,750

NOTE 26: PARENT INFORMATION

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards

	31-Dec-17 $	30-Jun-17 $
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current assets	7,971,560	10,019,017
Non-current assets	1,069,812	1,090,010
TOTAL ASSETS	9,041,372	11,109,027
LIABILITIES		
Current liabilities	1,411,505	749,164
Non-current liabilities	115,088	146,860
TOTAL LIABILITIES	1,526,593	896,024
NET ASSETS	7,514,779	10,213,003
EQUITY		
Contributed equity	79,989,793	79,989,793
Reserves	476,166	242,112
Accumulated losses	(72,951,180)	(70,018,902)
TOTAL EQUITY	7,514,779	10,213,003

	6 months to 31-Dec-17 $	**12 months to 30-Jun-17 $**
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME		
Total losses	**(2,932,278)**	**(5,587,087)**
Total comprehensive income	**(2,932,278)**	**(5,587,097)**

Guarantees

Factor Therapeutics Limited has not yet entered into any guarantees, in the current or previous financial year, in relation to the debts of its subsidiaries.

Contingent Assets and Liabilities

For information relating to contingent assets and liabilities, refer to Note 20: Contingent Liabilities and Assets

Contractual Commitments

For information relating to contractual commitments, refer to Note 19: Commitment for Expenditures. The commitments detailed in Note 19 are related to parent entity commitments only.

NOTE 27: CONTROLLED ENTITIES

Factor Therapeutics Europe Limited (previously Tissue Therapies Europe Limited) ("the Subsidiary"), a wholly owned subsidiary, was formed on 23rd January 2012, based in the United Kingdom, to provide administration support to Factor Therapeutics Limited ("the Parent Entity").

Factor Therapeutics USA LLC ("the Subsidiary"), a wholly owned subsidiary was formed on 18th February 2016, in the state of Delaware, USA. There were no transactions in this subsidiary during the six-month transitional financial year ended 31 December 2017.

		% Equity Interest	
Name	**Country of Incorporation**	**31-Dec-17**	**30-Jun-17**
Factor Therapeutics Europe Limited	United Kingdom	100%	100%
Factor Therapeutics USA LLC	United States of America	100%	100%

NOTE 28: EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to the balance date, on 23 January 2018, the Board of Factor Therapeutics Limited resolved to change the Company's financial year end date from 30 June to 31 December. The change has been made to facilitate the Company's preparations for the readout from the VF00102 clinical trial. As a result, the Company has a six-month transitional financial year beginning on 1 July 2017 and ending on 31 December 2017. Thereafter, the Company will revert to a twelve-month financial year, commencing on 1 January and ending on 31 December 2018.

On 14 March 2018, the Group announced a capital raising of approximately $4.17 million, before issue costs by way of a fully underwritten non-renounceable 1-for-7 entitlement offer at an issue price of $0.04 per New Share. The proceeds of entitlement offer will be used to drive the lead programme (VF001), in particular the current clinical trial and to progress pipeline assets to the next milestones.

No other matters or circumstances have arisen since 31 December 2017 up until the date of this Report which materially affect or may materially affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

NOTE 29: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

Accounting Standards issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

– AASB 9: *Financial Instruments* and associated Amending Standards (applicable for annual reporting periods beginning on or after 1 January 2018).

  The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

  The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

  Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

NOTE 29: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS (Continued)

- AASB 15: Revenue from Contracts with Customers (applicable to annual reporting periods beginning on or after 1 January 2018, as deferred by AASB 2015-8: Amendments to Australian Accounting Standards – Effective Date of AASB 15).

  This Standard is not expected to significantly impact the Group's financial statements.

- AASB 16: *Leases* (applicable for annual reporting periods beginning on or after 1 January 2019).

  When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: *Leases* and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

  The main changes introduced by the new Standard include:

  - recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets;
  - depreciation of right-to-use asset in line with AASB 116: *Property, Plant and Equipment* in profit or loss and unwinding of the liability in principal and interest components;
  - variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;
  - by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease; and
  - additional disclosure requirements.

  The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognize the cumulative effect of retrospective applications as an adjustment to opening equity on the date of initial application.

  Although the directors anticipate that the adoption of AASB 16 will impact the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

DIRECTORS' DECLARATION

In the opinion of the Directors:

- the financial statements and notes of the Group are in accordance with the *Corporations Act 2001*, including:

    i. giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the six month transitional financial year ended on that date; and

    ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

- the financial statements and notes also comply with International Financial Reporting Standards; and,

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the six-month transitional financial year ended 31 December 2017.

Cherrell Hirst
Chairman
Brisbane, 22 March 2018

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FACTOR THERAPEUTICS LIMITED

Report on the Financial Report

Opinion

We have audited the accompanying financial report of Factor Therapeutics Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month transitional financial year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

In our opinion, the financial report of Factor Therapeutics Limited is in accordance with the *Corporations Act 2001*, including:

a) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the six-month transitional financial year ended on that date; and

b) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the Auditor's Responsibility section of our report.

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

Independence

We are independent of the consolidated entity 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 also fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

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

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1. Funding and Liquidity

Why significant	How our audit addressed the key audit matter
The Group is not yet in a position to generate significant income from operations and, as such, is reliant on funding from other sources. The Group has disclosed in note 1(r) that additional funds may be required to meet the Group's mid-to-long-term strategic objectives.	We evaluated the Group's funding and liquidity position at 31 December 2017 and the ability of the Group to repay its debts as and when they fall due for a minimum of 12 months from the date of signing the financial report. In order to assess the funding and liquidity position, we: • reviewed the process undertaken to determine the appropriateness of the use of the going concern basis; • reviewed documentation and underwriting agreement to confirm arrangements for the rights issue outlined in Note 28 to the financial statements • reviewed the funding plan for the Group to achieve its future operational and program development needs; and • obtained external confirmation of the Group's cash and short-term deposits.

2. Carrying Value of Intangible Assets (Intellectual Property)

Why significant	How our audit addressed the key audit matter
As disclosed in Note 10, the Group has Intellectual Property (IP) assets held at cost of $557,250, which is deemed to be material. While the assets are not deemed to have indefinite useful lives, amortisation has not yet commenced as the assets are not yet operating in the manner intended by management. Management does not consider the assets' current carrying amounts to be in excess of the ultimate recoverable amount as it is expected that significant commercial benefits will be derived from the IP in future periods.	Our procedures included, but were not limited to • reviewing the process that management undertakes to determine whether there are any indicators of impairment; • assessing the appropriateness of the assumptions used in reaching those determinations; • gaining an understanding of the intended market to which the expected future commercial products will be delivered; • reviewing the progress of clinical trials undertaken to date to determine whether any adverse findings in relation to the trials or underlying IP is evident.

Other Information

Other information is financial and non-financial information in the annual report of the consolidated entity which is provided in addition to the Financial Report and the Auditor's Report. The directors are responsible for Other Information in the annual report.

The Other Information we obtained prior to the date of this Auditor's Report was the Director's report. The remaining Other Information is expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, the auditor does not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report.

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 in the Financial Report and based on the work we have performed on the Other Information that we obtained prior the date of this Auditor's Report we have nothing to report.

Directors' Responsibilities for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.

The procedures selected depend on the auditor's judgement, including assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the consolidated entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the consolidated entity to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the consolidated entity to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on the Remuneration Report

Opinion

We have audited the Remuneration Report included in the directors' report for the six-month transitional financial year ended 31 December 2017.

In our opinion, the Remuneration Report of Factor Therapeutics Limited for the six-month transitional financial year ended 31 December 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

PKF Hacketts

PKF HACKETTS AUDIT

SHAUN LINDEMANN
PARTNER

22 MARCH 2018
BRISBANE

Factor Therapeutics Limited

Registered Office

c/- Mc Cullough Robertson Lawyers
Level 11, 66 Eagle Street, Brisbane, QLD 4000
www.factor-therapeutics.com

Share Registry

Shareholder information in relation to shareholding or share transfer can be obtained
by contacting the Company's share registry:
Link Market Services, Locked Bag A14,
Sydney South, NSW, 1235
Tel: 1300 554 474
Fax: (02) 9287 0303
Email: registrars@linkmarketservices.com.au
www.linkmarketservices.com.au

For all correspondence to the share registry, please provide your Security-holder Reference Number (SRN) or Holder Identification Number (HIN).

Change of address

Changes to your address can be updated online at www.linkmarketservices.com.au or by obtaining a Change of Address Form from the Company's share registry. CHESS sponsored investors must change their address details via their broker.

Annual General Meeting

The Annual General Meeting is anticipated to be held in Brisbane at 10am, on Thursday 24 May 2018 (location to be confirmed).

Annual report mailing list

All shareholders are entitled to receive the Annual Report. In addition, shareholders may nominate not to receive an annual report by advising the share registry in writing, by fax, or by email, quoting their SRN/HIN.

Securities exchange listing

Factor Therapeutics shares are listed on the Australian Securities Exchange and trade under the ASX code FTT. The securities of the Company are traded on the ASX under CHESS (Clearing House Electronic Sub-register System)

ASX Shareholder Disclosures

The following additional information is required by the Australian Securities Exchange in respect of listed public companies. The information is current as at 15 March 2018.

Total securities on issue

	Securities (Listed)	Securities (Unlisted)
Fully paid ordinary shares	730,042,783	-
Options to acquire shares	-	36,209,320
Total	**730,042,783**	**36,209,320**

Holding distribution

Range	Securities	%	No. of holders	%
100,001 and Over	680,107,176	93.16	608	25.75
10,001 to 100,000	47,757,923	6.54	1,247	52.82
5,001 to 10,000	1,891,539	0.26	217	9.19
1,001 to 5,000	273,727	0.04	92	3.90
1 to 1,000	12,418	0.00	197	8.34
Total	**730,042,783**	**100.00**	**2,361**	**100.00**
Unmarketable Parcels	2,806,998	0.38	564	23.89

Distribution of unquoted equity securities

Ranges	Number of Holders	Number of options on issue	% of unquoted securities
1 to 1,000	-	-	-
1,001 to 5,000	-	-	-
5,001 to 10,000	-	-	-
10,001 to 100,000	-	-	-
100,001 and over	15	36,209,320	100.00%
Total	15	36,209,320	100.00%

1,400,000 options on issue are exercisable at $0.035, 630,000 options at $0.08, and the remaining 34,179,320 options at $0.11.

Substantial shareholders

Name of Investors	Number of shares	% Issued Capital
Allan Gray Australia Pty Limited	97,241,699	13.32%
Acorn Capital	62,783,679	8.60%
FIL Investment Management (Hong Kong) Limited	71,982,218	9.86%

Voting rights

The voting rights attaching to ordinary shares are set out below:

- On a show of hands every member present in person or by proxy shall have one vote;
- Upon a poll each share shall have one vote.

Share buy back

There is no current of planned buy-back of the Company's shares.

Names of the twenty largest shareholders

Rank	Name	15 Mar 2018	%IC
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	106,944,817	14.65
2	J P MORGAN NOMINEES AUSTRALIA LIMITED	68,141,874	9.33
3	CITICORP NOMINEES PTY LIMITED	42,688,821	5.85
4	BNP PARIBAS NOMS PTY LTD	27,225,674	3.73
5	CITICORP NOMINEES PTY LIMITED	21,608,025	2.96
6	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	20,040,947	2.75
7	ASIA UNION INVESTMENTS PTY LIMITED	17,708,200	2.43
8	BOND STREET CUSTODIANS LIMITED	15,978,000	2.19
9	MR ALESSANDRO LUIGI PICCININI	12,375,787	1.70
10	NATIONAL NOMINEES LIMITED	10,366,760	1.42
11	HAROLD CRIPPS HOLDINGS PTY LTD	10,170,148	1.39
12	YELWAC PTY LTD	9,784,490	1.34
13	QUEENSLAND UNIVERSITY OF TECHNOLOGY	8,087,010	1.11
14	GATTENSIDE PTY LTD	7,903,907	1.08
15	ASLOG HOLDING LTD	7,523,809	1.03
16	CLERICUS PTY LTD	7,500,000	1.03
17	DORINCO PTY LTD	5,173,238	0.71
18	MR THAI QUOC TANG	5,066,000	0.69
19	ASIA UNION INVESTMENTS PTY LTD	4,728,250	0.65
20	CHERRELL HIRST	3,323,810	0.46
	Total	**412,339,567**	**56.48**
	Balance of register	**317,703,216**	**43.52**
	Grand total	**730,042,783**	**100.00**

Directors

Dr Cherrell Hirst AO, Chairman

Dr Christian Behrenbruch, Non-Executive Director

Mr Tim Hughes, Non-Executive Director

Dr Robert Ryan, Non-Executive Director

Mr John Michailidis Non-Executive Director

Company Secretary

Ms Melanie Farris

Registered Office

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Australian Business Number

45 101 955 088

Securities Exchange Listing

Australian Securities Exchange

ASX Code: FTT

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Auditors

PKF Hacketts

Brisbane

Australia

Share Registry

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