QBiotics Group Limited

ANNUAL REPORT
30 JUNE 2023

ABN 13 617 596 139

QBiotics Group
Naturally Inspired
Scientifically Defined

QBiotics Group Limited

Contents

Forward looking statements

This report contains forward looking statement which reflect the current beliefs and expectations of QBiotics. Statements may involve a number of known and unknown risks that could cause our future results, performance or achievements to differ significantly from those expressed or implied by such forward-looking statements. While these forward-looking statements reflect QBiotics' expectations at the date of this report, they are not guarantees or predictions of future performance or statements of fact. Many factors could cause QBiotics' actual results, performance or achievements to differ from those expressed in the forward-looking statements including risks relating to our ability to recruit patients for our clinical trials, uncertainty and disruption caused by environmental and geo-political developments, actions of regulatory bodies and other governmental authorities.

01

Chairman's Overview and CEO's Report

Dear Shareholders,

It gives me great pleasure to write to you at the end of my first period as chair of QBiotics.

The past year has been a challenging one for the company but following a detailed review of strategy including near-term priorities, cash burn and value build, we have moved into the current period with a clear vision with which we are all aligned.

The environment in which we operate continued to be challenging. In the post pandemic world healthcare capacities continued to be under pressure from catch up procedures, the backlog of new drugs needing evaluation and budgetary constraints.

Global financial markets continued the trends seen in 2021/2022 with access to capital being very restrictive and new listings of biotech/oncology companies extremely subdued. I see no change to this scenario for the balance of this calendar year.

With this background in-mind we have focussed our resources and cash to a more limited set of objectives, including two human oncology trials and the early work on human wound healing product development. The two human oncology trials, whilst demonstrating safety and efficacy on multiple solid tumours, will allow us to address a tumour type with a large population (Head and Neck Cancers) as well as a small population of Soft Tissue Sarcoma patients where the standard of care is less well defined opening the possibility of an Orphan Drug designation from the FDA. Such a designation would bring a number of benefits including potential for an accelerated approval process, periods of exclusive marketing, certain tax credits and the waiver of certain fees.

We have reduced costs in many areas thereby increasing our cash runway comfortably beyond the generation of the clinical trial results. The objective being that this data will be the foundation for the next stage of development, namely the proposed IPO which is planned to be implemented when it is in the best interest of the company.

In the CEO report you will see the results of the various trials that have been completed demonstrating the safety and efficacy of Tigilanol Tiglate and the further understanding of its mode and mechanism of action. These important results further validate the core mission of the company to discover and isolate valuable therapeutic compounds from the unique Australian environment.

As we prepare the company for the next phase of development, whether that be from partnering activities of the company or through an IPO, we have commenced a detailed review of the Board and Executive skills required for the Company to be successful.

During the year three Directors resigned from the Board, Rick Holliday-Smith (former Chairman) in December 2022, Nicholas Moore in February 2023 and Neville Mitchell in May 2023. Their contribution and support has been invaluable in providing the foundation from which the company can grow. My thanks also go to Steve Ogbourne who will retire as a director at this year's AGM, however he will remain a senior executive with the company.

My thanks go to the Board, Management and Employees for their hard work and effort during a year of many challenges. I am optimistic that the coming year will see QBiotics achieve the critical milestones needed to move the company to the next phase of development.

Andrew Denver
Chairman

Key Achievements FY 2022-2023

Primary safety and efficacy endpoints achieved in head and neck cancer dose finding study (QB46C-H03)

Partnering discussions for commercialisation of:
- Tigilanol tiglate for human use; and,
- Other QBiotics products in earlier stage development

Head and neck cancer study (H03) confirms tigilanol tiglate can induce T-cell immune responses in humans

First patients treated in UK/AU Phase II head and neck cancer trial (QB46C-H08), further sites opening

Patient recruitment progressing well in US Phase II soft tissue sarcoma trial (QB46C-H07)

Application to US FDA for Orphan Drug Designation for tigilanol tiglate for treatment of soft tissue sarcomas in preparation

Protocol for Phase I/II safety study of EBC-1013 for treating venous leg ulcers under final review

Patent for combination use of tigilanol tiglate and immune checkpoint inhibitors granted in all major regions

Marketing strategy for STELFONTA® under review

Recruitment well advanced in canine soft tissue sarcoma trials

4 manuscripts published in international scientific journals

International trials of tigilanol tiglate for treating equine sarcoids and melanomas in reporting phase

Sound cash position with $59.1 million cash at bank

$6.4 million R&D Tax incentive received

Dear Shareholders,

I am pleased to provide the following Annual Report of our company's progress and key activities during financial year 2022-2023.

During the year our primary focus has continued to be on our anticancer drug tigilanol tiglate by advancing the Phase II human clinical trials programme, building relationships with global key clinical opinion leaders, generating further veterinary data to support the human development and partnering programme (optimising dosing regimens and demonstrating efficacy against a range of different cancers), securing our Intellectual Property through global patenting activities, and engaging in discussions with potential international licensing partners for human use of the drug.

The programme with our wound healing drug candidate (EBC-1013) has also progressed well with the completion of the required full formal toxicology programme to support a first-in-human study, production of Good Manufacturing Practice (GMP) batches of EBC-1013 suitable for human clinical trial use, drafting of the Protocol for the first-in-human safety trial in patients with venous leg ulcers, exploratory discussions with potential industry partners, and publication of research to further validate the mode of action of EBC-1013.

Our discovery programme continues to identify a pipeline of new molecules with potential for treatment of bacterial infections and inflammatory conditions for further evaluation and development when resources and opportunities become available. We are also actively exploring avenues for new commercial collaborations with some early-stage product candidates from these projects.

We continue to closely monitor the sales performance of STELFONTA® and are currently reviewing opportunities, both internally and in collaboration with our marketing and distribution partner Virbac, to gain greater market traction and improve sales of this important product.

This year has seen a significant increase in our presence at major international pharmaceutical partnering and drug development meetings, specialist healthcare investor conferences, and scientific meetings. This has included showcasing posters and mainstream presentations which have been enthusiastically received.

We continue to prepare the company for the listed environment, including plans to implement an independent review of the Board and executive skills required to guide the company through this critical next stage of its growth and value creation.

During the year, a detailed review of use of funds was carried out and as a result, a number of measures have been introduced to conserve cash during this critical time for the Company. We are beginning to see the positive impacts of implementation of these measures on our cash runway.

As of 30 June 2023, cash in bank was $59.1 million, with an average burn rate per quarter for the period 1 July 2022 to 30 June 2023 of $6.3 million.

1. Tigilanol Tiglate Human Oncology Programme

During the year we have reviewed and realigned our human oncology clinical trials programme with tigilanol tiglate to address patient recruitment and site issues, and to reduce costs. Our clinical focus remains on two indications: head and neck cancers and soft tissue sarcomas. This approach allows us to demonstrate the safety and efficacy profile of tigilanol tiglate to treat a range of solid tumours (i.e. not just specific for one type) for potential licensing partners, as well as provide attractive options for future regulatory development pathways (e.g., orphan drug designation, fast-track designation, etc.)

Activities aimed at securing an international licensing or collaboration partner for tigilanol tiglate in oncology progressed during the year with preparation of data packages, presentations at

international industry partnering and drug development and science meetings, protection of new intellectual property, engagement with clinical key opinion leaders, and initial discussions with potential partner companies.

(a) Tigilanol tiglate in treating head and neck cancers

The study report on our completed Phase I/IIa head and neck squamous cell carcinoma (HNSCC) dose escalation trial in Australia and India (QB46C-H03) has been finalised and we are pleased to report that the trial met its primary safety and tolerability endpoints.

Nineteen patients were treated in this "window of opportunity before surgery" trial involving administering a single intratumoural dose of tigilanol tiglate. The drug was successfully escalated to a dose level of 2.4 mg/m^2 without any Serious Adverse Events (SAEs) other than an extension of an overnight stay for one patient. Adverse Events (AEs) reported were local and, other than pain, associated with the mode of action (MOA) of the drug in tumour destruction. QBiotics decided to close the trial on the basis it had sufficient information to inform the human clinical Phase II efficacy study in head and neck cancer (QB46C-H08) which is now open at multiple sites in the UK and Australia.

Overall, tigilanol tiglate treatment was well tolerated at all dose levels in the QB46C-H03 safety trial. Rapid, drug-induced haemorrhagic necrosis was evident in all injected tumours at all dose levels, with no necrosis of surrounding normal tissue reported for any patient.

In addition, assessment of biopsy samples taken from injected tumours within the first hours following treatment demonstrated the rapid induction of markers of immunogenic cell death, while untreated areas of tumour that were surgically excised between 15 to 21 days later showed a consistent increase in immune cell infiltrate compared to pre-dose samples. This data supports the proposed MOA of the drug in humans and is consistent with that observed in animal models and inferred from laboratory data.

Initial patient recruitment for our current Phase II head and neck cancer (H&NC) efficacy trial (QB46C-H08) in the UK and Australia has progressed more slowly than anticipated, with three patients treated to date. In part, this slow recruitment is associated with the current situation with the UK National Health Service (NHS), where most of our trial sites are located. To address this, we have recently opened a second trial site in Australia (the Princess Alexandra Hospital in Brisbane where the lead investigator was also involved previously in our successful Phase I/II safety study in humans) and are progressing an additional site at Europe's largest cancer hospital, the Gustave Roussy Cancer Centre in Paris, with an internationally recognised clinical team that are expert in intratumoural treatment of cancers. We will continue to closely monitor recruitment and progress of this trial in the coming months.

(b) Tigilanol tiglate treating soft tissue sarcomas

Patient recruitment of our QB46C-H07 human clinical Phase II pilot trial treating soft tissue sarcoma (STS) at the Memorial Sloan Kettering Cancer Center in New York under an Investigational New Drug Application (IND) with the US Food and Drug Administration (FDA) is progressing well.

Ten patients are required in this pilot study which opened in late May, with three patients already treated and two more patients screened and consented for inclusion. The first patient has since had two additional tumours treated.

This recruitment rate is impressive considering STS is a relatively rare disease with specific sub-types eligible for orphan drug designation (ODD) with the US FDA. Based on the results from our veterinary clinical studies of STS and our human clinical Phase I/IIa skin and subcutaneous tumours safety trial, together with initial results from this current Phase II human clinical trial, we are preparing an ODD application to the FDA for tigilanol tiglate in treatment of STS. Under this designation, benefits include the potential for registration from smaller clinical trials, exemption

from company users fees, up to seven years of market exclusivity after approval, as well as tax credits.

(c) Tigilanol tiglate treating melanoma

Our two human melanoma clinical trials, QB46C-H04 a Phase II tigilanol tiglate monotherapy, and QB46C-H06 a Phase I/IIa tigilanol tiglate/pembrolizumab (Keytruda®) combination dose escalation safety trial designed in collaboration with MSD (tradename of Merck & Co., Inc., Kenilworth, NJ, USA), were formally closed early in the year. Analysis of the data has now been completed and final study reports are in preparation.

A total of 4 patients (3 in the combination study and 1 in the monotherapy study) of the planned 52 patients (40 in QB46C-H04 and 12 in QB46C-H06) were recruited during the 20-month period that these trials were open. The 4 treated patients all had a heavy disease burden and had failed multiple lines of both standard therapies and clinical trial treatments with other experimental drugs/drug combinations (including previous treatments involving pembrolizumab).

In the monotherapy trial multiple-injected tumours in the single patient recruited necrosed, but because of their close proximity to each other coalesced to form a large wound area which took several months to heal. Treatment site pain was reported as an AE. The treating physician requested a second treatment off study under a Special Access Scheme. However, at the time of the second treatment the patient was assessed as having extensive progressive metastatic disease, taken off study and no further information was able to be obtained.

Results from the official trial records of the combination study showed that the combination treatment regime of low dose tigilanol tiglate and pembrolizumab was considered safe and tolerated (i.e., there were no SAEs or systemic AEs) as judged by the Safety Review Committee. AEs reported in the trial records were localised to the treatment area and, other than pain, associated with the mode of action of the drug in tumour destruction and initiation of a localised immune response. Evidence of tumour destruction was observed at all injected tumours in all 3 patients. For one patient, all injected tumours achieved a Complete Response (full and enduring destruction of the treated tumours) with no tumour recurrence at 15 months after treatment. A second non-injected tumour at a distal site in this patient had a Partial Response which also lasted for 15 months.

Although the combination study with pembrolizumab has closed, we still retain a dialogue with MSD.

(d) Tigilanol tiglate partnering

This year saw a significant increase in our focus to partner on the further development of tigilanol tiglate in oncology which will become a major activity in the coming year. The business development and partnering team has been strengthened with the appointment of a Chief Medical Officer, Dr Marissa Lim and a Business Development consultant, Richard Godfrey who has experience in biotech and oncology partnering particularly in the USA.

The Company profile has been raised by developing new relationships with key global clinical opinion leaders, and through presentations showcasing tigilanol tiglate to potential partners at international pharma industry partnering, drug development and science meetings including:

- The Society for Immunotherapy of Cancer (SITC) Annual Conference 2022 (Boston USA);
- Bio-Showcase 2023 (San Francisco USA);
- Bio-International 2023 (Boston USA);
- 9th Annual SACHS Immuno-Oncology Innovation Forum (Chicago USA); and
- American Society of Clinical Oncology 2023 Annual Meeting (Chicago USA).

Participation at two prestigious, invitation-only industry partnering and investment events has helped to establish QBiotics as a recognised player in the human healthcare arena:

- 41st Annual JP Morgan Healthcare Conference (San Francisco USA); and
- Jefferies 2023 Global Healthcare Conference (New York USA).

3. STELFONTA and Our Veterinary Oncology Programme

Sales of our veterinary oncology pharmaceutical STELFONTA® for treatment of canine mast cell tumours is slowly increasing. We continue to closely monitor the disappointing overall performance of the product, especially in Europe. Working closely with our marketing and distribution partner Virbac we are looking to identify further strategies to increase sales with initiatives already implemented including a new Pet Owner website and a first-use rebate programme. During the year we have restructured our internal activities and achieved cost savings to improve the net returns of the product to QBiotics.

Over 15,000 canine patients have been treated to date with the drug, and feedback from veterinarians and pet owners is positive, including through experiences shared on social and broadcast media. STELFONTA® is demonstrably an effective product in the clinic. The hurdle limiting broader market acceptance appears to be the highly disruptive nature of the drug and its unique mode of action when competing with surgery as the well-entrenched standard of care. Overcoming this initial adoption hurdle relies on educating general practice veterinarians through the experience of the first one or two treatments as to both the clinical and financial benefits of the drug, at which point there is good evidence of repeat uptake. To this end, we are evaluating more direct means of 'in-clinic' interaction with veterinarians as well as continuing our active education programme to further raise the profile of the drug using key opinion leaders and early adopters in Europe, the UK, the USA and Australia.

In the last 12 months the following veterinary conference presentations, seminars, web-based clinician support tools, and an article in a veterinary science journal have taken place:

Dr Sue Ettinger, US veterinary oncologist, presented on STELFONTA® treatment regime and case studies at:

- Veterinary Meeting and Expo (VMX) January 2023 Orlando USA, the largest global veterinary general practitioners conference; and
- Western Veterinary Conference (Viticus Group), February 2023, Las Vegas USA

Dr Pam Jones veterinary oncologist and QBiotics Chief Veterinary Officer presented overviews of STELFONTA® at specialist meetings:

- European Society for Veterinary Oncology Annual Congress, Alicante, Spain – May 2023
- American College of Veterinary Internal Medicine, Philadelphia, Pennsylvania – June 2023
- Veterinary Cancer Society Annual Meeting, Norfolk USA – October 2022
- American College of Veterinary Radiology, Reno USA – October 2022
- A Scientific Summer Series of presentations with Key Opinion Leaders across core markets
- An online 'veterinarian consult' platform that supports clinicians through treating their first case
- A scientific paper on use of the drug published with Australian specialist veterinary oncologists:

- Brown *et al.* Treatment of multiple synchronous canine mast cell tumours using intratumoural tigilanol tiglate. *Frontiers in Veterinary Science*, October 2022, 1003165.

Post-registration (Phase IV) clinical trials with STELFONTA® are also continuing with veterinary oncologists and equine specialists in canine STS, equine sarcoids (a type of papilloma virus induced sarcoma) and equine melanoma to explore the potential for market expansion for, as well as to inform our human programme and establish 'pan-tumour' efficacy (i.e., efficacy is not specific to individual tumour types or specific tumour gene mutations). The in-life phase of the two international equine trials is complete, with the report on responses at 12-month post-treatment in the sarcoids trial currently in preparation. Patient recruitment in the STS trial in Australia and the USA is on schedule to be finalised before the end of the calendar year.

As part of our ongoing strategy to de-risk our supply chain for STELFONTA®, we have submitted regulatory packages to the US FDA-CVM, EU EMA and UK VMD to use Blushwood (Fontainea picrosperma) raw material produced in our commercial plantation on the Atherton Tablelands as a source for tigilanol tiglate API for production of the GMP manufactured STELFONTA® injectable drug product. Approvals from all regulatory agencies are expected in late 2023. Previously, all GMP injectable drug product of STELFONTA® has been made from GMP tigilanol tiglate Active Pharmaceutical Ingredient (API) produced from Blushwood raw material that had been collected sustainably from native forests on private land. These regulatory approvals will allow two sources of supply for Blushwood raw material to mitigate risk associated with the seasonal uncertainty of harvests from natural forest.

4. EBC-1013 for Wound Healing

Our wound healing drug candidate (EBC-1013) continues to progress toward a first-in-human Phase I/II dose-escalation safety trial in patients with venous leg ulcers in the UK and Australia.

The final reports from the formal toxicology programme required to support the first-in-human study have been received and are in late-stage review, the necessary GMP batches of different concentrations of EBC-1013 suitable for human clinical trial use have been produced, and lead clinical sites and Principal Investigators in the UK and Australia have been selected.

A full draft Protocol for the first-in-human study was subject to a second Scientific Advice Meeting with the UK regulatory agency, the Medicines and Healthcare products Regulatory Agency (MHRA) in late February this year. Subsequently, we have further modified the trial design and endpoints, reducing both the length of the trial and the number of patients needed, while being mindful of satisfying requirements of the regulator and human ethics committees. We anticipate a final Protocol will be submitted to the UK MHRA in late September. In parallel, we will proceed with trial initiation in Australia under a Clinical Trials Notification (CTN) which requires human ethics committee approval and subsequent notification of the Therapeutic Goods Administration (TGA).

Other activities to support the development of our wound healing drug have involved:

- A dose finding study with EBC-1013 in canine wounds to inform dose selection and regimens for a future Phase II human efficacy study, with 5 patients treated to date;
- Exploratory discussions about collaboration opportunities with two potential international industry partners;
- An oral presentation at the European Wound Management Association annual conference in May; and
- Publication of two scientific papers with our research collaborators at Cardiff University and QIMRB describing the mode of action of the drug including its antimicrobial activity and its potential for managing biofilms on implants.

- Powell LC *et al.* 2022. Topical, immunomodulatory epoxy-tiglianes induce biofilm disruption and healing in acute and chronic skin wounds. *Science Translational Medicine*, 14, eabn3758
- Xue W. *et al.* 2023. Defining *in vitro* topical antimicrobial and antibiofilm activity of epoxytigliane structures against oral pathogens. *Journal of Oral Microbiology*, 15:2241326.

5. Discovery Programme

Our discovery research programme continues to identify a pipeline of new molecules with potential for treatment of bacterial infections and inflammatory conditions as well as exploring new clinical applications and indications for epoxytiglianes related to tigilanol tiglate and EBC-1013. Several strategies for progressing these early-stage discoveries are under consideration.

During the year we have co-located our company's Brisbane discovery programme staff into dedicated laboratory facilities at the QIMRB Medical Research Institute. This allows them to work closely with our long-term research collaborators at QIMRB and to access state-of-the art equipment.

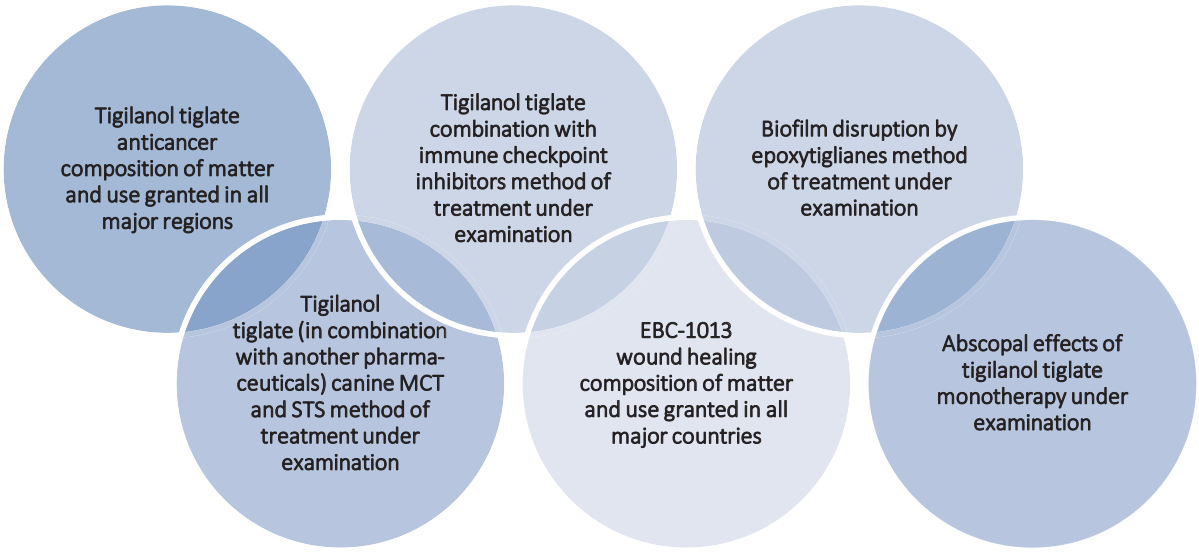
Research collaborations also continue in natural products and synthetic chemistry, wound healing and microbiology with universities in Australia, the UK and Italy.

Current non-dilutive funding from research grants have been awarded or are under review:

- Development of novel screening techniques for further new molecules of interest (Australian Federal Government's Science Industry Endowment Fund);
- Novel modes of biofilm disruption (UK National Biofilms Innovation Centre); and
- Under review - a UK Medical Research Council (MRC) Industry Collaboration Framework Grant with our colleagues at Cardiff University to explore the use of new techniques in our antimicrobial discovery project.

6. Intellectual Property Portfolio

QBiotics' 6 patent families



Intellectual property protection underpins all R&D activities in the company, with the focus on further protection of IP related to tigilanol tiglate and EBC-1013.

A five-year extension on our initial patent covering tigilanol tiglate composition of matter and use has now been granted in most major jurisdictions following regulatory approval of our veterinary oncology drug. A second critical patent relating to the use of tigilanol tiglate in combination with immune checkpoint inhibitors was granted in Europe and now completes coverage of this invention in all major jurisdictions.

Patent applications on the use of tigilanol tiglate monotherapy to induce abscopal/systemic immune effects in untreated distal tumours and, and effects of EBC-1013 in disrupting multi-drug resistant Gram-negative bacterial biofilms, are in National Examination phase.

New provisional patent applications related to manufacturing methods for epoxytiglianes and methods of treating tumours with tigilanol tiglate were filed during the year.

7. QBiotics Team

QBiotics has a motivated and highly professional team of 59 direct employees who are fully engaged with, and focused on, implementing the company's strategic plans.

Employee retention rate for the company remains very high at 98%. Results of the annual employee Net Promoter System survey were highly positive with a score of 60 which compares very favourably to the average biotech company score of 23. An employee Net Promoter System measures how consistently an organisation turns employees into advocates of the business and is a good indicator of employee loyalty and productivity. In terms of wellbeing, 98% of employees were both proud to work for QBiotics and felt a sense of purpose and belonging.

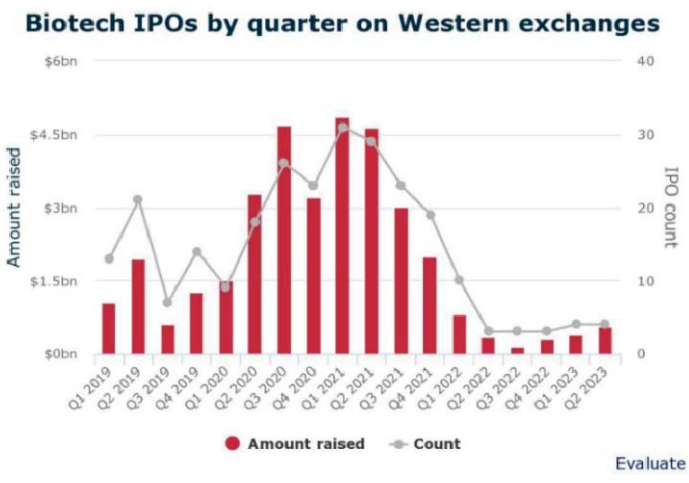
New positions filled during the year were Microbiologist (Antimicrobial Therapeutics), Head of Toxicology, Clinical Project (Operations) Manager, Field Botanist and a Field Technical Officer. Dr Marissa Lim, our Medical Affairs Manager, took the position of Chief Medical Officer.

8. Corporate Overview

Preparing the company for the listed environment continues to be a focus for the Board and Management. Priority especially is being given to:

- Partnering of our human oncology programme;
- Initiating an independent review of the Board membership and skills to ensure that the Board is well equipped to take the Company into the next stage of its development;
- Preparing the executive team for the greater regulatory responsibilities and investor expectations of the listed environment; and
- Strengthening the company's profile through presentations at biobusiness conferences and building relationships with leading financial institutions and brokers.

Financing in the life science/ biotechnology sector remains under pressure with only eight biotechnology companies successfully going to an IPO on Western exchanges during the first six months of 2023 (Source: Evaluate).



During the year we implemented a number of measures to conserve cash while maintaining focus on value adding milestones such as human clinical development. Particularly, expenditure on STELFONTA® was reduced as described below, positions were made redundant, no salary increases were awarded to staff or Directors, the CEO waived her right to any personal bonus, measures to reduce travel costs as well as appropriate cost cutting for all sections of the company. These measures are already delivering positive impacts on our cash runway.

As of 30 June 2023, cash in bank was $59.1 million, with an average burn rate for the period 1 July 2022 to 30 June 2023 of $6.3 million per quarter.

Revenue from the marketing of STELFONTA® continues to increase slowly albeit much less than expected. During the year we restructured our internal activities and achieved cost savings to improve the commercial viability of STELFONTA® to QBiotics. We are also working closely with our marketing and distribution partner Virbac to identify further strategies to increase sales.

QBiotics' application for the Australian Federal Government's R&D tax incentives (43.5% refundable as cash) was successful with $6.4M cash refund received.

We continue to monitor our cash runway very closely.

8. 2023-2024 Outlook

The year ahead will be critical to QBiotics for meeting milestones to underpin future growth and value creation for an IPO.

The focus of our efforts will be to advance towards securing an international industry partner for our human oncology programme with tigilanol tiglate and generating further Phase II human clinical data.

Our wound healing programme will progress to a first-in-human Phase I/IIa safety trial during the year, providing additional opportunities for partnering discussions and value creation in the mid-term.

The pipeline of new molecules being generated by our discovery programme not only offers potential longer-term value to be developed in the company, but also more immediate opportunities for new commercial collaborations.

We will continue to build the Company's international profile with a range of stakeholders including the biotechnology, pharmaceutical and wider healthcare industries, scientific and clinical collaborators, and specialist institutional investors and brokers.

Finally, integral to our move towards the listed environment will be the need for the right mix of skills and experience on the Board to guide the company through this important transition. To this end, the QBiotics Board is implementing an independent review to identify Board skills required for the future success of the company.

I look forward to updating you on our progress as the coming year unfolds.

Dr Victoria Gordon
Chief Executive Officer & Managing Director

02

Directors' Report

The directors of QBiotics Group Limited (the "Company" or "QBiotics Group") present their report together with the consolidated financial statements for the year ended 30 June 2023 and the auditor's report thereon.

1. Directors

The directors of the Company, their qualifications, experience and special responsibilities at any time during or since the end of the financial year are:

Mr Andrew Denver
BSc (Hons) MBA FAICD

Non-executive Chair

Mr Andrew (Andy) Denver has extensive expertise that is relevant to QBiotics, including assisting in the commercialisation of several technology companies. Andy has wide ranging knowledge of the life sciences industry of which QBiotics is a part including risk assessment, financial reporting and general management, which are important in the success of QBiotics' business. Andy was the interim Chief Executive Officer of Universal Biosensors, Inc. (UBI) from September 2010 to May 2011, a director of UBI from December 2002 to August 2017 and Chairman of UBI from September 2005 to August 2017. Between 2002 and 2005, Andy was President of Pall Asia, a subsidiary of Pall Corporation after the acquisition by Pall Corporation of US Filter's Filtration and Separations business, where he was also President. Pall Corporation is a technology based filtration, separation and purification multinational company.

Andy is a non-executive director of Vaxxas, Inc. and Cochlear Limited, and was previously the non-executive chair of SpeeDx Pty Ltd, all of which are life sciences companies.

Andy graduated from the University of Manchester with a Bachelor of Science Degree (Honors) in Chemistry and achieved a distinction in his MBA at the Harvard Business School and is a Fellow of the Australian Institute of Company Directors.

Andy was previously a director of QBiotics and was appointed as a director of QBiotics Group on 1 November 2017.

Dr Susan Foden
MA DPhil

Non-executive Deputy Chair and Chair of the Remuneration Committee

Dr Susan Foden brings over 20 years' experience as director on the boards of small and medium size private and public life science companies in the UK, Norway, Germany and Belgium.

Currently, Susan is non-executive director and chair of the remuneration committee of Evgen Pharma Plc, an investment committee member of CD3, the drug discovery initiative between the European Investment Fund and the University of Leuven, and a trustee of the Roslin Foundation in Edinburgh.

Recent board positions include executive chair of Neurocentrx Pharma Ltd, non-executive director of BTG plc (acquired by Boston Scientific in 2019) and Vectura Group plc where she served for over 10 years as senior independent director and chair of the Remuneration Committee and Oxford Ancestors Ltd.

1. Directors (continued)

Susan has an MA and DPhil in Natural Sciences from the University of Oxford. In 1983 she joined the UK's first biotech company leading academic/ biotech partnering and intellectual property development. In 1987 she established Cancer Research Technology Ltd responsible for the commercialisation of Temodal, Abiraterone (with BTG) and some of the early PARP inhibitors. Spin-out companies included Cyclacel, Kudos and Spirogen Ltd.

In 2000, Susan became an investor director with VC, Merlin Biosciences and an NED on several investee company boards including BioVex (acquired by Amgen 2011), and PIramed (acquired by Roche 2008).

Susan was appointed as a director of QBiotics Group on 14 October 2019 and is also a director of QBiotics Group's wholly owned subsidiary company, QBiotics UK Limited.

Dr Victoria Gordon
BAppSc (Hons) PhD GAICD

Executive Director and Chief Executive Officer

Dr Gordon brings to QBiotics Group a sound scientific background combined with broad business management experience and a strong commercial emphasis. She left her position as a research scientist in chemical ecology with the Commonwealth Scientific and Industrial Research Organisation ("CSIRO") to establish EcoBiotics Pty Ltd ("EcoBiotics") in 2000 and QBiotics in 2004. Dr Gordon has been CEO of EcoBiotics, QBiotics, and the Group since their inception.

Victoria has broad experience in the management of commercial research for Boral Timber Division, then one of Australia's largest plantation forestry companies and has owned and managed a number of small businesses. Victoria's board and committee experience includes Non-Executive Director of Biopharmaceuticals Australia, member for two consecutive terms of the Queensland Government Biotechnology Advisory Council and Non-Executive Director and Non-Executive Chairman of the Australian Rainforest Foundation. In 2004 Victoria was presented an award by the Queensland Premier for her service to the biotechnology industry in Queensland.

Victoria holds a PhD in Microbiology, Bachelor of Applied Science (Honours), Diplomas in Human and Animal Health, has undertaken extensive business management and pharmaceutical development training and is a Graduate of the Australian Institute of Company Directors.

Victoria was appointed as Director of QBiotics Group on 24 February 2017 and is also a Director of the QBiotics Group's wholly owned subsidiary companies, QBiotics Pty Ltd, EcoBiotics Pty Ltd, QBiotics Netherlands B.V. and QBiotics UK Limited.

Dr Paul Reddell
BSc (Hons) PhD FAICD

Executive Director and Chief Scientific Officer

Dr Paul Reddell brings to the Company expert scientific knowledge combined with extensive practical experience in leadership, resourcing, management and commercialisation of complex multi-institutional research and development projects. Dr Reddell is co-founder of EcoBiotics and QBiotics and has been CSO of both companies since their inception.

1. Directors (continued)

Prior to co-founding EcoBiotics in 2000, Paul gained an international reputation for his scientific expertise in tropical forest ecology and management. During that time, he held senior leadership positions as a Senior Principal Research Scientist and Programme Leader at CSIRO's Tropical Forest Research Centre and later as Principal Plant Ecologist for an environmental consulting business in the Rio Tinto group of companies.

Paul holds a PhD in Forest Ecology and a Bachelor of Science (1A Honours) from the University of Western Australia and has undertaken extensive business management and pharmaceutical development training. He has been a Fellow of the Australian Institute of Company Directors since 2007.

Paul was appointed as Director of QBiotics Group on 24 February 2017 and is also a Director of the QBiotics Group's wholly owned subsidiary companies, QBiotics Pty Ltd, EcoBiotics Pty Ltd, QBiotics Netherlands B.V. and QBiotics UK Limited.

Dr Steven Ogbourne
BSc (Hons) PhD GAICD

Executive Director and Chief Translational Research Officer
Adjunct Associate Professor, University of the Sunshine Coast

Dr Ogbourne holds a PhD in Molecular Biology and a Bachelor of Science (Honours) in Plant Science. He is an Adjunct Professor at the University of the Sunshine Coast (UniSC) and a Graduate of the Australian Institute of Company Directors.

Steven brings to QBiotics expert scientific knowledge in the fields of biodiscovery and plant genetics, and significant experience in drug development having held leadership roles in both academic and pharmaceutical sectors.

Steven is an internationally recognised research scientist, having published over 60 peer-reviewed scientific articles, and has considerable expertise in small molecule drug development because of his senior role in the discovery, development and commercialisation of Picato® with Peplin Inc and LEO Pharma, and more recently in the development and commercialisation of STELFONTA®.

As recently as June 2022, Steven was Associate Professor, Plant Biotechnology and Deputy Director of the Centre for BioInnovation at UniSC, where his research focussed on biodiscovery in therapeutic areas including cancer, wound-healing and anti-microbials and on the domestication of Fontainea picrosperma. Steven also has a passion for conservation and a significant component of his research focussed on the conservation of threatened species of plants and animals.

Steven joined the QBiotics executive team as Chief Translational Research Officer on 4 July 2022 and maintains an adjunct appointment at UniSC.

Steven was previously a Director of EcoBiotics and was appointed as a Director of QBiotics Group on 1 November 2017.

1. Directors (continued)

Professor Bruce Robinson AC
MD MSc FRACP FAHMS FAICD

Non-executive Director

Professor Bruce Robinson AC is an Endocrinologist and formerly Head of the Cancer Genetics Laboratory in the Kolling Institute at Royal North Shore Hospital. He was Acting Dean and then Dean of Medicine 2006 – 2016. Bruce graduated from the University of Sydney in 1980 and then undertook studies for a Master of Science degree. His further molecular research work was performed at the Brigham and Women's Hospital and the Children's Hospital, Harvard Medical School from 1986-1989 and he was awarded a Doctorate of Medicine from the University of Sydney in 1990. He has developed and led the Cancer Genetics Laboratory since 1990 and has supervised over 35 doctoral and masters students working on the genetic basis for tumour formation and gene therapy. He has published over 300 peer-reviewed scientific articles. In 2003, Bruce was awarded the Daiichi Prize by the Asia and Oceania Thyroid Association for his work on the pathogenesis of thyroid cancer.

Bruce was Dean in the Faculty of Medicine at the University of Sydney from 2006 to 2016 and was Head of the Division of Medicine at the Royal North Shore Hospital from 1998 to 2006. He also served on the Council of the Endocrine Society of Australia from 2001-2005. He is on the Editorial Board of the International journals 'Nature, Clinical Practice and Endocrinology' and 'Thyroid'. Bruce has a strong interest in furthering relations between Australia and Asia and he is the Founding Chairman of Hoc Mai, the Australia-Vietnam Medical Foundation, which sponsors and supports medical nursing, allied health and scientific exchanges between Australia and Vietnam. He was awarded the People's Health Medal by the Vietnamese Government in 2008.

More recently, Bruce was Chair of the Medicare Benefits Schedule Review Taskforce and Chair of the Council of National Health and Medical Research Council.

Bruce currently holds non-executive director roles with ASX-listed healthcare companies Cochlear Limited, Mayne Pharma Ltd and Ecofibre Ltd.

Bruce is a Fellow of the Australian Institute of Company Directors and was awarded the Companion of the Order of Australia in 2020 for his eminent service to medical research, and to national healthcare, through policy development and reform, and to tertiary education.

Bruce was previously a director of QBiotics and was appointed as a director of QBiotics Group on 1 November 2017.

Mr Hamish Corlett
BCom GDipCouns

Non-Executive Director

Mr Hamish Corlett is a Co-Founder and Partner at TDM Growth Partners, a private investments firm specialising in high growth companies globally. Hamish brings more than 20 years' experience in investing and investment banking from multiple top-tier investment firms to his role on the QBiotics Board.

Hamish is currently a Non-Executive Director of Somnomed Limited, a medical company providing treatment solutions for sleep-related breathing disorders. He is also Chair of Somnomed's Remuneration Committee. Hamish was previously a non-executive director of Tyro Payments Limited (April 2019 to November 2021).

1. Directors (continued)

Hamish holds a Bachelor of Commerce with Honours Class 1 (Accounting and Finance) from the University of Sydney and a Graduate Diploma of Counselling from the Australian College of Applied Psychologists.

Hamish was appointed as a director of QBiotics Group on 9 April 2021.

2. Company secretary

Mr Michael Wenzel
BCom FCA CIA GIA(Cert) GAICD

Company Secretary and Chief Financial Officer

Michael has worked for the Company since 2011. Prior to this Michael worked for over 13 years in the audit and advisory divisions of KPMG. During this time, he has gained a wealth of experience across a range of industries, including biotechnology, as a senior engagement manager, key client contact, and quality control reviewer on a variety of external and internal audits of publicly listed companies, unlisted companies, foreign owned subsidiaries, government entities and not-for profit entities.

Mr Michael Wenzel holds a Bachelor of Commerce, is a Fellow of Chartered Accountants Australia and New Zealand, a Certified Internal Auditor and an Associate Member of Institute of Internal Auditors – Australia. Michael is a Certificated Member of the Governance Institute of Australia and a Graduate Member of the Australian Institute of Company Directors. Michael is also a Registered Company Auditor.

Michael was appointed company secretary on 1 November 2017.

3. Directors' meeting attendance

The number of directors' meetings and committee meetings attended by each director during the financial year are:

Director	Board meetings		Audit and Risk Committee meetings		Remuneration Committee meetings	
	A	B	A	B	A	B
Mr Andrew Denver	8	8	3	3	2	2
Dr Susan Foden	8	8	-	-	4	4
Dr Victoria Gordon	8	8	2	2	2	2
Dr Paul Reddell	8	8	-	-	-	-
Dr Steven Ogbourne	8	8	-	-	-	-
Professor Bruce Robinson AC	8	8	-	-	-	-
Mr Hamish Corlett	8	8	4	4	4	4
Mr Rick Holliday-Smith AM*	3	3	-	-	-	-
Mr Nicholas Moore~	5	5	-	-	-	-
Mr Neville Mitchell^	7	8	4	4	4	4

A = Number of meetings attended
B = Number of meetings held during the time the director was eligible to attend or invited to attend
* Mr Rick Holiday-Smith AM resigned as a director on 1 December 2022
~ Mr Nicholas Moore resigned as a director on 10 February 2023
^ Mr Neville Mitchell resigned as a director on 31 May 2023

4. Company particulars

The Company is incorporated in Australia. The address of the registered office is Suite 3A, Level 1, 165 Moggill Road, Taringa Qld 4068.

5. Principal activities

The principal activities of the Group, comprising the Company and its subsidiaries (together referred to as "the Group"), during the period was the research, development and commercialisation of biologically active new chemical entities for application as human and veterinary pharmaceuticals. The primary development focus was on the anticancer drug tigilanol tiglate and the wound healing drug candidate EBC-1013 for both the human and veterinary markets. The Group also progressed the early-stage research and development programmes for antimicrobial and anti-inflammatory products as well as explore possible non-pharmaceutical products.

Commercialisation activities focused on securing an international licensing or collaboration partner for tigilanol tiglate human oncology programme. Marketing of QBiotics' veterinary oncology pharmaceutical STELFONTA®, through the company's marketing and distribution partner Virbac was closely monitored.

Following is a summary of the major activities undertaken during the year.

(a) Product development of the anticancer drug candidate tigilanol tiglate

- Primary safety and efficacy endpoints achieved, and induction of an immune response demonstrated, in Phase I/IIa head and neck cancer window of opportunity before surgery dose finding study (QB46C-H03);
- Patient recruitment and treatment commenced in a USA single site human clinical Phase II efficacy trial treating soft tissue sarcoma (QB46C-H07) under an approved Investigational New Drug (IND) with the USA Food and Drug Administration (FDA);
- Patient recruitment and treatment commenced in a multi-centre (Australia and the UK) Phase II efficacy trial treating head and neck cancer (QB46C-H08) under a Clinical Trials Notification (CTN) with the AU Therapeutic Goods Administration (TGA) and a Clinical Trials Authorisation (CTA) with the UK Medicines and Healthcare products Regulatory Agency (MHRA); and
- Follow-up stage completed and reporting commenced for international clinical trials evaluating tigilanol tiglate in the treatment of equine sarcoids and equine melanoma with equine specialist veterinarians at leading university hospitals and private practices in Europe, the United Kingdom, Australia and the USA.

(b) Product related business development of tigilanol tiglate

- Commencement of commercialisation activities aimed at securing an international licensing or collaboration partner for human use of tigilanol tiglate as a treatment for solid tumours including preparation of data packages, presentations at international industry partnering, drug development and science meetings, engagement with clinical key opinion leaders, and initial discussions with potential partner companies;
- Development of strategies with our marketing and distribution partner Virbac to address the slow market uptake of QBiotics' veterinary oncology pharmaceutical STELFONTA® was undertaken and application is under review;

5. Principal activities (continued)

(b) Product related business development of tigilanol tiglate (continued)

- Results from tigilanol tiglate veterinary clinical trials and case studies presented at 6 international veterinary conferences; and
- Publication of a scientific paper on use of the drug published with Australian specialist veterinary oncologists:
    - Brown *et al.* Treatment of multiple synchronous canine mast cell tumours using intratumoural tigilanol tiglate. *Frontiers in Veterinary Science*, October 2022, 1003165.

(c) Product development of the wound healing treatment EBC-1013

- Formal toxicology programme required to support the first-in-human trial were completed and reports are in late-stage review;
- The necessary Good Manufacturing Practice (GMP) drug product batches of EBC-1013 in gel carrier suitable for human clinical trial use were produced;
- A second Scientific Advice meeting held with the UK MHRA to discuss QBiotics' plans for a first-in-human clinical trial treating venous leg ulcers;
- Drafting of a protocol and application for a CTA with the UK MHRA, and a CTN with the AU TGA, for a clinical Phase I/IIa first-in-human dose escalation safety trial treating venous leg ulcers (QB1013C-H101);
- Lead clinical sites and Principal Investigators in the UK and Australia selected;
- A dose finding study commenced in canine wounds to inform dose selection and regimens for a future Phase II human efficacy study;
- An oral presentation at the European Wound Management Association annual conference in May; and
- Publication of two scientific papers describing the mode of action of the drug including its antimicrobial activity and its potential for managing biofilms on implants:
    - Powell LC *et al.* 2022. Topical, immunomodulatory epoxy-tiglianes induce biofilm disruption and healing in acute and chronic skin wounds. *Science Translational Medicine*, 14, eabn3758; and
    - Xue W. *et al.* 2023. Defining *in vitro* topical antimicrobial and antibiofilm activity of epoxytigliane structures against oral pathogens. *Journal of Oral Microbiology*, 15:2241326.

(d) Intellectual Property protection

- Granted Patent: *Combination therapy for the treatment or prevention of tumours* (covering tigilanol tiglate and Immune Checkpoint Inhibitor anticancer drugs) was granted in Europe joining earlier granting in the USA, Japan, Korea, Singapore and other jurisdictions already granted;
- Patent Application: *Method of treating tumours* (using tigilanol tiglate to generate an abscopal/systemic immune effect) entered National Phase and is now under examination in the USA, Europe and Japan; and
- Patent Application: *Biofilm disruption* (effects of epoxytiglianes in disrupting multidrug resistant Gram-negative bacteria biofilms) entered National Phase and now under examination in US and Europe.

6. Operating and financial review

The Group reported a loss for the year ended 30 June 2023 of $21,622,489 (year ended 30 June 2022: $18,027,544) and recognised a R&D tax incentive of $8,631,693 for the year ended on that date (year ended 30 June 2022: $6,389,883) which the Group will be able to claim at the end of the financial year.

7. Dividends

No dividends were paid or declared by the Company since the end of the previous financial year.

8. Likely developments

During the 2023-2024 financial year the Company plans to:

- Advance development of the anticancer drug tigilanol tiglate:
  - Finalise patient recruitment and local treatment for the USA FDA single site human clinical Phase II efficacy trial treating soft tissue sarcoma (QB46C-H07) and prepare an interim report for QB46C-H07;
  - Continue patient recruitment and treatment for a multi-centre (Australia and the UK) Phase II efficacy trial treating head and neck cancer (QB46C-H08) and prepare an interim report for QB46C-H08; and
  - Report on international clinical trials evaluating tigilanol tiglate in the treatment of equine sarcoids and equine melanoma.
- Continue commercialisation activities aimed at securing an international licensing or collaboration partner for human use of tigilanol tiglate as a treatment for solid tumours;
- Implement new strategies to address the slow market uptake of QBiotics' veterinary oncology pharmaceutical STELFONTA®;
- Progress the mode of action research investigating the local and immunological (systemic) effect of tigilanol tiglate;
- Advance development of the wound healing drug candidate EBC-1013:
  - Commence patient recruitment and treatment for a clinical Phase I/IIa first-in-human dose escalation safety trial treating venous leg ulcers (QB1013C-H101); and
  - Finalise a dose finding study in canine wounds to inform dose selection and regimens for a future Phase II human efficacy study.
- Progress the discovery stage programmes of antibiotics and anti-inflammatories.

9. Environmental regulation

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

10. Indemnification and insurance of officers and auditors

(a) Indemnification

To the extent permitted by law and subject to the restrictions in section 199A of the *Corporations Act 2001*, the Group indemnifies and must continually indemnify every person who is or has been an officer of the Group (including a director or secretary) against liability (including liability for costs and expenses) incurred by that person as an officer of the Group where the Group requested the officer to accept that appointment, except where the liability arises out of conduct involving a lack of good faith.

(b) Insurance premiums

The Group has paid insurance premiums in respect of directors' and officers' liability insurance contracts for current directors and officers, including company secretaries and officers or holders of equivalent positions in any jurisdiction of the Group. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability insurance contracts, as such disclosure is prohibited under the terms of the contract.

11. Auditor's independence declaration

The auditor's independence declaration (made under section 307C of the *Corporations Act 2001*) is set out on page 67 and forms part of this directors' report for the year ended 30 June 2023.

This directors' report is made out in accordance with a resolution of the directors:

Andrew Denver
Chairman

Dated at Sydney this 1st day of September 2023.

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03

Consolidated Financial Statements

QBiotics Group Limited

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2023

	Note	2023 $	2022 $
Revenue	3	2,508,398	1,544,259
Government grants	4	8,631,693	6,389,883
Other income		6,820	4,755
		11,146,911	7,938,897
Expenses			
Changes in inventories of finished goods and work in progress		(16,892)	(244,162)
Inventory purchases		1,834,697	973,415
Business compliance and advisory expenses		673,391	613,374
Depreciation and amortisation expenses		1,245,623	1,050,535
Facilities expenses		347,838	294,971
Personnel expenses	18(b)	13,268,769	11,408,816
Research and development contractors and related expenses		13,896,344	9,623,410
Marketing contractors and regulatory expenses		1,911,988	1,388,715
Technology and communications expenses		440,123	389,359
Travel and accommodation expenses		1,203,108	554,940
Other expenses		352,215	247,807
Total expenses		35,157,203	26,301,180
Results from operating activities		**(24,010,292)**	**(18,362,283)**
Finance income		2,485,105	422,489
Finance costs		(97,302)	(87,750)
Net finance income		2,387,803	334,739
Loss before tax		**(21,622,489)**	**(18,027,544)**
Tax expense	5(a)	-	-
Loss for the period		(21,622,489)	(18,027,544)
Other comprehensive income		-	-
Total comprehensive income for the year		**(21,622,489)**	**(18,027,544)**
Attributable to:			
Owners of the Company		(21,622,489)	(18,027,544)
		Cents	**Cents**
Earnings per share:			
Basic earnings per share	6(a)	(4.43)	(3.71)
Diluted earnings per share	6(b)	(4.43)	(3.71)

The notes on pages 32 to 63 are an integral part of these financial statements.

QBiotics Group Limited

Consolidated statement of changes in equity

For the year ended 30 June 2023

	Note	Attributable to owners of the Company			
		Share capital $	Share-based payments reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2021		186,281,637	4,149,757	(80,387,714)	110,043,680
Total comprehensive income for the year					
Loss for the year		-	-	(18,027,544)	(18,027,544)
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	-	(18,027,544)	(18,027,544)
Transactions with owners of the Company, recognised directly in equity					
Contributions by owners					
Options exercised		2,921,138	(566,540)	-	2,354,598
Options cancelled		-	(1,544,131)	1,544,131	-
Share-based payment transactions	19	185,947	757,857	-	943,804
Total contributions by owners of the Company		3,107,085	(1,352,814)	1,544,131	3,298,402
Balance at 30 June 2022		**189,388,722**	**2,796,943**	**(96,871,127)**	**95,314,538**
Balance at 1 July 2022		189,388,722	2,796,943	(96,871,127)	95,314,538
Total comprehensive income for the year					
Loss for the year		-	-	(21,622,489)	(21,622,489)
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	-	(21,622,489)	(21,622,489)
Transactions with owners of the Company, recognised directly in equity					
Contributions by owners					
Options exercised		215,060	(45,821)	-	169,239
Options cancelled		-	(100,905)	-	(100,905)
Share-based payment transactions	19	1,575	960,724	-	962,299
Total contributions by owners of the Company		216,635	813,998	-	1,030,633
Balance at 30 June 2023		**189,605,357**	**3,610,941**	**(118,493,616)**	**74,722,682**

The notes on pages 32 to 63 are an integral part of these financial statements.

QBiotics Group Limited

Consolidated statement of financial position

As at 30 June 2023

	Note	2023 $	2022 $*
Assets			
Cash and cash equivalents	7	6,130,178	18,278,410
Term deposits	8	52,965,967	54,919,641
Trade and other receivables	9	9,682,106	6,789,127
Contract assets	3(c)	196,478	800,042
Inventory	10	1,453,729	1,776,415
Prepayments	11	1,259,985	1,743,973
Total current assets		71,688,442	84,307,609
Term deposits	8	-	11,000,000
Contract assets	3(c)	592,815	290,384
Inventory	10	948,473	1,248,932
Prepayments	11	2,587,255	-
Property, plant and equipment	12	3,280,942	2,863,532
Right-of-use assets	13	1,044,523	892,174
Intangible assets	14	2,427,989	2,461,767
Total non-current assets		10,881,997	18,756,789
Total assets		**82,570,439**	**103,064,397**
Liabilities			
Contract liabilities	3(d)	153,596	112,918
Trade and other payables	15	3,977,177	4,218,847
Lease liabilities	16	551,973	397,747
Employee benefits	18	1,729,269	1,479,252
Total current liabilities		6,412,015	6,208,764
Contract liabilities	3(d)	230,392	545,769
Lease liabilities	16	649,685	700,928
Provisions	17	22,464	21,054
Employee benefits	18	533,201	273,344
Total non-current liabilities		1,435,742	1,541,095
Total liabilities		**7,847,757**	**7,749,859**
Net assets		**74,722,682**	**95,314,538**
Equity			
Share capital	19(a)	189,605,357	189,388,722
Share-based payments reserve	19(b)	3,610,941	2,796,943
Accumulated losses		(118,493,616)	(96,871,127)
Total equity		**74,722,682**	**95,314,538**

* 30 June 2022 comparative information has been restated for changes in account mappings to be consistent with disclosures for the period ended 30 June 2023. Results for the period are unchanged.

The notes on pages 32 to 63 are an integral part of these financial statements.

QBiotics Group Limited

Consolidated statement of cash flows

For the year ended 30 June 2023

	Note	2023 $	2022 $
Cash flows from operating activities			
Cash received from:			
Government grants		6,389,883	5,398,371
Customers		2,687,121	1,197,943
GST refunds		812,630	722,723
Other income		2,415	4,914
Cash paid to suppliers and employees		(34,772,284)	(24,768,837)
Net cash used in operating activities	20	(24,880,235)	(17,444,886)
Cash flows from investing activities			
Interest received		1,362,780	260,927
Net proceeds from (invested in) term deposits		12,953,674	(49,597,900)
Acquisition of property, plant and equipment	12	(783,250)	(700,857)
Acquisition of intangible assets	14	(493,257)	(638,873)
Proceeds from sale of property, plant and equipment		11,474	-
Net cash from/(used in) investing activities		13,051,421	(50,676,703)
Cash flows from financing activities			
Proceeds from shares issued	19(a)	169,239	2,354,595
Payment of lease liabilities	16	(488,657)	(384,481)
Net cash from/(used in) financing activities		(319,418)	1,970,114
Net decrease in cash and cash equivalents		(12,148,232)	(66,151,475)
Cash and cash equivalents at 1 July		18,278,410	84,429,885
Cash and cash equivalents at 30 June	7	**6,130,178**	**18,278,410**

Cash and cash equivalents at 30 June 2023 referred to above does not include term deposits of $52,965,967 (2022: $65,919,641) disclosed separately in the statement of financial position.

The notes on pages 32 to 63 are an integral part of these financial statements.

1. Corporate information

QBiotics Group Limited (the "Company" or "QBiotics Group") is a public unlisted company domiciled in Australia. The address of the Company's registered office is Suite 3A, Level 1, 165 Moggill Road, Taringa Qld 4068. These consolidated financial statements ("financial statements") as at and for the year ended 30 June 2023 comprise the Company and its subsidiaries (together referred to as "the Group"). As at 30 June 2023, the Company had four legal subsidiaries, QBiotics Pty Ltd ("QBiotics"), EcoBiotics Pty Ltd ("EcoBiotics"), QBiotics Netherlands B.V. ("QBiotics Netherlands") and QBiotics UK Limited ("QBiotics UK").

The Group is for-profit and is primarily involved in the development of pharmaceuticals for the human and veterinary markets.

At 30 June 2023 the Company has 2,585 shareholders (2022: 2,563) and is a disclosing entity.

2. Basis of preparation

(a) Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. The financial statements comply with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB").

The financial statements were approved by the Board of Directors on the date shown on the directors' declaration.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for share-based payment arrangements and forward exchange contracts which are measured at fair value.

(c) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised and disclosed in the financial statements is included in the following notes:

- Note 3 – Revenue
- Note 4 – Government grants
- Note 5 – Taxes
- Note 10 – Inventory
- Note 16 – Lease liabilities
- Note 19 – Share capital and share-based payments reserve

(d) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars which is the functional currency of QBiotics Group, QBiotics, EcoBiotics, QBiotics Netherlands and QBiotics UK.

Foreign exchange gains of $440,538 (2022: $12,752) are included within finance income in the consolidated statement of profit or loss and other comprehensive income.

3. Revenue

(a) Disaggregated revenue

The Group's revenue disaggregated is as follows:

	2023 $	2022 $
Point in time		
Product sales revenue	1,323,708	915,970
Total point in time	**1,323,708**	**915,970**
Over time		
Milestone revenue	550,345	491,303
Sales-based revenues	634,345	136,986
Total over time	**1,184,690**	**628,289**
Total revenue	**2,508,398**	**1,544,259**

(b) Contract balances

The following table provides information about contract assets and contract liabilities from contracts with customers.

Contract assets	789,293	1,090,426
Contract liabilities	(383,988)	(658,687)
Total contract balance	**405,305**	**431,739**

The contract assets primarily relate to the Group's rights to consideration for product delivered at the reporting date. The amount of the contract asset is based on future sales of the product by the customer and is estimated using the contract terms and the most likely sales outcomes. The contract assets will be transferred to receivables when the rights become unconditional.

The contract liabilities relate to two milestone payments received from the customer relating to the sale, marketing and distribution of STELFONTA® for which revenue is recognised over time. The amounts have been and will continue to be recognised into revenue between February 2020 and December 2025 as product is shipped by the Group to the customer.

(c) Contract assets

Balance at 1 July	1,090,426	959,363
Revenue recognised	909,991	401,278
Deferred payment invoiced	(1,292,812)	(269,493)
Foreign exchange movements in asset	81,688	(722)
Balance at 30 June	**789,293**	**1,090,426**
Current contract assets	196,478	800,042
Non-current contract assets	592,815	290,384
Total contract assets	**789,293**	**1,090,426**

(d) Contract liabilities

Balance at 1 July	658,687	884,623
Contract liability recognised into revenue	(274,699)	(227,012)
Foreign exchange movements in liability	-	1,076
Balance at 30 June	**383,988**	**658,687**
Current contract liability	153,596	112,918
Non-current contract liability	230,392	545,769
Total contract liabilities	**383,988**	**658,687**

3. Revenue (continued)

(e) Significant accounting policies – revenue

Revenue from contracts with customers is measured and recognised in accordance with the five-step model prescribed by AASB 15 *Revenue from Contracts with Customers*. First, contracts with customers within the scope of AASB 15 are identified. Distinct promises with the contract are identified as performance obligations. The transaction price of the contract is measured based on the amount of consideration the Group expects to be entitled from the customer in exchange for goods or services. Factors such as requirements around variable consideration, significant financing components, non-cash consideration, or amounts payable to customers also determine the transaction price. Revenue is recognised when, or as, performance obligations are satisfied, which is when control of the promised good or services is transferred to the customer.

Revenue is measured on the relative stand-alone selling price of the performance obligation delivered. If the contract contains variable consideration, the variable consideration is estimated at contract inception and constrained until it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

The Group has three forms of consideration, product sales, milestone payments and sales-based revenues. Product sales are measured at a point in time while milestone payments and sales-based payments are measured over time.

(i) Product sales

Product sales revenue not yet invoiced under the contract are recorded as contract assets within the consolidated statement of financial position. Amounts expected to be invoiced within the 12 months following the end of the financial period are classified within current assets. Amounts not expected to be invoiced within 12 months following the end of the financial period are classified within non-current assets. Where recognition as revenue has occurred more than 12 months prior to invoicing, consideration is made as to the whether a financing arrangement has been entered into. At reporting date, no such contracts have been identified.

For contracts that permit the customer to return an item, revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of revenue recognised for the contract will not occur, in which instance, the amount of revenue recognised is adjusted for expected returns, which are estimated based on the historical data for the specific type of product. In these circumstances, a refund liability and an asset representing the right to recover returned goods are recognised.

The right to recover returned goods asset is measured at the former carrying amount of the inventory less any expected costs to recover goods. The refund liability is included in other payables and the right to recover returned goods is included in inventory. The Group reviews its estimate of expected returns at each reporting date and updates the amounts of the asset and liability accordingly.

(ii) Milestone payments

The receipt of milestone payments is often contingent on meeting certain regulatory or commercial targets and is therefore considered variable consideration. The Group estimates the transaction price of the contingent milestone using the estimated amount method. Milestone payments that are contingent upon events not within the control of the Group, such as regulatory approvals, are considered subject to constraint and not recognised until they are highly probable of being achieved. Any changes in the transaction price are allocated to all performance obligations in the contract unless the variable consideration relates only to one or more, but not all, of the performance obligations.

When consideration for milestones is able to be reliably estimated and not constrained, revenue is recognised on a systematic basis representing the proportion of achievement of the milestone.

3. Revenue (continued)

(e) Significant accounting policies – revenue (continued)

(ii) Milestone payments (continued)

Milestone payments received prior to satisfying the revenue recognition criteria are recorded as contract liabilities within the consolidated statement of financial position. Amounts expected to be recognised as revenue within the 12 months following the end of the financial period are classified within current liabilities. Amounts not expected to be recognised as revenue within 12 months following the end of the financial period are classified within non-current liabilities. Where recognition as revenue is expected to extend beyond 12 months following the date of the contract becoming effective, consideration is made as to the whether a financing arrangement has been entered into. At reporting date, no such contracts have been identified.

(iii) Sales-based revenues

When consideration is based on the customer's sale of the products, the Group applies the general requirements of variable consideration.

(iv) Concentration of risk

All of the Company's revenues are sourced from one customer.

4. Government grants

(a) Research and development tax incentive

The Group undertakes research and development activities which are eligible for tax incentives under Australian Tax law. Eligible research and development costs incurred during the year include expenses from all expenditure categories disclosed by nature in the statement of profit or loss and other comprehensive income. Total eligible research and development costs incurred for the year were $19,842,973 (2022: $14,689,386).

The Australian Government's *R&D Tax Incentive* has been recognised as a government grant at the rate of 43.5% (2021: 43.5%) of eligible research and development costs incurred and recognised in profit or loss during the year. Consequently, at 30 June 2023 an amount of $8,631,693 (2022: $6,389,883) has been recognised as an other receivable and a government grant.

(b) Significant accounting policies – government grants

(i) Tax incentives

The Group recognises R&D tax incentives as follows:

- Refundable tax offsets are recognised as a government grant when there is reasonable assurance that the grant will be received and all conditions have been complied with. The grant is recognised in profit or loss on a systematic basis over the periods in which the Group recognised as expenses the related eligible research and development activities which the grant is intended to compensate.
- Non-refundable tax offsets will be recognised as part of tax expense during the period in which the Group recognised the related eligible research and development activities.

(ii) Other government grants and incentives

Other government grants and incentives are recognised when there is reasonable assurance that the grant will be received, and all conditions have been complied with.

5. Taxes

(a) Tax expense

(i) Tax recognised in profit or loss

	2023 $	2022 $
Current year tax expense	-	-
Deferred tax expenses		
Origination and reversal of temporary differences	149,263	243,476
Impact of prior period adjustments	7,300	77,110
Impact of change in future tax rate	-	-
Change in unrecognised deductible temporary difference	(156,563)	(320,586)
	-	-
Total tax expense	**-**	**-**

(ii) Tax recognised directly in equity

Origination and reversal of temporary differences	(100,294)	(95,294)
Impact of change in future tax rate	-	-
Change in unrecognised deductible temporary differences	100,294	95,294
Total tax recognised directly in equity	**-**	**-**

(b) Reconciliation between tax expense and loss before tax

Loss before tax	(21,622,491)	(18,027,544)
Tax benefit using the expected, future domestic corporation tax rate of 25% (2022: 25%)	(5,405,623)	(4,506,924)
Increase/(decrease) in tax expense due to:		
Non-temporary differences:		
Non-assessable government grant	(2,157,923)	(1,597,471)
Capital raising cost deduction	(100,294)	(100,294)
Non-deductible expenses	261,609	246,627
Research and development offset claimed	4,960,743	3,672,346
Impact of lower overseas tax rate	52,183	20,479
	(2,389,304)	(2,265,236)
Current year unrecognised temporary differences	149,263	243,476
Current year losses for which no deferred tax asset was recognised	2,240,041	2,021,760
Tax expense	**-**	**-**

(c) Unrecognised deferred tax assets and liabilities

A deferred tax asset has not been recognised in respect of the following items:		
Temporary differences	28,976,532	28,920,264
Tax losses	11,865,312	9,635,013
Total unrecognised deferred tax assets and liabilities	**40,841,844**	**38,555,277**

Unrecognised deductible temporary differences

Unrecognised deductible temporary differences exist in respect of the following items:		
Temporary differences impacting profit or loss	28,843,450	28,686,887
Temporary differences impacting equity	133,082	233,376
Total unrecognised deductible temporary differences	**28,976,532**	**28,920,264**

5. Taxes (continued)

(c) Unrecognised deferred tax assets and liabilities (continued)

Unrecognised deductible temporary differences

Unrecognised deductible temporary differences of $26,576,373 (2022: $26,576,373) can only be realised on the disposal of the business.

The deductible temporary differences and tax losses do not expire under current tax legislation. Net deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise these benefits.

(d) Significant accounting policies - taxes

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity, or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Company is able to control the timing of the reversal of any temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, using tax rates enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

(iii) Tax exposure

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such a determination is made.

5. Taxes (continued)

(d) Significant accounting policies – taxes (continued)

(iv) Tax consolidation

From 1 August 2017, the Company and its wholly-owned Australian resident subsidiaries are part of a tax-consolidated group under Australian tax law. QBiotics Group is the head entity in the tax-consolidated group (the "Head Company").

Current tax liabilities and assets, and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the Head Company.

Entities within the tax-consolidated group have entered into a Tax Funding Agreement and a Tax Sharing Agreement with the Head Company. Under the terms of the Tax Funding Agreement, QBiotics Group and each of the entities in the tax-consolidated group has agreed that current and deferred tax balances must be determined in accordance with the requirements of Urgent Issues Group Interpretation 1052 *Tax Consolidation Accounting* ("UIG 1052") and that the current and deferred tax balances be recognised and measured as if each party was a stand-alone taxpayer, with the necessary modifications to ensure there is no equity adjustment under UIG 1052. The Head Company will recognise current tax liabilities or assets, and deferred tax assets arising from unused tax losses and unused relevant tax credits, assumed from the entities in the tax-consolidated group and the members of the tax consolidated group will recognise deferred taxes relating to temporary differences.

6. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 30 June 2023 was based on the loss attributable to ordinary shareholders of $21,622,489 (2022: loss of $18,027,544) and a weighted average number of ordinary shares calculated as follows:

Weighted average number of ordinary shares	2023 #	2022 #
Issued ordinary shares at 1 July	487,756,371	484,268,622
Effect of ordinary shares issued during the year	235,496	2,002,419
Weighted average number of shares	**487,991,867**	**486,271,041**

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 30 June 2023 was based on the loss attributable to ordinary shareholders of $21,622,489 (2022: loss of $18,027,544) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2023 of 487,991,867 (2022: 486,271,041).

At 30 June 2023 and 30 June 2022 all ordinary share options were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

7. Cash and cash equivalents

	2023 $	2022 $
Petty cash	12,778	8,213
Bank balances	6,117,400	18,270,196
Cash and cash equivalents in the statement of cash flows	**6,130,178**	**18,278,410**

8. Term deposits

	2023 $	2022 $
Current	52,965,967	54,919,641
Non-current	-	11,000,000
Total term deposits	**52,965,967**	**65,919,641**

The Group holds a variety of short-term term deposits at major Australian banks. The term deposits bear interest rates ranging between 3.25% and 5.08% (2022: 0.3% and 3.3%) and have maturity dates ranging from 6 July 2023 to 26 June 2024 (2022: 5 August 2022 to 7 August 2023). Term deposits totalling $161,458 (2022: $161,142) secure bank guarantees related to our Cairns and Taringa premise leases.

9. Trade and other receivables

Trade receivables	183,530	209,607
Accrued interest	866,883	189,636
R&D Tax Incentive receivable	8,631,693	6,389,883
Total trade and other receivables	**9,682,106**	**6,789,127**

30 June 2022 comparative information has been restated for changes in account mappings to be consistent with disclosures for the period ended 30 June 2023. Results for the period are unchanged.

10. Inventory

Current	1,453,729	1,776,415
Non-current	948,473	1,248,932
Total inventory	**2,402,202**	**3,025,347**

Raw materials and consumables	70,560	66,240
Work in progress	1,770,456	2,383,077
Finished goods	561,186	576,030
Total inventory	**2,402,202**	**3,025,347**

Gross inventory	4,247,885	3,598,312
Less provisions	(1,845,682)	(572,965)
Total inventory	**2,402,202**	**3,025,347**

Inventory valued at $471,462 was included in profit and loss as an expense (2022: $424,648).

As of 30 June 2023, inventory is shown net of a provision of $1,845,682 (2022: $572,965) which was recorded to write-down finished goods to their net realisable value. A total of $572,965 was expensed in a prior financial period. Of the $1,272,717 of expense recognised in the year ended 30 June 2023 related to the write-down of finished goods to their net realisable value, $563,940 was expensed to Research and development contractors' expenses and the remaining $708,777 was expensed as part of Changes in inventories of finished goods and works in progress.

(a) Significant accounting policies - inventory

Inventories are stated at the lower of cost and net realisable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Costs of work in progress and finished goods that are specifically identifiable by production batch are assigned using the specific identification of costs to the batch and weighted average within the batch. Costs of ordinarily interchangeable items (mainly raw materials and consumables) are assigned using the first in, first out cost formula. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

10. Inventory (continued)

(a) Significant accounting policies – inventory (continued)

Each class of inventory is assessed at period end and it is identified whether the inventory holding represents a "normal operating cycle". Where the inventory is deemed to be representative of a normal operating cycle, the inventory is classified as current. Should any inventories be identified that exhibit characteristics that diverge from what would be expected in a normal operating cycle, then the inventory level is assessed against planned usage, and any amounts exceeding the anticipated usage within 12 months from the end of the accounting period are classified as non-current.

11. Prepayments

	2023 $	2022 $
Current	1,259,985	1,743,973
Non-current	2,587,255	-
Total prepayments	**3,847,240**	**1,743,973**
Down payments and deposits	3,047,241	740,614
Prepayments	799,999	1,003,359
Total prepayments	**3,847,240**	**1,743,973**

12. Property, plant and equipment

Cost	Land and buildings $	Plant and equipment $	Furniture and fittings $	Computer system $	Total $
Balance at 1 July 2021	2,426,186	948,004	45,716	136,589	3,556,495
Additions	531,397	102,582	3,875	63,003	700,857
Balance at 30 June 2022	2,957,583	1,050,586	49,591	199,592	4,257,352
Balance at 1 July 2022	2,957,583	1,050,586	49,591	199,592	4,257,352
Additions	309,829	385,589	21,907	65,925	783,250
Disposals	(103,017)	(16,364)	-	(32,847)	(152,228)
Balance at 30 June 2023	**3,164,395**	**1,419,811**	**71,498**	**232,670**	**4,888,373**
Accumulated depreciation and impairment losses					
Balance at 1 July 2021	495,375	534,135	25,355	59,195	1,114,059
Depreciation for the year	130,972	99,923	3,486	45,379	279,761
Balance at 30 June 2022	626,347	634,058	28,841	104,574	1,393,820
Balance at 1 July 2022	626,347	634,058	28,841	104,574	1,393,820
Depreciation for the year	146,590	144,472	4,125	59,045	354,232
Disposals	(103,017)	(5,453)	-	(32,150)	(140,621)
Balance at 30 June 2023	**669,920**	**773,077**	**32,966**	**131,468**	**1,607,431**
Carrying amounts					
At 1 July 2021	1,930,811	413,870	20,361	77,394	2,442,436
At 30 June 2022	2,331,236	416,528	20,750	95,018	2,863,532
At 30 June 2023	**2,494,475**	**646,734**	**38,532**	**101,201**	**3,280,942**

(a) Significant accounting policies - property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Any

12. Property, plant and equipment (continued)

(a) Significant accounting policies - property, plant and equipment (continued)

(i) Recognition and measurement (continued)

gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is complete and ready for use. Depreciation is calculated to write off the cost of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is generally recognised in profit or loss unless the amount is included in the carrying amount of another asset. Land is not depreciated.

The estimated useful lives in the current and comparative year of significant items of property, plant and equipment are as follows:

- Buildings 3 – 40 years
- Plant and equipment 2 – 15 years
- Furniture and fittings 5 – 20 years
- Computer system 2 – 9 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(iv) Impairment

See Note 14(b)(iv).

13. Right of use assets

The Group leases assets including land and buildings and office equipment (Note 16). Information about the right-of-use assets resulting from the leases for which the Group is a lessee is presented below:

	Land and buildings $	Office Equipment $	Total $
Balance at 1 July 2021	1,032,890	5,536	1,038,426
Additions	145,463	-	145,463
Depreciation	(289,701)	(2,014)	(291,715)
Balance at 30 June 2022	888,652	3,522	892,174
Balance at 1 July 2022	888,652	3,522	892,174
Additions	516,571	-	516,571
Depreciation	(362,208)	(2,014)	(364,222)
Balance at 30 June 2023	**1,043,015**	**1,508**	**1,044,523**

(a) Significant accounting policies - right-of-use assets

The right-of-use asset is depreciated using the straight-line method from the commencement date of the lease to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

14. Intangible assets

	Intellectual property $	Patents $	Trademarks $	Water licences $	Total $
Cost					
Balance at 1 July 2021	6,899,663	2,730,965	105,337	77,529	9,813,494
Additions	-	572,533	3,300	63,040	638,873
Write-offs	-	(72,111)	-	-	(72,111)
Balance at 30 June 2022	6,899,663	3,231,387	108,637	140,569	10,380,256
Balance at 1 July 2022	6,899,663	3,231,387	108,637	140,569	10,380,256
Additions	-	492,270	987	-	493,257
Write-offs	-	(719,363)	-	-	(719,363)
Balance at 30 June 2023	**6,899,663**	**3,004,294**	**109,624**	**140,569**	**10,154,150**
Amortisation and impairment losses					
Balance at 1 July 2021	6,450,484	1,004,501	56,644	-	7,511,629
Amortisation for the year	163,427	238,688	11,670	-	413,785
Amortisation on write-offs	-	(6,924)	-	-	(6,924)
Balance at 30 June 2022	6,613,911	1,236,264	68,314	-	7,918,489
Balance at 1 July 2022	6,613,911	1,236,264	68,314	-	7,918,489
Amortisation for the year	25,977	225,606	8,142	-	259,725
Amortisation on write-offs	-	(452,053)	-	-	(452,053)
Balance at 30 June 2023	**6,639,888**	**1,009,817**	**76,456**	**-**	**7,726,161**
Carrying amounts					
At 1 July 2021	449,179	1,726,465	48,693	77,529	2,301,866
At 30 June 2022	285,752	1,995,123	40,323	140,569	2,461,767
At 30 June 2023	**259,775**	**1,994,477**	**33,168**	**140,569**	**2,427,989**

(a) Amortisation and impairment charge

The amortisation and losses on abandonment are recognised in "Depreciation and amortisation expenses" in the statement of profit or loss and other comprehensive income.

(b) Significant accounting policies - intangible assets

(i) Recognition and measurement

Intangible assets include the costs of intellectual property, patents and trademarks that are acquired by the Group, which have finite useful lives. They are measured at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets also include water licences which have an indefinite useful life as they do not expire and can be sold. Water licences are measured at cost less accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

(iii) Amortisation

Finite-lived intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use, that is, when they are in the location and condition necessary for them to be capable of operating in the manner intended by management. Water licences are not amortised.

14. Intangible assets (continued)

(b) Significant accounting policies - intangible assets (continued)

(iii) Amortisation (continued)

The estimated useful lives for the current and comparative year are as follows:

- Intellectual property 4 – 15 years
- Patents 20 years
- Trademarks 10 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(iv) Impairment

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Water licences are tested annually for impairment by reference to current market prices.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

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

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in the statement of profit or loss and other comprehensive income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (or group of CGUs) on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. No impairment is reversed in respect of goodwill.

15. Trade and other payables

	2023 $	2022 $
Accrued expenses	2,847,000	3,429,276
Trade and other payables	1,130,177	739,571
Total trade and other payables	**3,977,177**	**4,218,847**

16. Lease liabilities

Current lease liabilities	551,973	397,747
Non-current lease liabilities	649,685	700,928
Total lease liabilities	**1,201,658**	**1,098,675**

During the year ended 30 June 2023, $73,323 of interest on lease liabilities was recognised and included in financing costs (2022: $79,519). Lease payments for the year totalled $488,657 (2022: $384,481).

16. Lease liabilities (continued)

Key transactions during the year ended 30 June 2023

In September 2022, QBiotics Group entered into a new lease for a laboratory premise effective from 5 September 2022. The lease liability was measured using an interest rate of 7.10% and a lease life of 36 months. As a result, a lease liability and a right of use asset (Note 13) were recognised in the value of $176,699.

On 27 June 2023, QBiotics Group indicated to the lessor of its Cairns office premise that it would take out an extension on the current lease. The lease liability was measured using an interest rate of 7.5% and a lease life of 45 months, as the decision to enter the new lease was communicated to the lessor 9 months prior to the 36-month lease taking affect. As a result, both the lease liability and the right of use asset (Note 13) were increased by $187,089.

Key transactions during the year ended 30 June 2022

The Company entered into a new lease for its existing Yungaburra office premise effective from 1 July 2022. The lease liability was measured using an interest rate of 7.2% and a lease life of 26 months, as the lease was signed 2 months prior to the 24-month lease taking affect. As a result, both the lease liability and the right of use asset (Note 13) were increased by $96,396 in the year ended 30 June 2022.

The Company also signed a short-term lease over a shared apartment for 24 months in the year ended 30 June 2022. The Company had a short-term lease with roughly 2 months remaining over the same apartment at the time the new lease arrangement was put in place. A lease liability was recognised using an interest rate of 6.24% and a lease life of 26 months at the time the new agreement was signed and as a result both the lease liability and right of use asset (Note 13) were increased by $49,067.

(a) Future minimum lease payments

The Group has leases for its premises in Yungaburra, Taringa and Cairns as well as some office equipment. The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 30 June 2023 were as follows:

	Minimum lease payments due		
30 June 2023	Within one year $	One to five years $	Total $
Lease payments	551,973	755,203	1,307,176
Finance charges	(65,959)	(39,559)	(105,518)
Net present values	**486,014**	**715,644**	**1,201,658**
30 June 2022			
Lease payments	397,767	821,184	1,218,951
Finance charges	(63,280)	(56,996)	(120,276)
Net present values	**334,487**	**764,188**	**1,098,675**

(b) Lease payments not recognised as a liability

The Group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

The expense relating to payments not included in the measurement of a lease liability is as follows:

	2023 $	2022 $
Short-term leases	57,669	22,335
Leases of low value assets	11,758	12,696
Total lease expenses not included in lease liabilities	**69,427**	**35,031**

16. Lease liabilities (continued)

(c) Total cash outflow for leases

	2023 $	2022 $
Total cash outflow for leases	558,084	419,512

(d) Significant accounting policies - leases

The Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and whether
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability and any initial direct costs incurred by the Group, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments, variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use-asset and lease lability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

17. Provisions

A provision of $22,464 (2022: $21,054) has been recognised for make good conditions on the Cairns office lease. These costs are expected to be incurred in 2027 (2022: 2024). There is a possibility that these costs will be delayed if the lease is extended or renewed. The provision has been estimated at the current cost of making good plus inflation of 3.5% per annum (2022: 3% per annum). The provision has been discounted using a discount rate of 7.5% (2022: 6.5%).

18. Employee benefits

(a) Annual leave and long service leave

Current	2023 $	2022 $
Accrued annual leave	1,356,287	1,165,981
Accrued long service leave	372,982	313,271
Total current employee benefits	**1,729,269**	**1,479,252**
Non-current		
Provision for long service leave	334,877	273,344
Provision for long-term incentive program	198,324	-
Total non-current employee benefits	**533,201**	**273,344**
Movements in provision for long service leave		
Balance at 1 July	273,344	265,387
Provision made during the year	121,244	94,943
Provision transferred to accrued long service leave	(59,711)	(86,986)
Total provision for long service leave	**334,877**	**273,344**
Movements in provision for long-term incentive program		
Balance at 1 July	-	-
Provision transferred from share-based payment reserve	100,905	-
Provision made during the year	97,419	-
Total provision for long-term incentive program	**198,324**	**-**

On 7 March 2023, the Company cancelled a total of 397,500 option granted to Dr. Gordon and Dr. Reddell in December 2021 and replaced them with a long-term incentive plan payable in cash. A total of $100,905 was transferred out of the share-based payment reserve to the provision for long-term incentive program. An additional $97,419 was accrued related to the 2021 and 2022 long-term incentive programs. The amounts accrued are based on the estimated value of the incentive. Of the incentive on offer, 40% is related to remaining in the employ of the Company while the remaining 60% is based on performance goals which are appraised by the non-executive director members of the Company's Remuneration Committee.

(b) Personnel expenses

Wages and salaries	9,963,908	8,895,929
Contributions to defined contribution plans	926,565	709,748
Other associated personnel expenses	1,244,028	947,440
Increase in liability for long service leave	121,244	94,942
Directors fees – salary and fees	144,856	94,203
Directors fees – equity-settled share-based payments	340,518	429,369
Other equity-settled share-based payments	619,783	423,772
Transferred to property, plant and equipment	(92,133)	(186,587)
Total personnel expenses	**13,268,769**	**11,408,816**

(c) Number of employees

	#	#
Number of employees at year end (full-time equivalent)	**51**	**47**

(d) Significant accounting policies - employee benefits

(i) Short-term benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

18. Employee benefits (continued)

(d) Significant accounting policies - employee benefits (continued)

(ii) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes. Modifications to share based payments with amounts to be settled in cash are transferred to the liability, where the liability amount does not exceed the fair value of the equity instruments the remaining balance remains in equity.

(iii) Defined contribution plan

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

(iv) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

(v) Long-term incentives payable in cash

The fair value of the amount payable to employees in respect of any long-term incentives, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the incentive payable. Any changes in the liability are recognised in profit or loss.

19. Share capital and share-based payments reserve

(a) Movements in share capital

	Ordinary shares		Share capital	
	2023 #	2022 #	2023 $	2022 $
On issue at 1 July	487,756,371	484,268,622	189,388,722	186,281,637
Exercise of share options	252,596	3,341,322	215,060	2,921,138
Issued for goods or services provided	1,418	146,427	1,575	185,947
On issue at 30 June – fully paid	**488,010,385**	**487,756,371**	**189,605,357**	**189,388,722**

Ordinary shares

Key transactions during the year ended 30 June 2023

On 27 July 2022 the Company issued 252,596 ordinary shares as a result of the exercise of vested options. The options had an exercise price of $0.67 per share and a fair value of $0.1814 per share. Consequently, the Company received cash proceeds of $169,239 and $45,821 was transferred from the Company's share-based payments reserve to share capital.

19. Share capital and share-based payments reserve (continued)

(a) Movements in share capital (continued)

Ordinary shares (continued)

Key transactions during the year ended 30 June 2023 (continued)

On 13 November 2022 the Company issued 1,418 new shares at $1.111 per share to employees for services provided. The shares were recognised at the fair value at the time of issue.

Key transactions during the year ended 30 June 2022

A total of 3,341,322 ordinary shares were issued as a result of the exercise of vested options arising from options granted to employees and directors. Options were exercised at an average price of $0.705. Consequently, the Company received cash proceeds of $2,354,595 and $566,540 was transferred from the Company's share-based payments reserve to share capital.

On eight occasions during the year, shares were issued to employees and directors of the group for services provided. The shares were recognised at the fair value at the time of issue. The details are as follows:

- During July 2021 the Company issued 29,282 new shares at a fair value of $0.905 per share;
- During August 2021 the Company issued 5,319 new shares at a fair value of $0.94 per share;
- During September 2021 the Company issued 7,769 new shares at a fair value of $1.448 per share;
- During October 2021 the Company issued 27,394 new shares at a fair value of $1.451 per share;
- During December 2021 the Company issued 20,419 new shares at a fair value of $1.359 per share;
- During March 2022 the Company issued 34,032 new shares at a fair value of $1.409 per share and 5,922 new shares at a fair value of $1.393 per share; and
- During June 2022 the Company issued 16,290 new shares at a fair value of $1.197 per share.

Terms and conditions

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

(b) Share-based payments reserve

	2023 $	2022 $
Balance at 1 July	2,796,943	4,149,757
Share-based payments recognised during the year	960,724	757,857
Options cancelled during the year	(100,905)	(1,544,131)
Amount transferred to share capital	(45,821)	(566,540)
Total share-based payments reserve	**3,610,941**	**2,796,943**

(i) Options granted

The key terms and conditions related to the options granted are as follows:

Ref	Grant date	Number of instruments	Vesting conditions	Contractual life of options
A	18 April 2016	2,500,002	750,000 options vested on the grant date and 583,334 of the options vested on the first, second and third anniversaries of the grant date respectively. 1,333,334 of the options were exercised in previous financial years and 583,334 of the options have expired.	5 years from vesting date
B	20 July 2016	1,808,834	One third of the options vested on the first, second and third anniversary of the grant date respectively. 301,472 of the options were exercised in the previous financial year while 301,472 have expired.	5 years from vesting date

19. Share capital and share-based payments reserve (continued)

(b) Share based payment reserve (continued)

(i) Options granted (continued)

Ref	Grant date	Number of instruments	Vesting conditions	Contractual life of options
C	27 July 2016	252,596	40% of the options vested on 31 March 2017 and 60% of the options vested on 31 March 2018. All options were exercised during the current financial year.	6 years from grant date
D	1 November 2016	2,100,000	One third of the options vested on the first and second anniversaries of the grant date. The third tranche vested in May 2019. 1,545,405 options were exercised in prior years. 554,595 have expired, unexercised.	6 years from grant date
E	28 November 2017	1,168,039	438,599 options vested on the first anniversary of the grant date, 384,256 options vested on the second anniversary of the grant date, and 345,184 options vested on the third anniversary of the grant date.	5 years from vesting date
F	26 April 2018	71,144	Options vested on the grant date.	6 years from grant date
G	21 May 2018	1,800,000	600,000 options vested on the grant date, 600,000 options vested on 31 December 2018 and 600,000 options vested on 31 December 2019. 911,111 options were exercised in prior financial years.	6 years from grant date
H	21 May 2018	900,000	300,000 options vested on 31 July 2018. There were 600,000 additional options that did not vest due to forfeiture and non-performance of service conditions.	6 years from grant date
I	1 August 2018	300,000	150,000 of the options vested on the grant date, 150,000 options vested on the first anniversary of the grant date.	5 years from vesting date
J	5 July 2019	4,121,412	1,268,502 options vested on the first anniversary of the grant date, 1,384,859 options vested on the second anniversary of the grant date and 1,468,051 options vested on the third anniversary of the grant date.	6 years from grant date
K	17 February 2020	2,223,714	Options vested on the grant date. These options were cancelled on 21 December 2021.	6 years from grant date
L	31 March 2021	2,232,334	1,750,000 options vested on the grant date and were subsequently cancelled on 21 December 2021. 160,778 options vested on 1 February 2022 and 168,548 vested on 1 February 2023. 153,008 options were forfeited during the current financial period.	6 years from grant date
M	22 April 2021	482,334	160,778 options vested on each of 9 April 2022 and 9 April 2023, with the last 160,778 to vest on 9 April 2024.	6 years from grant date
N	1 October 2021	1,181,082	366,432 options to vest on 30 September 2024 and 549,650 options to vest on 30 September 2024 subject to performance hurdles being met. 265,000 options have been forfeited. Shares issued will be subject to a two-year holding lock.	3.5 years from grant date

19. Share capital and share-based payments reserve (continued)

(b) Share based payment reserve (continued)

(i) Options granted (continued)

Ref	Grant date	Number of instruments	Vesting conditions	Contractual life of options
O	13 December 2021	507,185	43,875 options to vest on 30 September 2024 and 65,810 options to vest on 30 September 2024 subject to performance hurdles being met. 397,500 options have been cancelled in the current financial year. Shares issued will be subject to a two-year holding lock.	3.3 years from grant date
P	30 September 2022	1,759,165	614,963 options to vest on 30 September 2025 and 922,442 options to vest on 30 September 2025 subject to performance hurdles being met. 221,760 options have been forfeited in the current period.	3.5 years from grant date
Q	8 September 2022	342,752	299,983 options to vest on 8 September 2023. 42,769 options will not vest as service conditions have not been met.	1.5 years from grant date
		23,750,593		
Options exercised		(4,343,918)		
Options cancelled		(4,371,214)		
Options expired		(1,439,401)		
Options forfeited		(1,282,537)		
Options outstanding		**12,313,523**		

(ii) Options cancelled

On 21 December 2021, the Company entered into option cancellation deeds with a number of its non-executive directors to cancel 1,750,000 options granted in March 2021 and 2,223,714 options granted in February 2020. Consequently, an amount of $1,544,131 has been transferred from the share-based payment reserve to retained earnings at 31 December 2021 and fully expensed in the period.

On 7 March 2023, the Company cancelled a total of 397,500 option granted to Dr. Gordon and Dr. Reddell in December 2021 and replaced them with a long-term incentive plan payable in cash. The share-based payment reserve contains a balance of $62,357 related to the cancelled options and an additional $100,905 was transferred out of the share-based payment reserve to a long-term liability which is included in Employee Benefits. As the amount of the liability recognised on 7 March 2023 is less than the amount previously recognised as an increase in equity, no gain is recognised for the difference between the amount recognised to date in equity and the amount reclassified for the fair value of the liability, with the difference remaining in equity.

(b) Share based payment reserve

(iii) Measurement of fair value

The fair value of the share options issued has been measured using the Black-Scholes Merton formula. An estimate is made for the number of equity instruments for which service conditions are expected to be satisfied, with a true-up to the number ultimately satisfied. The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payments were as follows. The risk-free interest rate was based on government bonds.

19. Share capital and share-based payments reserve (continued)

(b) Share based payment reserve (continued)

(iii) Measurement of fair value (continued)

Ref	Year of grant	Fair value at grant date (weighted average) $	Share price at grant date $	Exercise price $	Expected volatility	Expected life (weighted average)	Expected dividend	Risk- free interest rate
A	2016	0.172	0.400	0.801	60.82%	6.5 years	-	2.10%
B	2017	0.184	0.400	0.801	60.82%	7 years	-	2.10%
C	2017	0.181	0.400	0.801	60.82%	6 years	-	2.10%
D	2017	0.180	0.400	0.670	60.82%	6 years	-	1.91%
E	2018	0.141	0.400	0.801	50.66%	7 years	-	2.11%
F	2018	0.157	0.400	0.670	53.28%	6 years	-	2.51%
G	2018	0.156	0.402	0.670	52.62%	6 years	-	2.47%
H	2018	0.154	0.402	0.670	52.62%	6 years	-	2.47%
I	2019	0.113	0.407	0.801	50.97%	5.5 years	-	2.32%
J	2020	0.244	0.585	1.000	58.88%	6 years	-	1.00%
K	2020	0.292	0.699	1.170	58.95%	6 years	-	0.75%
L	2021	0.511	0.902	1.510	76.71%	6 years	-	0.66%
M	2021	0.511	0.902	1.510	76.61%	6 years	-	0.69%
N	2022	1.422	1.422	-	80.77%	3.5 years	-	0.27%
O	2022	1.359	1.359	-	74.94%	3.3 years	-	0.92%
P	2023	1.109	1.109	-	86.95%	3.5 years	-	3.26%
Q	2023	1.109	1.097	-	62.26%	1.5 years	-	3.26%

Expected volatility has been based on an evaluation of the volatility of similar listed companies as the Group has no historical volatility data. The expected term of the instruments has been based on historical experience and general option holder behaviour.

(iv) Reconciliation of outstanding share options

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

	Options		Weighted average exercise price	
	2023 #	2022 #	2023 $	2022 $
Outstanding at 1 July	12,983,640	18,610,409	0.792	0.961
Exercised during the year	(252,596)	(3,341,322)	0.607	0.717
Cancelled during the year	(397,500)	(3,973,714)	-	1.320
Expired during the year	(1,439,401)	-	0.751	-
Forfeited during the year	(682,537)	-	0.339	-
Granted during the year	2,101,917	1,688,267	-	-
Outstanding at 30 June	**12,313,523**	**12,983,640**	0.715	0.792
Exercisable at 30 June	9,289,590	9,184,210	0.921	0.854

19. Share capital and share-based payments reserve (continued)

(c) Dividends

No dividends have been paid or declared by the Company since the Company was incorporated.

(d) Significant accounting policies – share capital and share-based payments reserve

(i) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share based payments are recognised as a deduction from equity, net of any tax effects.

(ii) Share-based payments reserve

Where Australian Accounting Standards require a transaction to be recognised as a component of equity, the Group classifies such amounts as a reserve.

The Group's share-based payments reserve consists of share-based payments accounted for under AASB 2 *Share-based Payments*. Share-based payment transactions are measured by reference to the fair value of the goods or services received unless that fair value cannot be estimated reliably. If the Group cannot estimate reliably the fair value of the goods or services received, the Group measures the share-based payment transactions by reference to the fair value of the equity instruments granted.

The fair value of the equity instruments granted is determined as follows:

- If a market price is available for the equity instrument granted, then the estimate of fair value is based on this market price; or
- If no market price is available for the equity instrument granted, then the fair value is estimated using an appropriate valuation technique.

When instruments granted as share-based payments have vested and are exercised by the holder, the amount is transferred to share capital. When options lapse unexercised, the amount is transferred to accumulated losses.

20. Financial instruments

(a) Financial risk management

(i) Overview

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

- Credit risk;
- Liquidity risk; and
- Market risk.

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

(ii) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all officers understand their roles and obligations.

20. Financial instruments (continued)

(b) Credit risk

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

(i) Exposure to credit risk

The carrying amount of the financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:	2023 $	2022 $*
Cash and cash equivalents	6,130,178	18,278,410
Term deposits	52,965,967	65,919,641
Trade and other receivables	867,733	206,729
Total as at 30 June	**59,963,878**	**84,404,780**

Cash and cash equivalents and term deposits

The Group only invests surplus funds in bank accounts and term deposits with major Australian financial institutions.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each debtor.

The Group's maximum exposure to credit risk for trade and other receivables at the reporting date by type of counterparty was:

Financial institutions	866,883	189,636
Suppliers	850	17,092
Total as at 30 June	**867,733**	**206,729**

* 30 June 2022 comparative information has been restated for changes in account mappings to be consistent with disclosures for the period ended 30 June 2023. Results for the period are unchanged.

(ii) Impairment losses

None of the Group's receivables are past due (2022: nil) and none of the receivables are considered impaired. Based on historical information about customer default rates, the credit quality of trade and other receivables is considered good.

(c) Liquidity risk

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

Typically, the Group ensures that either (i) it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters, or (ii) it is confident that fund raising activities set in place will meet operational expenses. The Group currently does not maintain any lines of credit other than corporate credit cards with a combined facility limit of $300,000 (2022: $300,000). The corporate credit cards are secured by $300,000 held in term deposit (2022: $300,000).

20. Financial instruments (continued)

(c) Liquidity risk (continued)

Contractual maturities

The following are the contractual maturities of the Group's monetary non-derivative financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

30 June 2023	Carrying amount $	Contractual cash flow $	6 months or less $	6 months to 1 year $	1 year to 4 years $
Trade and other payables	2,884,736	2,884,736	2,884,736	-	-
Lease liabilities	1,201,658	1,307,176	279,722	272,252	755,202
				272,252	755,202
30 June 2022					
Trade and other payables	3,044,129	3,044,129	3,044,129	-	-
Lease liabilities	1,098,675	1,218,951	194,252	203,515	821,184
	4,142,804	4,263,080	3,238,381	203,515	821,184

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Group is exposed to currency risk on purchases that are denominated in a currency other than the functional currency of the relevant company which is party to the transaction. The currencies in which these transactions primarily are denominated are United States Dollars (USD), Euro (EUR), British Pound (GBP), Swedish Krona (SEK), Norwegian Kroner (NEK) and Swiss Franc (CHF).

From time to time the Group uses forward exchange contracts to lock in foreign currency rates on expected purchase commitments in order to reduce the Group's exposure to currency risk.

Exposure to currency risk

The summarised quantitative data about the Group's exposure to currency risk as reported to the management of the Group is as follows.

Expressed in AUD	USD	EUR	GBP	SEK	NEK	CHF
30 June 2023						
Cash held in foreign currency	11,647	1,686,094	43,344	-	-	-
Financial assets in prepayments	937,131	-	2,075,945	-	-	-
Trade and other payables	(749,298)	(79,898)	(516,300)	(725,852)	(135,833)	-
Net statement of financial position exposure	199,480	1,606,196	1,602,989	(725,852)	(135,833)	-
30 June 2022						
Cash held in foreign currency	23,086	292,791	26,030	-	-	-
Financial assets in prepayments	86,771	315	-	-	-	-
Trade and other payables	(255,378)	(893,420)	(215,799)	(676,813)	-	(1,887)
Net statement of financial position exposure	(145,521)	(600,314)	(189,769)	(676,813)	-	(1,887)

20. Financial instruments (continued)

(d) Market risk (continued)

(i) Currency risk (continued)

The following significant exchange rates have been applied:

Year-end spot rate	2023	2022
USD to AUD	1.5083	1.4516
GBP to AUD	1.9048	1.7634
EUR to AUD	1.6396	1.5177
SEK to AUD	0.1392	0.1416
NEK to AUD	0.1400	Not used
CHF to AUD	1.6787	1.5214

Sensitivity analysis

A reasonably possible strengthening/(weakening) of the United States Dollar, Euro, British Pound, Swedish Krona, Norwegian Kroner and Swiss Franc against the Australian Dollar at 30 June would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

Effect in AUD	Profit or Loss		Equity, net of tax	
30 June 2023	**Strengthening**	**Weakening**	**Strengthening**	**Weakening**
USD (10% movement)	19,948	(19,948)	19,948	(19,948)
EUR (10% movement)	160,620	(160,620)	160,620	(160,620)
GBP (10% movement)	160,299	(160,299)	160,299	(160,299)
SEK (10% movement)	(72,585)	72,585	(72,585)	72,585
NEK (10% movement)	(13,583)	13,583	(13,583)	13,583
CHF (10% movement)	-	-	-	-
30 June 2022				
USD (10% movement)	(14,552)	14,552	(14,552)	14,552
EUR (10% movement)	(60,031)	60,031	(60,031)	60,031
GBP (10% movement)	(18,946)	18,946	(18,946)	18,946
SEK (10% movement)	(67,681)	67,681	(67,681)	67,681
NEK (10% movement)	-	-	-	-
CHF (10% movement)	(189)	189	(189)	189

(ii) Interest rate risk

The Group is exposed to interest rate risk only to the extent that interest receivable on bank and term deposits may be subject to fluctuations in interest rates.

Profile

At the reporting date the Group has no interest-bearing financial instruments other than cash at bank, term deposits and corporate credit cards. Cash at bank and corporate credit cards are considered to be variable rate instruments as they can be readily renegotiated. Their carrying amount at balance date has been set out below:

	2023 $	2022 $
Cash and cash equivalents	6,130,178	18,278,410
Corporate credit cards	(99,224)	(167,380)
Total as at 30 June	6,030,954	18,111,030

20. Financial instruments (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

Cash flow sensitivity analysis

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by $60,031 (2022: $181,110). This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2022.

(e) Capital management

The Board's policy is to maintain a capital position so as to maintain investor, creditor and market confidence and to sustain future development of the business. This position is maintained by setting capital raising strategies in place to address planned expenditure. The Group is not subject to externally imposed capital requirements.

There were no changes in the Group's approach to capital management during the year.

(f) Fair values

The fair values of cash and cash equivalents, term deposits, trade and other receivables, trade and other payables and current employee benefits approximate their carrying amounts shown in the statement of financial position.

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Trade and other receivables / payables

For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables / payables are discounted to determine the fair value.

Interest rates used for determining fair value

The Group uses the government yield curve as of 30 June 2023 plus an adequate constant credit spread to discount financial instruments. At 30 June 2023, no financial instruments required discounting (2022: nil).

(g) Significant accounting policies - financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

The Group has the following non-derivative financial assets:

Trade and other receivables

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition trade and other receivables are measured at amortised cost using the effective interest method, less any impairment losses.

20. Financial instruments (continued)

(g) Significant accounting policies - financial instruments (continued)

(i) Non-derivative financial assets (continued)

Term deposits

Term deposits comprise cash balances held on deposit with financial institutions with original maturities of more than three months.

(ii) Non-derivative financial liabilities

The Group initially recognises financial liabilities on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

Other financial liabilities comprise trade and other payables and certain employee benefits.

(iii) Impairment

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost and measures loss allowances at an amount equal to lifetime ECLs.

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Group considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

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

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

Measurement of ECLs

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

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

Credit-impaired financial assets

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

20. Financial instruments (continued)

(g) Significant accounting policies - financial instruments (continued)

(iv) Impairment (continued)

Credit-impaired financial assets (continued)

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

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

Presentation of allowance for ECL in the statement of financial position

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

Write-off

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

21. Reconciliation of cash flows from operating activities

Cash flows from operating activities	Note	2023 $	2022 $
Loss for the year		(21,622,489)	(18,027,544)
Adjustments for:			
Depreciation	12,13	718,454	571,476
Amortisation	14	259,725	413,785
Loss on disposal of plant and equipment	12	135	-
Write-off of intangible assets	14	267,310	65,157
Inventory write down to net realisable value	10	1,272,717	-
Non-cash interest on leases	17	73,323	79,519
Foreign exchange revaluation on assets and liabilities		(276,984)	(1,911)
Share-based payment transactions		962,300	943,809
Interest income classified as investment activities		(2,044,567)	(422,489)
Operating loss before changes in working capital		(20,390,076)	(16,378,179)
Change in trade and other receivables		(9,765,291)	(7,388,481)
Change in prepayments		(256,625)	(548,601)
Change in inventories		(649,572)	(199,493)
Change in contract assets		(909,992)	(401,277)
Change in trade and other payables		(246,872)	1,244,294
Change in contract liabilities		(274,699)	(227,012)
Change in employee benefits		408,969	331,466
Change in provisions		1,410	1,322
Cash used in operating activities		(32,082,748)	(23,565,980)
GST refund received		812,630	722,723
R&D tax incentive received		6,389,883	5,398,371
Net cash used in operating activities		(24,880,235)	(17,444,886)

22. Related parties

(a) Transactions with key management personnel

(i) Key management personnel compensation

Key management personnel compensation comprised the following:

	2023 $	2022 $
Short-term employee benefits	1,989,960	1,802,228
Post-employment benefits	201,508	153,869
Other long-term benefits	136,408	108,150
Share-based payments	513,693	650,567
Total key management personnel compensation	**2,841,569**	**2,714,814**

(ii) Loans to key management personnel and their related parties

No loans were outstanding at the reporting date to key management personnel and their related parties.

(iii) Key management personnel transactions

Key management personnel of the Company control 24.59% (30 June 2022: 27.43%) of the voting shares of the Company.

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

From time to time these entities transacted with the Group. The terms and conditions of the transactions with key management persons and their related parties were no more favourable than those available, or which may reasonably be expected to be available, on similar transactions to non-director related entities.

	Transaction value		Balance outstanding as at	
	30 June 2023 $	30 June 2022 $	30 June 2023 $	30 June 2022 $
The Group rents premises from Dr Gordon and Dr Reddell. The lease contract terms are based on market rates and are payable on an annual basis.	37,917	38,192	-	-
The Group leases land from an entity related to Dr Ogbourne.	9,105	9,985	-	9,984

(b) Non-key management personnel disclosures

Intergroup transactions

During the year ended 30 June 2023 and 30 June 2022, all transactions between EcoBiotics, QBiotics, QBiotics Netherlands, QBiotics UK and QBiotics Group have been eliminated on consolidation.

23. Auditor's remuneration

Audit services	2023 $	2022 $
Auditors of the Company - Grant Thornton		
Audit of annual financial reports of the Company	103,283	91,383
Review of half-year financial reports of the Company	36,050	30,032
Total audit services	**139,333**	**121,415**
Other services		
Auditors of the Company - Grant Thornton	21,000	17,100
Total taxation related services	**21,000**	**17,100**

24. Parent company disclosures

As at 30 June 2023, QBiotics Group Limited was the parent entity of the Group.

(a) Results of parent entity

	2023 $	2022 $
Loss for the period	(20,033,315)	(17,095,467)
Other comprehensive income	-	-
Total comprehensive income for the period	**(20,033,315)**	**(17,095,467)**

(b) Financial position of parent entity at year end

Current assets	58,008,337	69,075,961
Total assets	**198,916,834**	**217,953,326**
Current liabilities	6,203,997	6,078,617
Total liabilities	**7,585,901**	**7,619,712**
Total equity of the parent entity comprising of:		
Share capital	256,925,971	256,723,531
Other contributed equity	3,421,339	2,593,145
Retained earnings	(69,016,377)	(48,983,062)
Total equity	**191,330,933**	**210,333,614**

(c) Contingent liabilities, commitments and guarantees

There are no parent entity contingent liabilities, capital commitments, or guarantees in respect of the debts of its subsidiaries at 30 June 2023 (2022: nil).

(d) Significant accounting policies – parent company disclosures

Under Australian Accounting Standards, the corporate restructure undertaken by the Group during the year ended 30 June 2018 was accounted for by applying the reverse acquisition accounting methodology. QBiotics was deemed to be the accounting acquirer as, in substance, QBiotics (the legal subsidiary) acquired QBiotics Group (the legal parent).

The application of reverse acquisition accounting is that QBiotics Group (the legal parent) is accounted for as the subsidiary and QBiotics (the legal subsidiary) is accounted for as the parent entity. This has resulted in the consolidated financial statements of QBiotics Group being prepared as a continuation of QBiotics' financial statements.

The information disclosed in this note is that of the legal parent entity, QBiotics Group.

25. Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

25. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(i) Business combinations (continued)

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

(ii) Subsidiaries

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

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are recognised in profit or loss.

(ii) Foreign operations

The assets and liabilities of QBiotics Netherlands and QBiotics UK have a functional currency of Australian dollars. Any foreign currency income and expenses are translated into Australian dollars at the exchange rates at the dates of the transactions.

(c) Joint operations

QBiotics Group previously entered into a collaboration agreement with MSD (tradename of Merck & Co., Inc., Kenilworth, NJ, USA) to develop its pharmaceutical candidate tigilanol tiglate. In accordance with AASB 11 *Joint Arrangements*, the Company recognises its share of assets, liabilities, revenues, and expenses of the joint operation based on the rights and obligations of each party as set out in the contractual terms.

(d) Software-as-a-Service (SaaS) arrangements

SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period. As such the Group does not receive a software intangible asset at the contract commencement date. A right to receive future access to the supplier's software does not, at the contract commencement date, give the Group the power to obtain the future economic benefits flowing from the software itself and to restrict others' access to those benefits.

25. Significant accounting policies (continued)

(d) Software-as-a-Service (SaaS) arrangements (continued)

The following outlines the accounting treatment of costs incurred in relation to SaaS arrangements:

- Fees for use of application software and customisation costs are recognised as an operating expense in profit or loss over the term of the service contract; and
- Configuration costs, data conversion and migration costs, testing costs and training costs are recognised as an operating expense in profit or loss as the service is received.

Costs incurred for the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of and recognition criteria for an intangible asset are recognised as intangible software assets.

26. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2023, and have not been applied in preparing these financial statements. The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements:

(i) Disclosure of accounting policies and definition of accounting estimates

- AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates
- AASB 2021-6 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies: Tier 2 and Other Accounting Standards

(ii) Deferred tax related to assets and liabilities arising from a single transaction

- AASB 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

(iii) Editorial corrections and repeal of superseded and redundant standards

- AAASB 2022-7 Editorial Corrections to Australian Accounting Standards and Repeal of Superseded and Redundant Standards

(iv) Insurance contracts

- AASB 17 Insurance Contracts
- AASB 2020-5 Amendments to Australian Accounting Standards – Insurance Contracts
- AASB 2022-1 Amendments to Australian Accounting Standards- Initial Application of AASB 17 and AASB 9 Comparative Information
- AASB 2022-8 Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments
- AASB 2022-9 Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector

(v) Supplier financing arrangements

- AASB 2023-1 Amendments to Australian Accounting Standards – Supplier Finance Arrangements

(vi) Classification of liabilities as current or non-current

- AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as current or non-current
- AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date
- AASB 2022-6 Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants
- AASB 2023-3 Amendments to Australian Accounting Standards – Disclosure of Non-current Liabilities with Covenants: Tier 2

26. New standards and interpretations not yet adopted (continued)

(vii) Lease liability in a sale-and-leaseback

- AASB 2022-5 Amendments to Australian Accounting standards – Lease Liability in a Sale and Leaseback

(viii) Sale or contribution of assets between an investor and its associate or joint venture

- AASB 2014-10 Amendments to Australian Accounting Standards –Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- AASB 2015-10 Amendments to Australian Accounting Standards –Effective Date of Amendments to AASB 10 and AASB 128
- AASB 2017-5 Amendments to Australian Accounting Standards –Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections
- AASB 2021-7(a-c) Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections

QBiotics Group Limited
Directors' declaration

1. In the opinion of the directors of QBiotics Group Limited (the "Company"):

   (a) the consolidated financial statements and notes that are set out on pages 28 to 63 are in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the period ended on that date; and

      (ii) complying with Australian Accounting Standard and the *Corporations Regulations 2001*; and

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

2. The directors draw attention to Note 2(a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Dated at Sydney this 1st day of September 2023.

Andrew Denver
Chairman

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Independent Auditor's Report

To the Members of QBiotics Group Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of QBiotics Group Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2023, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the 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. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (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.

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

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2023, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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*. The Directors' responsibility also includes 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

LWorsley.

L M Worsley
Partner – Audit & Assurance

Sydney, 1 September 2023

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Auditor's Independence Declaration

To the Directors of QBiotics Group Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of QBiotics Group Limited for the year ended 30 June 2023, I declare that, to the best of my knowledge and belief, 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.

Grant Thornton Audit Pty Ltd
Chartered Accountants

L M Worsley
Partner – Audit & Assurance

Sydney, 1 September 2023

QBiotics Group
Naturally Inspired
Scientifically Defined