PARADIGM BIOPHARMACEUTICALS LIMITED AND CONTROLLED ENTITIES

A.B.N 94 169 346 963

Consolidated Annual Report
For the period from 1 July 2014 to 31 March 2015

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Paradigm Biopharmaceuticals Limited and Controlled Entities
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Directors Declaration

In the directors' opinion:

(a) the consolidated financial statements and notes set out on pages 4 to 14 are:

   (i). complying with Accounting Standards;

   (ii). giving a true and fair view of the consolidated entity's financial position as at 31 March 2015 and of its performance for the financial period ended on that date; and

(b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

Paul Rennie

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Paul Rennie

Date: 29/05/2015

Paradigm Biopharmaceuticals Limited and Controlled Entities
A.B.N 94 169 346 963
Consolidated Statement of Comprehensive Income
For the period from 1 July 2014 to 31 March 2015

	Period from 1-July-14 to 31-Mar-15 $	Period from Incorporation 2-May-14 to 30-Jun-14 $
Other Income	5,859	-
Research & Development	(93,778)	-
Employee Expenses	(549,380)	-
General and Administration expenses	(193,155)	(38,573)
Loss before income tax	**(830,454)**	**(38,573)**
Income tax expense / (benefit)	-	-
Loss for the year	**(830,454)**	**(38,573)**
Other comprehensive income	-	-
Total comprehensive income attributable to members of the consolidated entity	**(830,454)**	**(38,573)**

The above statement of comprehensive income should be read in conjunction with the accompanying notes

Paradigm Biopharmaceuticals Limited and Controlled Entities
A.B.N 94 169 346 963
Consolidated Statement of Financial Position as at 31 March 2015

	Notes	31-Mar-15 $	30-Jun-14 $
ASSETS			
Current assets			
Cash and cash equivalents	2	297,185	7,773
Trade and other receivables	3	371,232	19,950
Prepaid Capital Raising Costs		477,808	100,157
Total current assets		**1,146,225**	**127,879**
Non-current assets			
Intangible assets	4	295,726	88,921
Total non-current assets		**295,726**	**88,921**
Total assets		**1,441,951**	**216,800**
LIABILITIES			
Current liabilities			
Trade and other payables	5	577,325	368,665
Total current liabilities		**577,325**	**368,665**
Net assets		**864,626**	**(151,865)**
EQUITY			
Issued capital	6	1,582,346	1
Share Options reserve	7	264,600	-
Accumulated losses	8	(982,320)	(151,866)
Total equity		**864,626**	**(151,865)**

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

Paradigm Biopharmaceuticals Limited and Controlled Entities
A.B.N 94 169 346 963
Consolidated Statement of Changes in Equity
For the period from 1 July 2014 to 31 March 2015

	Issued Capital $	Share Option Reserve $	Accumulated Losses $	Total $
Balance at 2 May 2014	-	-	-	-
Accumulated losses of Paradigm Heath Sciences Pty Ltd at 2 May 2014	-	-	(113,293)	(113,293)
Loss for the period	-	-	(38,573)	(38,573)
Shares issued	1	-	-	1
Balance at 30 June 2014	**1**	-	**(151,866)**	**(151,865)**
Loss for the period	-	-	(830,454)	(830,454)
Shares issued	1,835,000	-	-	1,835,000
Costs in relation to shares issued	(252,655)	-	-	(252,655)
Fair value of shares issued to eligible employees under the plan	-	264,600		264,600
Balance at 31 March 2015	**1,582,346**	**264,600**	**(982,320)**	**864,626**

Paradigm Biopharmaceuticals Limited and Controlled Entities
A.B.N 94 169 346 963
Consolidated Statement of Cash Flows
For the period from 1 July 2014 to 31 March 2015

	Period from 1-July-14 to 31-Mar-15 $	Period from Incorporation 2-May-14 to 30-Jun-14 $
Cash flows from operating activities		
Payments to suppliers and employees	(848,552)	(102,954)
Interest received	5,859	-
Net cash outflow from operating activities	**(842,693)**	**(102,954)**
Cash flows from investing activities		
Payments for intangible assets	(215,838)	(85,058)
Net cash outflow from investing activities	**(215,838)**	**(85,058)**
Cash flows from financing activities		
Receipts from issue of preference shares (net of the payment of costs)	1,271,945	1
Net movement in related party loans	76,000	195,783
Net cash inflow from financing activities	**1,347,945**	**195,784**
Net increase in cash and cash equivalents	**289,413**	**7,772**
Cash at the beginning of the financial period	**7,772**	**-**
Cash at the end of the financial period	**297,185**	**7,772**

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Basis of preparation

The financial report is a special purpose financial report prepared for use by the directors and members of the Consolidated Entity. The directors have determined the Consolidated Entity is not a reporting entity.

The financial report has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, and other authoritative pronouncements of the Australian Accounting Standards Board which the directors have determined are appropriate to meet the needs of members. Such accounting policies are consistent with the previous period unless stated otherwise.

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

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

Principles of Consolidation

Subsidiaries

The consolidated financial statements comprise those of Paradigm Biopharmaceuticals Limited, and the entities it controlled at the end of, or during, the financial period. The company and its controlled entities together are referred to in this financial report as the Consolidated Entity.

The acquisition of Paradigm Health Science Pty Limited ("PHS") on 5 June 2014 was treated as a common control transaction. Consequently, this transaction did not fall into the scope of AASB 3 – Business Combinations.

The acquisition of PHS has been accounted for using book value accounting whereby the assets and liabilities of PHS are recognised at their previous carrying amounts. No adjustments were made to reflect fair values and no new assets and liabilities of PHS were recognised at the date of the acquisition. The Consolidated Statement of Total Comprehensive Income for the period from incorporation 2 May 2014 to 30 June 2014 includes the results of PHS for the entire period.

(b) Income tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income). The income tax expense or revenue for the period is the tax payable on taxable income for the current period based on the applicable income tax rate for Australia, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Income tax revenue in relation to refundable Research and Development tax offsets is only recognised following the lodgement and processing of the income tax return related to the offsets.

1 Summary of significant accounting policies (continued)

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

(c) Impairment of assets

At the end of each reporting period, the Company assesses whether there is any indication that an asset may be impaired. The assessment will include considering external sources of information and internal sources of information. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

(d) Cash and cash equivalents

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

(e) Intangible assets

(i) Intellectual property and licences
Intellectual property and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Intellection property and licences are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

(ii) Research and development
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.

1 Summary of significant accounting policies (continued)

(f) Trade and other payables

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the entity during the reporting period which remain unpaid. The balance is recognised as a current liability with the amounts normally paid within the requisite terms specified by the supplier.

(g) Issued capital

Ordinary and preference shares are classified as equity.

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

(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 relevant taxation authority. 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 balance sheet are shown inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

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

(i) Employee Benefits

Share-based compensation benefits

Issues of shares to employees with limited recourse loans under the Executive Share Plan (ESP) are considered to be share based payments in the form of options.

The fair value of options granted under the ESP is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the limited recourse loan.

2. Cash and cash equivalents

	31-Mar-15	30-Jun-14
	$	$
Cash at bank and in hand	297,185	7,773
Total cash and cash equivalents	**297,185**	**7,773**

3 Trade and other receivables

	31-Mar-15	30-Jun-14
	$	$
GST receivable and prepayments	21,232	19,950
Unpaid share capital - preference shares	350,000	-
Total trade and other receivables	**371,232**	**19,950**

4. Intangible assets

	31-Mar-15	30-Jun-14
	$	$
Patents and development costs	295,726	88,921
Less: Accumulated depreciation	-	-
Total Intangible Assets	**295,726**	**88,921**
Reconciliation	$	$
Carrying amount at the beginning of the period	88,921	-
WDV of assets held by Paradigm Heath Sciences Pty Ltd at 2 May 2014	-	72,007
Additions during the period	206,806	16,914
Disposals	-	-
Amortisation expense	-	-
Carrying amount at the end of the period	**295,726**	**88,921**

5. Trade and other payables

	31-Mar-15	30-Jun-14
	$	$
Trade and other creditors	305,542	172,882
Related party loans	271,783	195,783
Total trade and other payables	**577,325**	**368,665**

The related party loans are interest-free and repayable on demand.

6. Issued capital

	31-Mar-14		30-Jun-14	
	Number	$	Number	$
Ordinary Shares				
Balance as at the beginning of the period	1	1	-	-
Ordinary shares issued	-	-	1	1
The subdivision of the Company's share capital by 0.0036094478	42,942,856	-	-	-
Shares issued under ESP	1,800,000	-	-	-
Balance as at the end of the period	**44,742,857**	**1**	**1**	**1**
Preference Shares				
Balance as at the beginning of the period	-	-	-	-
Shares issued during the period	1,835,000	1,835,000	-	-
Costs associated with shares issued during the period	-	(252,655)	-	-
Balance as at the end of the period	**1,835,000** -	**1,582,345**	-	-
Total Balance as at the end of the period	**46,577,857**	**1,582,346**	**1**	**1**

7. Accumulated losses

	31-Mar-15	30-Jun-14
	$	$
Balance as at the beginning of the period	(151,866)	-
Retained Losses of Paradigm Heath Sciences Pty Ltd at 2 May 2014	-	(113,293)
Loss for the accounting period	(830,454)	(38,573)
Balance as at the end of the period	**(982,320)**	**(151,866)**

8. Share Option Reserve

	31-Mar-15	30-Jun-14
	$	$
Balance as at the beginning of the period	-	-
Fair Value of shares issued to eligible employees under the plan	264,600	-
Balance as at the end of the period	**264,600**	-

Fair values at loan date are determined using a Black-Scholes pricing model that takes into account the issue price, the term of the loan, the share price at loan date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the loan.

The model inputs for assessing the fair values were:

Issue price	$0.35
Loan Expiry date	5 Years from issue
Value of underlying share at loan date	$0.26
Expected dividend yield rate	0.00%
Risk-free interest rate	3.03%
Estimated volatility	90%

9. Commitments

The Consolidated Entity has no expenditure contracted for at the reporting date but not recognised as liabilities.

10. Events occurring after the reporting period

In April 2015 Paradigm entered into a share swap agreement with the Xosoma vendors under which Paradigm is to acquire all of the issued shares in Xosoma Pty Ltd.

On completion of the acquisition, Paradigm would own 100% of Xosoma Pty Ltd and the Xosoma vendors will receive 19,495,238 Paradigm shares.

Completion of the acquisition of the Xosoma shares is conditional on Paradigm obtaining conditional approval from the ASX for the admission of Paradigm to the ASX Official List and Paradigm raising $5,000,000 as part of its Initial Public Offer.

Other than the matter noted above, no other matters or circumstances have arisen since balance date which have impacted or are likely to impact the Consolidated Entity's operations, results and state of affairs in future financial years.

RSM Bird Cameron

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF

PARADIGM BIOPHARMACEUTICALS LIMITED

We have audited the accompanying financial report, being a special purpose financial report, of Paradigm Biopharmaceuticals Limited which comprises the statement of financial position as at 31 March 2015 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the the statement by the directors of the the consolidated entity comprising the company and the entities it controlled at the period's end or from time to time during the financial period.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report, and have determined that the basis of preparation described in Note 1, is appropriate to meet the needs of members. The directors' responsibility also includes such internal control as the directors determine are necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

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 the 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 and fair presentation of the financial report 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the trustee company, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Australian professional accounting bodies.

Liability limited by a scheme approved under Professional Standards Legislation

Birdanco Nominees Pty Ltd ABN 33 009 321 377 Practising as RSM Bird Cameron ABN 65 319 382 479

Major Offices in: Perth, Sydney, Melbourne, Brisbane, Adelaide and Canberra

RSM Bird Cameron is a member of the RSM network. Each member of the RSM network is an independent accounting and advisory firm which practises in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Bird Cameron

Opinion

In our opinion, the financial report presents fairly, in all material respects, the financial position of Paradigm Biopharmaceuticals Limited as of 31 March 2015 and its financial performance for the period then ended in accordance with the accounting policies described in Note 1 to the financial report.

Basis of accounting

Without modifying our opinion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared to assist Paradigm Biopharmaceuticals Limited to meet the needs of members. As a result, the financial report may not be suitable for another purpose.

RSM Bird Cameron

RSM BIRD CAMERON

J S CROALL
Director

Melbourne, Victoria
Dated: 29 May 2015