

Dear Shareholder,

## 2020 Operational Review

On behalf of your board we are pleased to present the 2020 Review of Operations, Scientific Advisory Panel and Corporate Governance Statements.

Undoubtedly, the execution of a series of binding transactions on 3 March 2020 with a global early stage biotechnology investor-Morningside Venture Investments Limited (MVIL) was for Aus Bio, a company defining event.

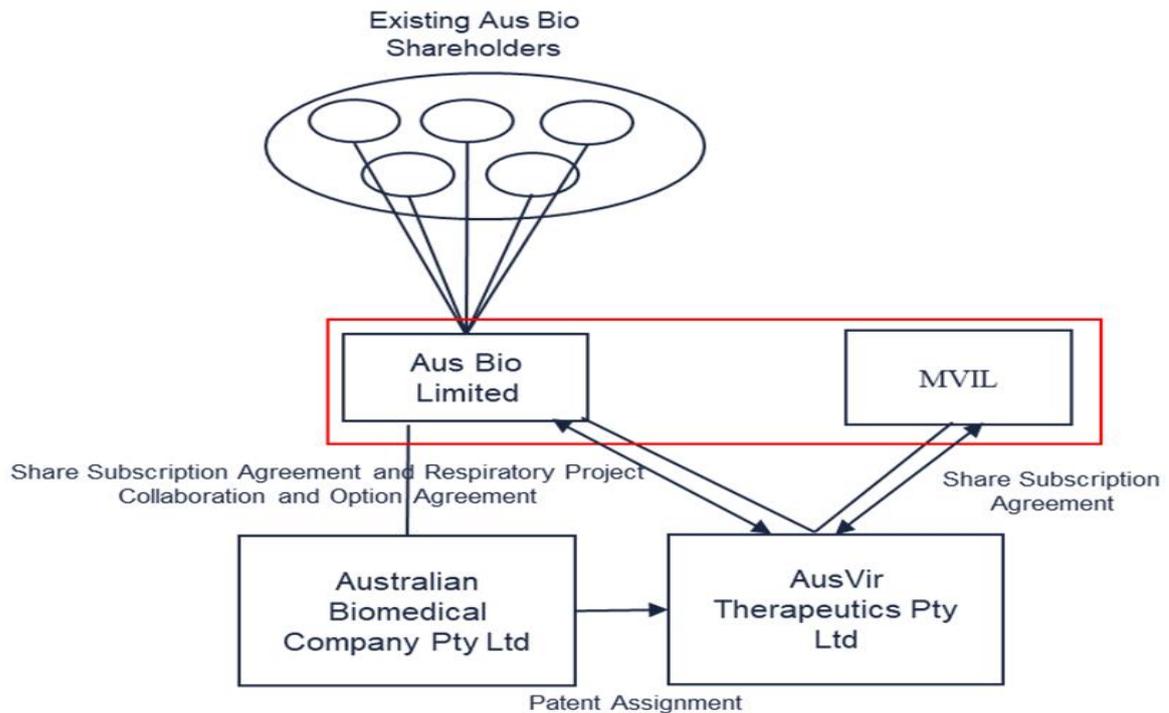
### 1. Establishment of Joint Venture

Shareholders will be aware that on the 15 July 2019, Aus Bio signed an indicative, nonbinding ordinary share financing Term Sheet with an early stage life science investor, MVIL. Subsequently both corporate entities progressed negotiations to execute binding transactions on 3 March 2020. As a result, an Australian company- AusVir Therapeutics Pty Ltd (AVT) commenced operations as a Joint Venture (JV) between Aus Bio and MVIL.

The terms on which the JV have been agreed are as follows:

1. Aus Bio and its wholly owned subsidiary, Australian Biomedical Company Pty Ltd have transferred all their interests in the Influenza drug candidates, which have been developed by Aus Bio over the past 8 years or so to AVT. Currently Aus Bio has approximately 85% of the issued shares of AVT.
2. In consideration of the transfer of the influenza intellectual property, Aus Bio was issued with 200,000 shares in AVT.
3. Subsequently MVIL subscribed for 235,294 ordinary shares in AVT for sum of AUD \$23,440,000 which is payable in four tranches and subject to the satisfaction of certain conditions. The first tranche payment occurred at the same time as Aus Bio subscribed for ordinary shares in AVT and involved MVIL also subscribing for 35,134 ordinary shares in AVT for \$3,500,000 less costs of \$75,000
4. Aus Bio also granted AVT an option to acquire Aus Bio's interests in the company's MD990 Respiratory Disease Anti-inflammatory project's lead candidates developed to date, and in the future. AVT paid Aus Bio \$900,000 for this option.

**The Corporate structure of the transaction is illustrated below:**



**Morningside Group**

Morningside was founded in 1986 by the Chan family of Hong Kong and now makes private equity and venture investments in North America, Europe and Asia Pacific regions. In the life sciences, Morningside specializes in early stage (usually pre-clinical) investments in potential biopharmaceutical products.

MVIL, part of the Morningside Group nominated Dr. Anthony Aiudi as General Manager of AVT and his appointment was confirmed by the AVT Board in March 2020. Anthony has an impressive record of working in pre-clinical drug development and has interacted closely with Aus Bio on a very regular basis. He is being assisted by other Morningside professionals who have deep industry knowledge and experience to drive the Influenza drug development programme forward in a timely and coordinated manner.

Aus Bio, MVIL and AVT have also entered into a Shareholders’ Agreement to govern their relationships as to how the AVT JV operates. Four directors have been appointed to the Board of AVT, Dr Ronald Farquhar and Dr Jason Dinges from Morningside/MVIL and Mr Robert Thomas AO (Chairman) and Dr Peter Jenkins from Aus Bio. It has been agreed to delay for the time being the appointment of a fifth and independent director to the AVT Board.

Aus Bio representatives attend a weekly teleconference meeting with AVT personnel, industry advisors and contractors.

AVT has now appointed an internationally regarded clinical research organisation, headquartered in Europe, to continue the development of the influenza project. This further development involves a

series of de-risking activities, confirmation of the selection of the lead influenza candidate to go forward. Recent work has concentrated on the simplification of the scale up synthesis of the lead candidate.

It is currently anticipated that completion of de-risking activities and late lead optimization, including the development of a large scale up process for the synthesis and production of the influenza candidate will occur by 31 March 2021. This will result in the payment to AVT by MVIL of \$3,950,000.

The MVIL subscription in AVT has been divided into four tranches with the second tranche split into two parts. Each tranche is conditional upon AVT achieving specific milestones relating to the development of the influenza antiviral assets, as illustrated in the table below. This is an indicative time line and may change depending on progress.

| <b>Tranche</b> | <b>Deadline</b>           | <b>Key Commercial Milestones</b>  | <b>Drawdown (AUD)</b>  |
|----------------|---------------------------|---|--|
| 1              | Completed<br>3 March 2020 | Satisfaction of Conditions to<br>Initial Closing  | \$3,500,000  |
| 2.1            | 31 March 2021             | Completion of de-risking<br>activities and late lead<br>optimization, including<br>development of a scalable<br>process for manufacturing of<br>MD2009 candidate, and<br>selection of preliminary<br>formulation. | \$3,950,000  |
| 2.2            | 30 September 2021         | Selection of a development<br>candidate for MD990,<br>(Respiratory Project) and<br>exercise of MD990 option.  | \$900,000<br>Note: If AusVir decides<br>to exercise the Option,<br>AusVir will pay Aus Bio<br>a further \$900,000<br>exercise fee funded by<br>this subscription by<br>MVIL. |
| 3              | 31 December 2022          | Dosing of a first subject in a<br>phase 1 study of MD2009.  | \$4,850,000  |
| 4              | 31 December 2023          | Dosing of first patient in a phase<br>1b or 2 efficacy study of<br>MD2009.  | \$10,240,000   |

There are additional milestone requirements that are not tied to the commercial development of the products, including that AusVir is not insolvent, consents and approvals are in place for the issue of shares under the relevant tranche.

## **2. Project MD2009 - Development of New Influenza Antivirals**

As shareholders are aware the aim of this project has been to develop a completely novel influenza antiviral drug which has both an improved therapeutic outcome by comparison to what is currently available and also a completely different mode of action to those influenza antivirals on the market at the moment.

Whilst the design, synthesis and initial in vitro (test tube) testing has been done in house under direction of Dr Wen Yang Wu, most of the in vivo work (animals) has been under the direction of Prof Lorena Brown from the influenza laboratory, Department of Microbiology and Immunology, University of Melbourne (UoM). This contracted research program has been ongoing for the past 6 to 8 years and ended on 30 November 2019. Prof Brown remains an advisor to Aus Bio.

During the year Aus Bio scientists continued with both in vitro work in-house to improve the synthesis and also the scale up procedures of the influenza lead candidates and also to develop assays to allow detection of the lead drug candidates in respiratory tissues.

In vivo results from UoM continued to highlight the highly potent activity of the influenza drug candidates - in both therapeutic (treatment) and prophylactic (preventative) animal models.

In summary, the influenza drug candidates have demonstrated a unique mode of action and disable the virus before it can gain entry into a respiratory cell and then replicate.

Since early March when the Aus Bio influenza assets were transferred to AVT, Aus Bio personnel have worked closely with AVT management and consultants to de-risk the development candidates before detailed planning for the proposed phase 1 study commences.

## **3. Project MD990-Respiratory Anti-inflammatory**

Shareholders will be aware that this project relates specifically to the therapeutic use of Aus Bio's in-house developed MD 990 compounds which target certain respiratory disease states including chronic obstructive pulmonary disease (COPD). COPD is a major cause of chronic morbidity and mortality throughout the world. At present, it is the fourth leading cause of death worldwide. Nicotine smoking is the most common cause of COPD. Clinically, COPD is characterised by limitation of airflow, airways obstruction which is not fully reversible and lung fibrosis.

Over the past four years or so Aus Bio has contracted two Australian based Universities which have peer reviewed animal models of nicotine smoke induced COPD. Five experiments have been completed over this time frame. In each, results have been encouraging to the extent that a lead candidate-MD990-3 has been chosen to go forward in a 6<sup>th</sup> COPD animal experiment. This is now underway with results anticipated Q1 2021. Furthermore, Aus Bio and AusVir Therapeutics have agreed to contract another Australian University to conduct detailed in vitro mode of action studies over the next four months. Two additional disease states have now been targeted. This promising work continues. In late July 2020 Aus Bio and AVT signed a Collaboration Development Plan for the late preclinical development of one or more MD990 lead candidates. AVT has been granted option over the respiratory project's intellectual property.

## **Financial Snapshot:**

Aus Bio's operating profit for the year ending 30 June 2020 was \$469,974 (2019 \$1,692,910 net loss) and net operating cash outflow was \$31,945 (2019 \$1,049,476).

As at 30 June 2020 Aus Bio had net assets of \$1,671,905 (2019 \$1,201,931). Available cash and cash equivalents at 30 June was \$1,093,405 (2019 \$1,125,351). Aus Bio has accumulated losses of \$20,491,000 (2019 \$20,960,974).

Aus Bio's anticipated cash at 31 December 2020 is \$1,180,000. This includes the anticipated receipt of a successful R&D Tax Incentive application of \$620,000. Aus Bio currently receives approximately \$56,420 per month from AVT for the provision of technical, scientific guidance and advice. This agreement will be reviewed in Q1 2020. It is probable that a small equity raising will be necessary during Q1 2021 to ensure adequate funding for the company going forward and in particular the Respiratory Project.

## **Mr Ken Windle – Retirement**

As anticipated at last year's AGM, Mr Ken Windle resigned from the Board in early April this year. He made over an 18-year period, an outstanding contribution to Aus Bio, particularly guiding the Research and Development initiatives.

## **Scientific Advisory Panel and Corporate Governance**

### **Scientific Advisory Panel**

Aus Bio, during the year, retained two internationally recognised, distinguished scientists to assist the Company when needed on R&D and other issues. Membership of this panel is as follows:

**Professor Lorena Brown**, BSc(Hons), PhD is a Professor of Virology in the Department of Microbiology and Immunology at the University of Melbourne where she is a lecturer to students of Science and Medicine and also heads a laboratory dedicated to understanding and controlling influenza. She also holds a position at the University of Hokkaido, Japan where she is a Distinguished Professor of Zoonotic Diseases. Her work is focused on researching and evaluating new vaccines designed to combat both seasonal and highly lethal avian strains of influenza, including vaccines that induce cross reactive T cell responses. Her work is also focused on evaluating other control measures and determining their mechanism of action, including new antiviral drugs and antibody treatments. As well as having a combined expertise in immunology and basic virology, her team is skilled in molecular virology techniques, which are used to understand the detailed replication of influenza virus and disease pathogenesis.

**Professor Stephen Locarnini**, BSc(Hons), PhD, MBBS,FRC(Path) is a past director of the World Health Organisation (WHO) Regional Reference Laboratory for Hepatitis B and D for the Western Pacific Region (WPRO). His current major research interests include viral hepatitis, hepatitis vaccines and antiviral chemotherapy with an emphasis on the basic virology of the various agents of hepatitis, the molecular pathogenesis of hepatitis, as well as prevention and public health control measures. Curative treatments for hepatitis B infections with antiviral agents represent the current focus for Professor Locarnini who is also interested in intellectual property issues when applied to clinical and diagnostic virology. He is a named inventor on over 20 internationally granted patents. He worked at the Victorian Infectious Diseases Reference Laboratory (VIDRL, originally Fairfield Hospital Virus Laboratory) from 1989, as Director of Laboratory Services from 1990 to 1998 and, in 1993, he oversaw the amalgamation of all the Fairfield Laboratories into the one service of the VIDRL. He subsequently assumed the position of Head, Research & Molecular Development of VIDRL when the laboratory relocated to Melbourne Health in 1998. Professor Locarnini is the recipient of numerous awards including the European Association for the Study of Liver Disease (EASL) International Recognition Award in 2010, the Malaysian Liver Foundation's Medal for work on Viral Hepatitis in 2003 and the Gastroenterological Society of Australia (GESA) Distinguished Research Prize in 2013. In 2019 he received the William H. Prusoff HEP DART Lifetime Achievement Award. He is author of 289 peer-reviewed articles, 24 invited editorials and 100 book chapters and reviews and every year delivers numerous invited, plenary, and named lectures at major international meetings and conferences. Professor Locarnini currently has an academic appointment at the University of Melbourne. He is a member of the Scientific Advisory Board of a number of emerging as well as established pharmaceutical and biotechnology companies. In 2017, he co-founded the biotech start-up company CLEAR-B with the Morningside-Newton Investment group in Boston, USA focusing on curative strategies for chronic hepatitis B. He is also the Hepatitis Virus Editor for Antiviral Therapy.

## **Corporate Governance**

In fulfilling the Company obligations and responsibilities to shareholders, Aus Bio's Board of Directors and employees are committed to the practise of the highest ethical and corporate governance standards.

The Board represents the interest of all shareholders and focuses on improving the Company's performance and outcomes and also ensures the Company is governed properly. An essential responsibility of the Directors is to oversee all Aus Bio's activities for the benefit of shareholders and to protect and enhance shareholder value.

Currently the Board consists of three non-executive directors (the majority) and two executive directors. Directors are expected to bring independent views and judgement to the Board's deliberations. Board meetings are held on a regular basis. Research and Management reports are regularly prepared by senior management and distributed with board papers prior to each board meeting. The day-to-day management of the Company is carried out by the two executive directors in consultation on a regular basis, with the Chair, and if necessary, other non-executive directors.

The Board has certain responsibilities which include approving the strategic direction, the research and developmental objectives of the Company as well as the annual financial budget of Aus Bio. The Board monitors the implementation of these strategies and the achievement of the objectives, and budget. The Board is aware, and approves, of significant third party agreements, which require the prior approval from the Research Committee. The Board is responsible for the issuing of shares, options and communication to shareholders, and approves and monitors capital expenditures and capital management.

In addition, the Board from time to time, reviews business development plans and budgets and receives written reports on a regular basis from both management and the research committee. The independent non-executive directors review the yearly performance of the two key management personnel in achieving the Company's scientific and corporate goals.

The Chairman of the Board is an independent, nonexecutive director who is selected by the full Board each of whom comes from a diverse professional background.

The Board has established a Research Committee which meets on a regular basis to ensure that the Board is kept fully informed of developments which relate to the Company's research and development activities and to also monitor progress against milestones.

Directors take part in individual discussions on R&D results and strategy. All Board members are expected as a continuing obligation to immediately notify the Chair of any actual or potential conflicts of interest under any circumstance that may affect that director's level of independence.

The Board, after appropriate review, approves major strategic and research initiatives and also approves the annual budget for the Company and oversees the research and development plan.

The Board's other activities include the development and approval of Corporate Strategy and accepts recommendations from the Research Committee to implement management's research and development priorities.

Due to the Company's small size, specific nomination, remuneration and audit committees have not been established. Independent directors have the opportunity to meet without executive directors present to discuss executive performance, remuneration and other issues. The Board as a whole has the responsibility to adequately assess research, commercial and financial risk.

To reduce the risk of internal fraud, a national accounting firm has been outsourced by the Board to directly manage the payment of all invoices and accounts. This accounting firm also assists with preparation of budgets and cash flow estimates and handles regulatory matters.

All shareholders are forwarded a copy of Aus Bio's annual report and from time-to-time the Company provides informative newsletters to shareholders allowing them to receive timely updates on their Company's progress in matters of research and development and commercialisation initiatives.

A handwritten signature in black ink, appearing to read 'R. Thomas', written in a cursive style.

Robert Thomas AO – Chairman

A handwritten signature in black ink, appearing to read 'Peter Jenkins', written in a cursive style.

Peter Jenkins – Executive Director

21 October 2020