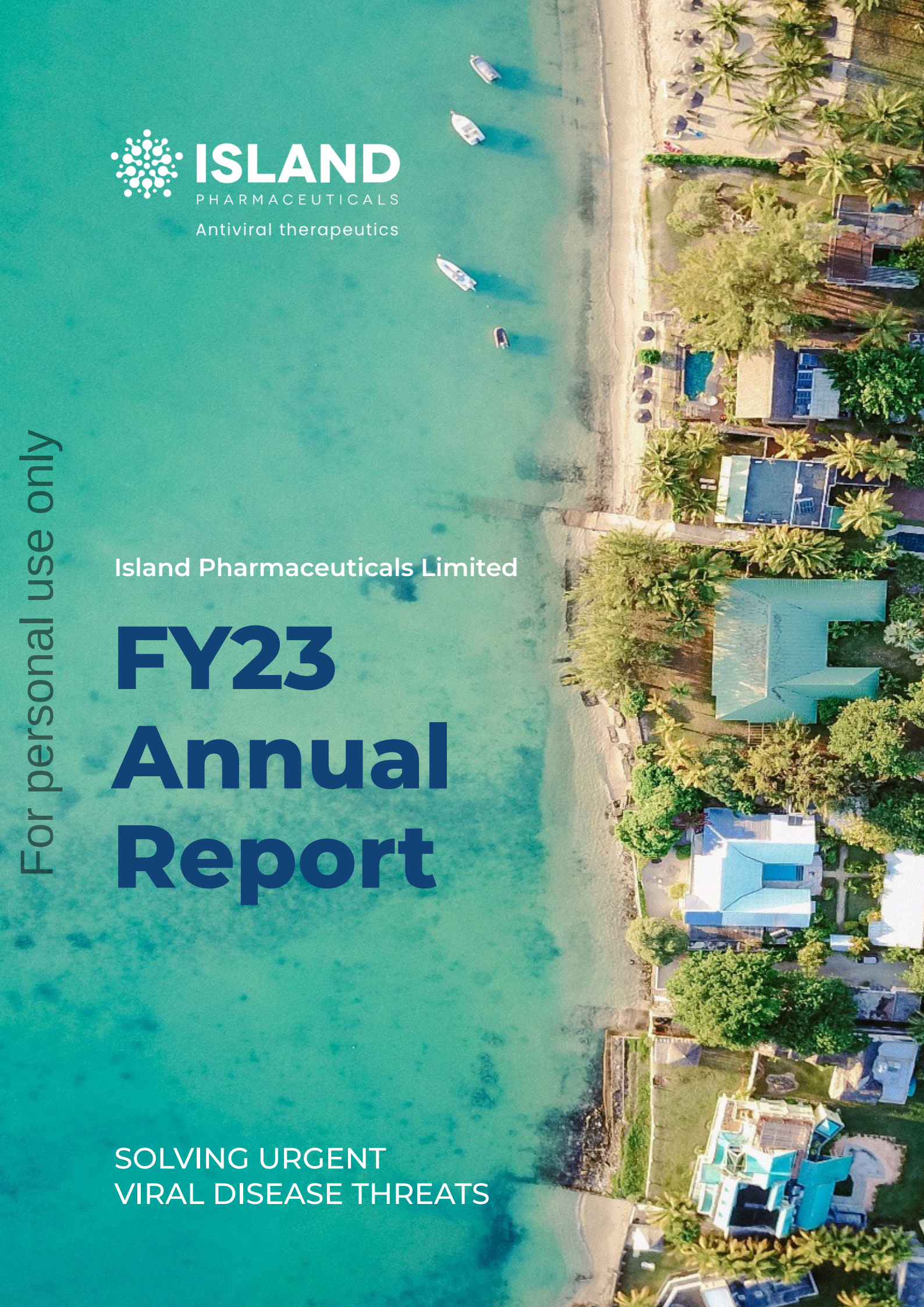
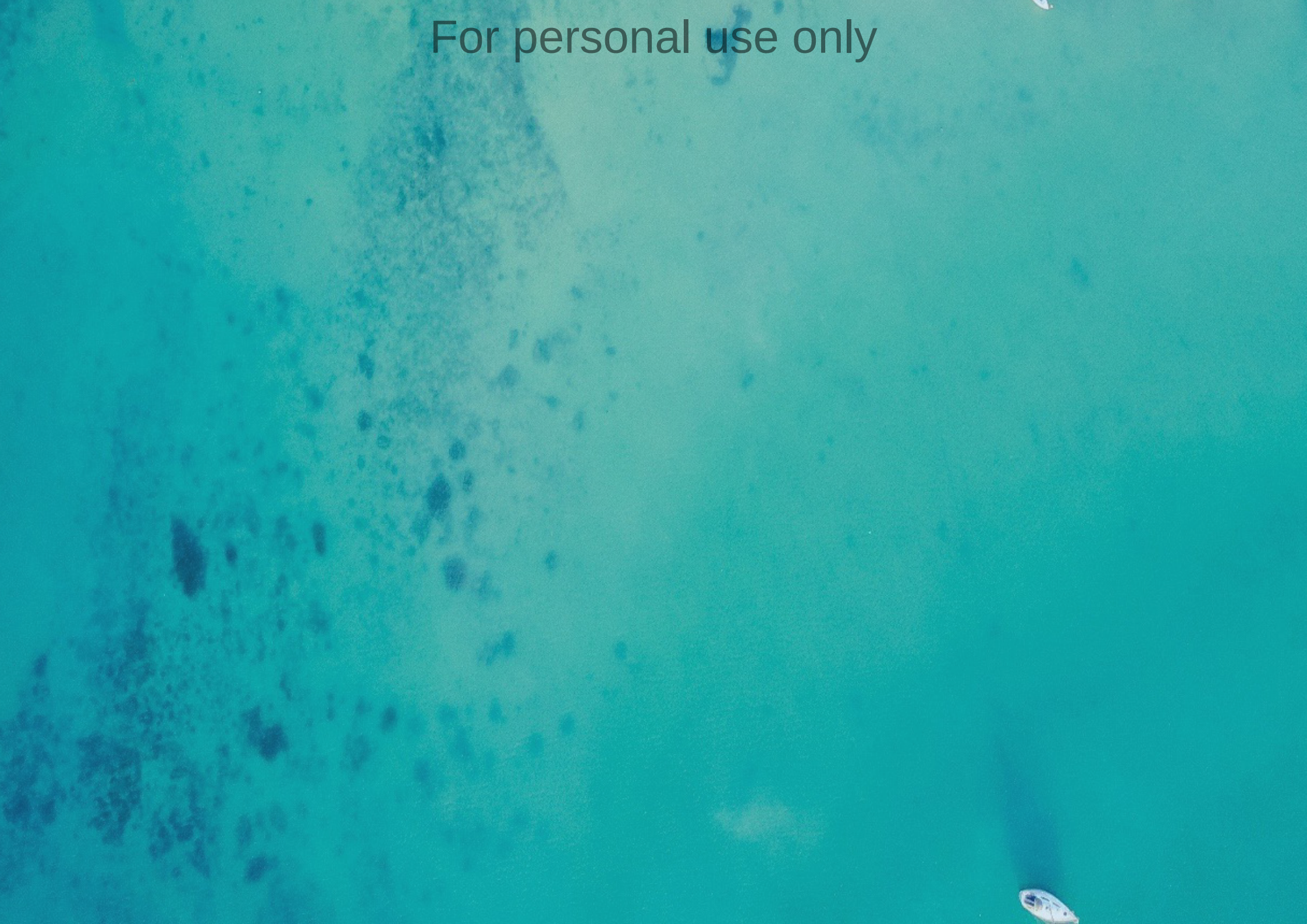
ISLAND
PHARMACEUTICALS
Antiviral therapeutics

Island Pharmaceuticals Limited

FY23 Annual Report

SOLVING URGENT
VIRAL DISEASE THREATS





Contents

Corporate directory	4
Chair and CEO Letter	5
Directors' report	7
Auditor's independence declaration	28
Consolidated statement of profit or loss and other comprehensive income	29
Consolidated statement of financial position	30
Consolidated statement of changes in equity	31
Consolidated statement of cash flows	32
Notes to the consolidated financial statements	33
Directors' declaration	50
Independent auditor's report to the members of Island Pharmaceuticals Limited	51
Shareholder information	55

Corporate directory

Directors	Dr Paul MacLeman - Executive Chairman Dr David Foster - Executive Director Dr David Brookes - Non-Executive Director Mr Albert Hansen - Non-Executive Director Dr Anna Lavelle - Non-Executive Director
Company secretary	Peter Webse
Registered office	c/- Bio101 Financial Advisory Pty Ltd Suite 201 697 Burke Road Camberwell, VIC 3124
Principal place of business	Suite 201 697 Burke Road Camberwell VIC 3124
Share register	Automic Pty Ltd Deutsche Bank, Tower Level 5 126 Phillip Street Sydney NSW 2000
Auditor	William Buck Level 20, 181 William Street Melbourne VIC 3000
Solicitors	K&L Gates Level 25 525 Collins Street Melbourne Victoria 3000
Stock exchange listing	Island Pharmaceuticals Limited shares are listed on the Australian Securities Exchange (ASX code: ILA)
Website	www.islandpharmaceuticals.com

Chair and CEO Letter

Dear fellow shareholders,

Set against a backdrop of rapidly increasing dengue fever prevalence in many countries across the globe, Island was delighted to receive Investigational New Drug (IND) application clearance for ISLA-101, our lead asset to combat dengue virus infections through the reporting period. This clearance was received from the US Food and Drug Administration (FDA) in May, marking a significant milestone for the Company. With this, and the removal of the associated Clinical Hold, we are now poised to advance ISLA-101 into the FDA-requested Single Ascending Dose study.

The insights gained from this study will pave the way for optimising and potentially streamlining protocols for our subsequent Phase 2a PEACH clinical trial. We have committed to collaborating further with the FDA, in order to leverage opportunities to enhance the value proposition of ISLA-101 through efficient developmental pathways.

The road to securing IND clearance for the ISLA-101 program was marked by a series of developments. The completion of drug product manufacturing in October 2022 was followed by positive analytical outcomes for ISLA-101 capsules the subsequent month, affirming the feasibility of the material for trial use. A pivotal patent for ISLA-101 was successfully granted by the Canadian Intellectual Property Office (CIPO), bolstering Island's expanding intellectual property portfolio and safeguarding our lead asset.

Subsequent to the reporting period, we were delighted to announce newly acquired grant research support for the planned PEACH study in dengue fever. The grant was awarded to The Research Foundation for the State University of New York (SUNY), at Upstate Medical University in Syracuse, New York, which is partnering with Island to advance development of ISLA-101. The US$1.3m Congressionally Directed Medical Research Programs (CDMRP) grant will support laboratory testing and data analysis during Island's planned clinical trial at SUNY. The trial will evaluate the effectiveness of ISLA-101 against dengue infections induced in the human challenge model. The funding will enable Island to significantly expand on the data being generated during the trial, further characterising Island's intellectual property (IP).

Outside of the ISLA-101 program, the Board considered and approved a plan to explore acquisition or in-licensing of new drug candidates. Specific screening and scoring parameters were endorsed by the Board, drawing in part from the following aspects: 1) small molecule program; 2) antiviral properties; 3) qualification for a Priority Review Voucher; 4) potential for non-dilutive funding to bolster clinical investigations.

Underpinning our work, we strengthened our team and advisors, and were delighted to welcome Dr. Amy Patick to Island's Scientific Advisory Board (SAB) through the reporting period. Her three-decade-long distinguished career in virology and pharmaceuticals, spanning non-profit organisations, startups, and established biotech and pharmaceutical firms, equips her with invaluable knowledge and insights. Dr. Patick's contributions are already significantly enhancing our endeavours and informing our drug development program.

In line with our commitment to strong regulatory engagement, we also welcomed Senior Regulatory Consultant Bobbi Drais. With her extensive experience in regulatory strategic management, Bobbi has strengthened our in-house regulatory affairs expertise to support our ongoing communications with the FDA.

Dengue fever's prevalence has now extended to more than 100 countries. Europe witnessed nearly as many domestically transmitted cases last year as it had in the previous 11 years combined, while earlier this year Peru faced its most severe outbreak in Latin America, prompting the declaration of a state of emergency across many regions. In January, the World Health Organisation (WHO) sounded the alarm, classifying Dengue as the world's most rapidly spreading tropical disease, representing a potential "pandemic threat".

Chair and CEO Letter

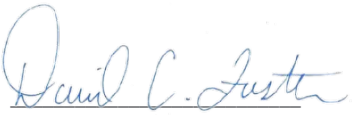
This alarming trend places nearly half of the global population at risk. According to the latest WHO statistics, approximately half of the world's inhabitants are now vulnerable to dengue, with an estimated range of 100-400 million infections occurring each year. This figure could reach unprecedented heights in 2023 due to the effects of global warming, which may inadvertently favour the mosquitoes that carry and spread this viral infection. As reports of mosquito-borne viral diseases continue to dominate headlines, the pressing need for new treatments like our lead drug candidate, ISLA-101 becomes even more evident, underscoring a substantial unmet medical necessity.

We extend our heartfelt gratitude to our shareholders, for your support in what has been another tough year for financial markets and one where our progress was hampered, at points, by manufacturing and regulatory requirements. With these important issues resolved and markets showing signs of improvement, as we look ahead, we feel confident in our ability to move ISLA-101 forward into its next phase of clinical life and, in parallel, raise the profile for the company with investors and potential partners.

We look forward to keeping you across our progress.

Sincerely,

Dr Paul MacLeman
Executive Chair



Dr David Foster
CEO & Managing Director

[1] The PEACH study is a Phase 2a randomized, double blind, placebo-controlled study for the **P**rophylactic **E**xamination of an **A**ntiviral in a Dengue **Ch**allenge model

Directors' Report

30 June 2023

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Island Pharmaceuticals Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2023.

Directors

Dr Paul MacLeman

MBA, DVM, Grad Dip Eng, Cert Eng, FAICD

Executive Chairman

Appointed 25 May 2020

Paul has over 25 years' experience across all phases of the life sciences sector. With a career-spanning veterinary practice, pharmaceutical development and manufacturing, biotechnology, diagnostics and finance, Paul has expertise in capital management, business development, technology commercialisation and sales & marketing globally. Paul has launched products using both in-house and outsourced sales staff in Australia and the US. He has founded life sciences start-ups in the biologics area and worked in investment banking focusing on the analysis and financing of technology companies. Paul has previously served as Chairman, Director or Managing Director/CEO of several VC funded, ASX, NASDAQ, CSE and TSX listed companies and has driven a number of IPOs. Paul Chaired the Industry Review Committee for the Pharmaceutical Manufacturing National Training Package for the AISC for approximately 10 years prior to the establishment of the new Jobs and Skills Councils and advises the new formed Manufacturing Industry Skills Alliance. He is also an expert advisor to PharmaVentures plc. (Oxford, UK) and serves on a number of other NFP and government advisory groups. He currently Chairs or is a Non-Executive Director of a number of ASX listed, public unlisted and private companies, including Non-Executive Chair of AdAlta Limited (ASX:1AD) (appointed 18 April 2015).

Dr David Foster

PhD, JD , MAICD

CEO & Executive Director

Appointed 1 October 2020

David brings more than 20 years of experience working with early stage pharmaceutical and biotechnology companies developing a variety of therapeutics from biologics to small molecules. He has represented pharmaceutical, biotherapeutic and diagnostic companies, while in private legal practice and served as intellectual property counsel at Medarex, a mid-sized biotherapeutics company. David co-founded a technology focused law firm, a life science trade association and multiple private biotechnology companies. He is a board member of BioNTX and private biotechnology companies, and is a Member of the Australian Institute of Company Directors. He holds a Ph.D. from The University of Texas Southwestern Medical Center and J.D. from Golden Gate University School of Law.

Directors' Report

30 June 2023

Dr Anna Lavelle

AM FTSE PhD GAICD

Non-Executive Director & Chair of Remuneration and Nomination Committee

Appointed 1 October 2020

Dr Lavelle is an experienced Non-Executive Director serving for over 25 years on the boards of not for profit, government and for profit entities. As Executive Director or Non-Executive Director she has a lengthy track record in healthcare delivery, technology development and negotiating government policy. Dr Lavelle has a PhD in Genetics from the University of Melbourne and is a Graduate of the Australian Institute of Company Directors (GAICD). Dr Lavelle is a Fellow of the Academy of Technology Science and Engineering (FTSE) and is also a Fellow of the Leadership Victoria Program. In 2015 Nature Scientific America, World View ranked Dr Lavelle in the global top 100 “World Visionaries” in biotechnology. Dr Lavelle was the only Australian to be named.

From 2005 to 2016, Dr Lavelle was the CEO of AusBiotech; the national industry association for the biotechnology, pharmaceutical and medical devices sectors. Dr Lavelle is now serving on several boards including - Independent Chair, Medicines Australia Ltd, Independent Chair, Avatar Brokers Pty Ltd, Non-Executive Director Hemideina Pty Ltd, Non-Executive Director Cyban Pty Ltd, Non-Executive Director Sementis Pty Ltd.

In June 2023, Dr Lavelle was awarded an AM for services to science and innovation.

Dr David Brookes

MBBS, FACRRM, FAICD

Non-Executive Director & Chair of Audit and Risk Committee

Appointed 1 October 2020

Dr D Brookes has extensive experience in the health and biotechnology industries, having been involved in the sector since the late 1990’s, and maintaining roles as biotechnology industry consultant and as a clinician. Dr Brookes has held Board positions in a number of ASX listed biotechnology companies, including as Chairman of genomics solutions company, RHS Ltd, which was acquired by PerkinElmer Inc (NYSE:PKI) in June 2018. He is currently the executive Chair of ASX listed Anatara Lifesciences Limited (ASX:ANR) (appointed 24 June 2022) and non-executive chair of ASX Listed Dominion Minerals Limited (ASX:DLM) (appointed 30 July 2020). He is currently a non-executive director of ASX listed TALi Digital Ltd (ASX:TD1) (appointed 29 June 2020). Dr Brookes graduated MBBS (Adelaide) and is a FACRRM (Fellow of the Australian College of Rural & Remote Medicine) and a FAICD (Fellow of the Australian Institute of Company Directors).

Directors' Report

30 June 2023

Mr Albert Hansen

BA, MBA

Non-Executive Director

Appointed 1 October 2020

Mr Hansen is currently President of KESA Partners, Inc. ("KESA") a family investment office focused on seed investing in life science-related startups. KESA provides capital and strategic management to its portfolio companies. Mr. Hansen serves as President of one of KESA's portfolio companies, Clearlight Biotechnologies, Inc., which has licensed imaging technology for tissue analysis from Stanford University. From 2001 to 2012, Mr. Hansen was a Managing Director of Signet Healthcare Partners, a growth capital private equity firm focused on emerging life science companies. Mr. Hansen has over 25 years of private equity investment experience, with almost 20 years in the life sciences/pharmaceutical field. He is a former Chairman and interim CEO of Questcor Pharmaceuticals, Inc (later acquired for US$5 billion), a former Chairman and interim CEO of Cedarburg Pharmaceuticals Inc. (acquired for US$40 million) and former Chairman of Molecular Medicine Corporation (acquired for US$24 million). KESA Partners, Inc acquired a failing company, Bioserv Corporation, for US$25,000 from NextPharma, Ltd in November 2012. This company was later sold for $3.6 million. He has also been a director of over ten other private companies. Prior to Signet, Mr. Hansen was a principal of Darby Overseas, since acquired by Franklin Templeton. He was also a political appointee as Director of Corporate Finance at the U.S. Treasury Department in 1992. Earlier in his career, Mr. Hansen was an investment banker with Dillon Read & Co. Inc., focusing on mergers and acquisitions. He was also an investment banker at E.F. Hutton & Co. Mr. Hansen also served in the U.S. Army as an Infantry and Special Forces officer. Mr. Hansen has a B.A. from Princeton University and an M.B.A. (with distinction) from the Wharton School, University of Pennsylvania.

Company secretary

Peter Webse

Appointed 3 July 2020

Peter Webse of Governance Corporate Pty Ltd has been engaged by the Company on a monthly basis to provide corporate secretarial services.

Mr Webse has over 28 years' company secretarial experience and is a director of Governance Corporate Pty Ltd, a company specialising in providing company secretarial, corporate governance and corporate advisory services. B.Bus, FGIA FCG, FCPA.

Directors' Report

30 June 2023

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2023, and the number of meetings attended by each director were:

	Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held[1]	Attended	Held[1]	Attended	Held[1]
Dr Paul MacLeman	8	8	1	1	2	2
Dr David Foster	8	8	-	-	-	-
Dr David Brookes	7	8	1	1	2	2
Mr Albert Hansen	8	8	1	1	-	-
Dr Anna Lavelle	7	8	1	1	2	2

[1] Represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Directors' interests

The relevant interest of each director in the share capital of the Company, as notified by the Company to the ASX in accordance with S205G (1) of the Corporations Act 2001, as at the date of this report is as follows:

Director	Number of ordinary shares	Number of options to acquire ordinary shares
Paul MacLeman	85,054	2,325,000
David Foster	5,282,696	533,333
Anna Lavelle	100,000	400,000
David Brookes	100,000	400,000
Albert Hansen	10,937,367	400,000

Principal activities

Island Pharmaceuticals Limited is a mid-clinical stage biotechnology company listed on the Australian Securities Exchange (ASX: ILA). Island is a drug research and repurposing company. The Group strategy is to repurpose small molecules as antivirals, which may allow for rapid development of treatments or preventative measures against emerging viruses.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Directors' Report

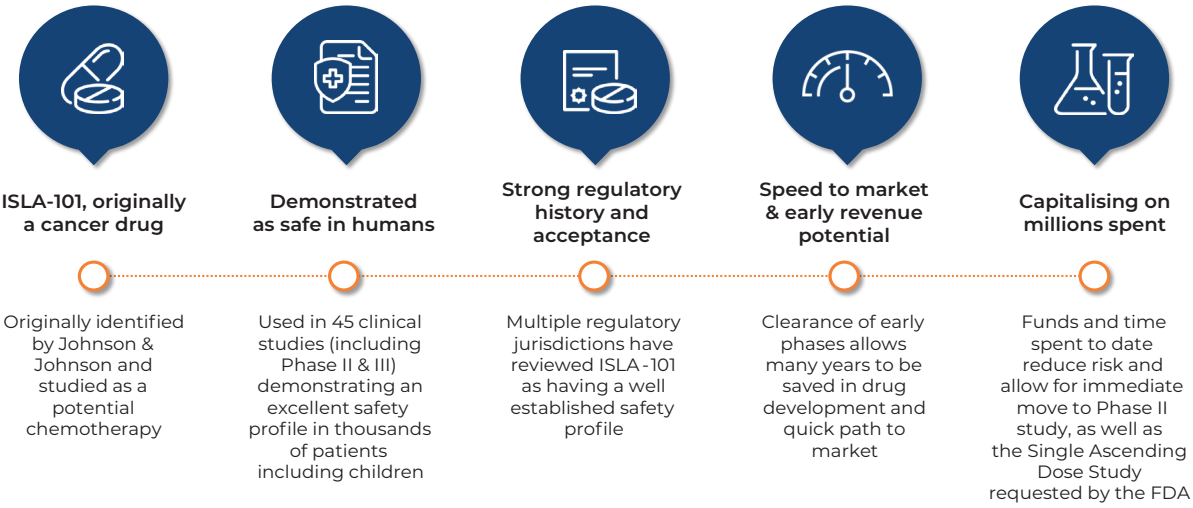
30 June 2023

Operating and financial review

Group strategy

Island is a drug repurposing company, developing antiviral therapeutics to address infectious diseases. Our lead asset is ISLA-101, a drug with a well-established safety profile, and is being repurposed for the prevention and treatment of dengue fever and other mosquito (or vector) borne diseases. Following FDA go-ahead for the ISLA-101 program, Island is now proceeding with taking next steps to get ISLA-101 into the clinic via the Single Ascending Dose study.

ISLA-101, a repurposed drug



As mentioned earlier, through FY23, Island obtained clearance from the US FDA for its ISLA-101 Investigational New Drug application, paving the way for the advancement of clinical progress with our lead program. Data will be obtained through a small Single Ascending Dose study, which will assess the blood concentration of ISLA-101 following incremental administrations of the compound. The primary objective of this study is to verify the safety of administered doses in achieving targeted blood concentrations of ISLA-101 that are anticipated to exhibit effectiveness against the dengue virus.

About ISLA-101

ISLA-101 was identified from a library of small molecules that demonstrated activity in screens for molecules that prevented cells being infected by the dengue virus. Upon identifying the exciting biological activity against these viruses, it was recognised that ISLA-101 was a known compound, fenretinide, and had a well-known safety profile and substantial clinical history for use in indications such as cancer, among others.

However, it has never been approved for these indications. ISLA-101 has subsequently been shown to have activity against all four strains of dengue virus as well as other flaviviruses such as Zika virus, West Nile virus, and Yellow Fever virus as well as Chikungunya virus.

In view of the activity against these arboviruses, a patent portfolio was established by Monash University. This has been licensed by Island. The portfolio is directed to methods of treating or preventing infections by these viruses with fenretinide. Patent applications are pending in Australia, the United States, Brazil and Singapore. Patents have been issued in Australia, Brazil, Singapore, the United States and most recently in Canada.

Our strategy

Since listing on the ASX in April 2021, Island has been focused on executing on the structured delivery of its ISLA-101 clinical trial. Island is able to leverage the significant pre-existing body of clinical data for ISLA-101 as well as data from previously filed INDs in the US to support its path into the clinic for its PEACH trial. The PEACH trial is a Phase 2a, randomised, double blind, placebo-controlled study for the Prophylactic Examination of an Antiviral in a Dengue Challenge model. Up to 16 subjects will participate in the clinical trial.

Directors' Report

30 June 2023

Significant milestones achieved during the reporting period

ISLA-101 PEACH study preparation progresses

Through the financial year, Island progressed the tasks required to file an Investigational New Drug (IND) application with the US Food and Drug Administration necessary for the commencement of its PEACH clinical trial.

The ISLA-101 clinical drug trial product manufacturing campaign for the Company's Phase 2a clinical trial in dengue fever was completed in October 2022, pending final testing. Both ISLA-101 active and placebo clinical material for the PEACH clinical trial were manufactured and undertook required final analysis and stability studies. This same product will be used in the coming Single Ascending Dose study.

In November 2022, analytical testing was concluded for the ISLA-101 capsules designated for utilisation in the Phase 2a PEACH clinical trial targeting dengue fever. This testing provided additional affirmation of the material's suitability for trial deployment. Upon thorough examination of batch capsule samples, it was verified that the capsules exhibited exceptional uniformity in content.

During that same month, a significant patent was secured for ISLA-101 from the Canadian Intellectual Property Office (CIPO), encompassing a method for treating or preventing dengue and other mosquito-borne viruses. This patent serves as a cornerstone for Island's strategic approach of repurposing drugs to expedite the development of antiviral therapies, with a primary emphasis on combatting mosquito-borne viral diseases like dengue fever. The Canadian patent, titled "Inhibition of Flaviviruses or Chikungunya Viruses using Retinoic Acid Analogues," was granted under Canadian Patent No. 2945825 and is set to expire on 16 April 2034. This patent delineates a methodology for treating or preventing infections caused by the dengue virus or other mosquito-borne viruses using ISLA-101. Island obtained a license for the intellectual property portfolio generated by Monash University.

In December 2022, Island made its Institutional Review Board submission, marking an important regulatory requirement ahead of trial commencement. Following a comprehensive 30-day evaluation to ascertain the product's stability, the drug product required for the Phase 2a PEACH clinical trial passed its critical accelerated stability milestone. Achievement of this milestone provided a key piece of data necessary to enabling the finalisation of Island's IND application. Institutional Review Board approval was also granted for the ISLA-101 Phase 2a PEACH clinical trial to be undertaken at SUNY Upstate University in New York, and marked an important regulatory requirement necessary for trial commencement. Subsequently, in the later part of December, the IND application was formally submitted to the US FDA. This submission enabled the FDA to thoroughly review the IND's safety aspects, ensuring that research participants would not be exposed to undue risk.

In the following month, Island received FDA feedback on the IND for ISLA-101 Phase 2a clinical study. As part of the feedback, the FDA specified that amendments to the protocol may be required and support for, or modifications of, the proposed dosing schedule may be necessary. In the meantime, the IND was placed on Clinical Hold, as Island worked closely with the FDA to resolve the issues as quickly as possible.

Island then received additional FDA feedback on the IND for ISLA-101 Phase 2a clinical study in February 2023, which was then followed up by Island formally filing its response in March after a review of all aspects of the original IND submission. As part of its response, Island completed a major body of work in drafting the protocol for the Single Ascending Dose study. Partners were identified to support the study, including a Clinical Research Organisation that could run it and an analytical laboratory to test and analyse blood samples collected. An Australian site was also identified where the study could take place. Island expanded its access to pharmacokinetics and regulatory affairs expertise to increase the likelihood that planned responses will meet the FDA requirements in order to proceed.

In May 2023, Island successfully received clearance from the US FDA and the Clinical Hold was lifted, enabling clinical progress to proceed. Lifting of the Clinical Hold allows Island to proceed with the Single Ascending Dose study requested by the FDA and in line with this, Island intends to open further dialogue with the FDA to steer next steps on the development program.

Directors' Report

30 June 2023

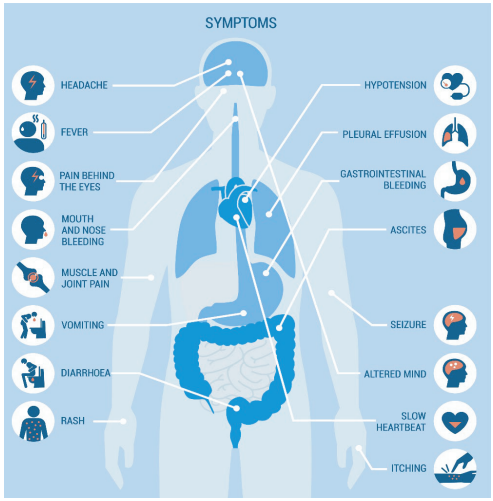
Post reporting period, Island acquired grant research support for the planned ISLA-101 Phase 2a human clinical trial (PEACH study) in dengue fever. The grant was awarded to The Research Foundation for the State University of New York (SUNY), at Upstate Medical University in Syracuse, New York, which is partnering with Island to advance development of ISLA-101. The US$1.3m Congressionally Directed Medical Research Programs (CDMRP) grant will support laboratory testing and data analysis during Island's planned clinical trial at SUNY in Syracuse.

The trial will evaluate the effectiveness of Island's ISLA-101 drug candidate to address dengue virus infections induced in the human challenge model.

The funding will enable Island to significantly expand on the data being generated during the trial, further characterising Island's intellectual property (IP). These studies are anticipated to increase the understanding of dengue infections and may also identify biomarkers of infection that could further aid in the development of effective therapies and diagnostics.

Why dengue as a first target for ISLA-101?

Significant unmet need for disease with increasing incidence



- Significant unmet need (3.9 billion people at risk)
- Increasing spread to US, EU and Australia
- ISLA-101 has both therapeutic and prophylactic potential
- Strong animal and human model results
- First claim then springboard into other arboviruses
- Priority Review Voucher eligibility

Team expansion

In May, Island announced the appointment of Senior Regulatory Consultant Bobbi Drais to support Island with the Company's regulatory strategy. Ms. Bobbi Drais has extensive experience in the pharmaceutical industry and specialises in regulatory strategic management. Her appointment has expanded Island's access to in-house regulatory affairs expertise in support of the Company's ongoing FDA communications regulatory strategy.

Directors' Report

30 June 2023

Scientific Advisory Board progress

The Group has an experienced and esteemed Scientific Advisory Board (SAB) with significant relevant experience in drug development.

During the reporting period, Dr Amy Patick was appointed to the SAB. An accomplished virologist and pharmaceutical executive, Dr Patick has over 30 years of Research and Development experience within non-profit, start-up, and biotechnology organisations to large pharmaceutical companies.

In tandem with the appointment of Dr Amy Patick, Dr Simon Tucker left the SAB in order to focus on other roles. The Board extends its gratitude to Simon, whose extensive expertise in intellectual property led to advances in the Company's pharmaceutical research and development capabilities during his tenure.

Island continues to explore pipeline development opportunities, with plans to capitalise on information from the previously commissioned third party analysis of viruses and antiviral needs. The Company regularly attends partnering conferences with an eye to identifying potentially complementary technologies that are consistent the strategies suggested by Island's Scientific Advisory Board (SAB).

Intellectual property

The Canadian patent grant for ISLA-101, entitled, "Inhibition of Flaviviruses or Chikungunya Viruses using Retinoic Acid Analogues" was issued in November 2022 under Canadian Patent No 2945825 and has an expiration date of 16 April 2034. The granted key patent from the Canadian Intellectual Property Office (CIPO) covers a method of treating or preventing dengue virus or other mosquito borne virus infections with ISLA-101. The patent underpins Island's drug repurposing strategy to rapidly and efficiently develop antiviral therapies with a key focus being mosquito borne viral diseases, such as dengue fever. This represents the Company's first patent issued in Canada, adding to an estate for the same coverage in Australia, the United States, Brazil, and Singapore.

Key Risks and Uncertainties

The current and future performance of the Company may be affected by changing circumstances, uncertainties, and risks specific to the Company and the Company's business activities, as well as general risks.

(a) Additional capital requirements

R&D activities require a high level of funding over a protracted period of time. However, additional development costs may arise during this period and the Company may require additional funding to meet its stated objectives or may decide to accelerate or diversify its activities within the same area.

The Company's requirement for additional capital may be substantial and will depend on many factors, some of which are beyond the Company's control, including:
(1) slower than anticipated research progress;
(2) the requirement to undertake additional research;
(3) competing technological and market developments;
(4) the cost of protecting the Company's intellectual property.

The Company will constantly evaluate data arising from its R&D activities that may indicate new uses for its products and allow the Company to file patents, thereby providing potential new development and partnering opportunities. Accordingly, the Company may alter its funding strategies to take advantage of such new opportunities if and when they present themselves.

There is no assurance that the funding required by the Company from time to time to meet its business requirements and objectives will be available to it, on favourable terms or at all. To the extent available, any additional equity financing may dilute the holdings of existing shareholders and any debt financing may involve restrictions on the Company's financing and operating activities.

(b) Intellectual property and Infringement of third party IP
There is no guarantee that the Company's intellectual property comprises all of the rights that the Company may require to freely commercialise its product candidates. Patent applications are commonly drafted with a very broad ambit scope of claims - as different claim scopes are often allowed in different jurisdictions. This approach is important initially so as not to unduly limit the potential coverage of the relevant patent application. An initial rejection by a patent examiner of such broad ambit claims is also commonly received and then the applicant in conjunction with discussions with the patent examiner narrows the claims for that particular jurisdiction to achieve allowance of the more narrow claims and subsequent patent grant. No assurance is given that the Company's patent applications will result in granted patents.

Furthermore, even though some of the Company's patent applications have already been successful (resulting in granted patents) investors should note that a competitor may at any time challenge granted patents and a court may find that although a patent has been granted it is invalid or unenforceable or revoked. It is possible a court may find that the Company's entitlement is subsequently revealed not to have existed, may not have any exclusive patent rights or any patent rights at all and may be prevented from developing and/or commercialising its products. If the Company's intellectual property rights are ever challenged it may also not have the funds to oppose the challenge.

If a third party accuses the Company of infringing its intellectual property rights or if a third party commences litigation against the Company for the infringement of patent or other intellectual property rights, the Company may incur significant costs in defending such action, whether or not it ultimately prevails. Costs that the Company incurs in defending third party infringement actions would also include diversion of management's and technical personnel's time. In the event of a successful claim of infringement against the Company, it may be required to pay damages and obtain one or more licenses from the prevailing third party. If it is not able to obtain these licenses at a reasonable cost, if at all, it could encounter delays in product introductions and loss of substantial resources while it attempts to develop alternative products.

(c) Development and uncertainty of research
The Research and Development activities of the Company are subject to an inherent and high risk of failure. There is no certainty the results of pre-clinical and clinical trials will demonstrate any material benefit or advancement in efficacy over existing alternatives or potential new products, and there is the potential for the product to be found to be ineffective or unsafe for public use. Further, the success of clinical trials may be impacted by the ability to recruit patients to participate, lack of product effectiveness in trials, compliance with ethics protocols, modifications or adaptations to trial protocols, failure to meet trial end points, and changes to regulations governing the conduct of trials.

(d) Regulatory approvals
Product commercialisation and development involves lengthy processes that are dependent on the evaluation by external groups such as the FDA (in the US), 'CE marking' (in the European Union) and approval from the TGA (in Australia). There is no guarantee the Company will meet the relevant regulator's benchmarks, which may require the Company to conduct further pre-clinical and clinical studies, resulting in significant cost and delay, and which may ultimately result in a failure to receive the necessary regulatory approvals in one, or multiple, key markets for the Company.

Directors' Report

30 June 2023

Summary of operating results

The statement of profit or loss and other comprehensive income shows a loss of $2,830,449 (2022: $2,606,887) for the period. As at 30 June 2023 the Group had a cash position of $1,998,263 (2022: $4,787,437). The Group has no bank debt. Operating activities incurred a net cash outflow for the period of $2,699,761.

- Research and development costs of $1,140,643 (2022: $1,029,776)
- Share based payment expense of $297,619 (2022: $448,435)
- Corporate and administration expenses of $998,638 (2022: $896,624)
- Professional services expenses of $162,773 (2022: $180,003)
- Employee benefit expense of $308,458 (2022: $254,167)

Financial liquidity and capital resources

Island ended the financial year with cash of $2.0m (2022: $4.8m) and 81,268,468 shares on issue.

Future developments, prospects and business strategies

Looking forward the Company will advance the ISLA-101 program into clinical trials. Upcoming milestones include:

- Actions to enable, then commence the Single Ascending Dose study
- Read outs from the Single Ascending Dose study
- Screening, enrolment, dosing subjects in PEACH trial
- Advancing through PEACH cohorts
- Trial read out
- Identifying lead molecules from research collaborations

Significant changes in the state of affairs

During the March 2023 quarter the Company announced the Investigational New Drug (IND) application for its ISLA101 Phase 2a PEACH clinical trial was placed on Clinical Hold. The Company received advice from the US FDA that more data to support the proposed dosing regimen was required and the additional data is to be obtained in a small single ascending dose clinical trial that measures blood concentration of ISLA-101, following administration increasing doses of ISLA-101. Subsequently, the Company announced in May 2023 that clearance was received from the US FDA for its ISLA-101 single ascending dose study IND application and Clinical Hold was lifted, enabling clinical progress to proceed.

Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Likely developments and expected results of operations

Disclosure of information regarding likely developments in the operations of the Company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Company. Information on future developments, prospects and business strategies have only been referred to in the Chairman's letter and CEO report. For further information on the Company's business strategies and material risks, refer also to the Prospectus which is available on the Company website or ASX Announcements.

Directors' Report

30 June 2023

Options granted

There were no options granted during the year ended 30 June 2023 and up to the date of this report.

Shares under option

Unissued ordinary shares of Island Pharmaceuticals Limited under option at the date of this report are as follows:

No. of options	Grant date	Expiry date	Exercise price	Grantee
58,389	7/4/2021	7/4/2024	$0.2130	Vendor options
3,925,000	7/4/2021	30/4/2024	$0.3625	Directors & Company Secretary
177,778	7/4/2021	30/4/2024	$0.3125	Executive Director
177,778	7/4/2021	30/4/2024	$0.3750	Executive Director
177,777	7/4/2021	30/4/2024	$0.4375	Executive Director
1,808,743	7/4/2021	1/12/2023	$0.2000	Replacement employee share scheme options
203,802	7/4/2021	1/1/2025	$0.2130	Replacement employee share scheme options
3,669,744	7/4/2021	13/4/2024	$0.3125	Broker options
1,380,000	28/04/2022	28/4/2026	$0.2100	Scientific Advisory Board Member options

There were 4,245,871 options that expired on 4 April 2023 with an exercise price of $0.3730.

Shares issued on the exercise of options

There were no ordinary shares of Island Pharmaceuticals Limited issued on the exercise of options during the year ended 30 June 2023 and up to the date of this report.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Indemnity and insurance of officers

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Directors' Report

30 June 2023

Corporate Governance

Corporate Governance Statement

The Company's corporate governance statement is located at the Company's website: https://www.islandpharmaceuticals.com/site/about/corporate-governance

Environmental, Social and Governance (ESG)

ESG is important to Island

Environmental, Social and Governance (ESG) is a set of standards which governs how a company acts ethically and responsibly, with regard for people and the planet.

Good health is critical to thriving societies and economies. Through its pursuit to develop a new molecule to combat dengue virus infections, a priority disease according to the Access to Medicine Foundation, which affects, according to the WHO, up to 390 million per annum predominantly in developing countries, Island's work is inherently focused on improving global social outcomes.

As a newly listed company, Island continues to develop and evolve ESG-related activities in order to reduce risk, improve financial and operating performance, and create value for our shareholders and communities around the world.

We are focusing our ESG efforts on topics identified by the Sustainability Accounting Standards Board (SASB) as material for the biotechnology and pharmaceuticals sector, as well as topics applicable to all sectors due to global ESG priorities.

Island is determining an appropriate governance model to ensure ESG matters receive the proper oversight by the Board. While a formal model is being developed, Island's Managing Director, Dr David Foster, is responsible for ensuring the Board has oversight of priority matters if they should arise. Dr Foster is also working closely with investor relations consultants, IR Department, to progress the Company's ESG strategy.

Environmental and Social Stewardship

To ensure we drive value and concentrate our efforts where it matters most, we've begun work to map our stakeholders so as to determine how to most pragmatically assess any environmental and social risks in our supply chain. Island does not own or control any buildings or fleet, so it does not contribute scope 1 or 2 emissions.

Safety of clinical trial patients

Island prioritises patient safety first, from drug candidate selection to the carrying out of its clinical trials.

Island's drug repurposing strategy leverages previous expenditure and research by other parties into manufacturing development, pre-clinical work and clinical studies in humans in order to rapidly enter clinical trials for Island's drug development. Island's strategy is to repurpose drugs that have already been successfully examined in clinical trials.

The Company carries out clinical trials in accordance with applicable laws and regulations, and scientifically designed protocols including the Food and Drug Administration, an effective Investigational New Drug application, and the Good Clinical Practice Standard (GCP).

Island chooses highly credentialed, world-leading clinical trial partners to ensure trials are carried out to the highest standards, including safety standards.

Directors' Report

30 June 2023

Board diversity

The Company's Diversity Policy, which outlines the Company's commitment to diversity and inclusion and the provision of a work environment that is free from discrimination and promotes equal opportunity for all, is available within Island's Corporate Governance Plan.

Island's Board female to male ratio is 20% vs 80%.

Business ethics

Island is committed to the highest standard of honesty and integrity in all its interactions, including interactions with health care professionals.

The Company's commitment to the highest ethical standards includes strict compliance with applicable anti-bribery and corruption laws in Australia and overseas. This commitment is reflected in the statement of values of the Company (commitment, respect, integrity, solidarity and putting patients first) and the Company's Anti-Bribery and Anti-Corruption Policy, which is published in the Company's Corporate Governance Plan.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Remuneration report (audited)

This remuneration report, which forms part of the Directors' report, sets out information about the remuneration of Island Pharmaceutical's key management personnel for the financial year ended 30 June 2023 in accordance with the requirements of the Corporations Act 2001 and its Regulations.

The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise) of the Company.

The prescribed details for each person covered by this report are detailed below under the following headings:

- key management personnel
- relationship between the remuneration policy and Company performance
- details of remuneration
- key management personnel equity holdings

Directors' Report

30 June 2023

Key management personnel

The prescribed details for each person covered by this report are detailed below under the following headings:

The directors and other key management personnel of the Group during the financial year were:

Non-Executive Directors	Position	Appointed
Anna Lavelle	Non-Executive Director	1 October 2020
David Brookes	Non-Executive Director	1 October 2020
Albert Hansen	Non-Executive Director	1 October 2020

Executive Directors	Position	Appointed
Paul MacLeman	Executive Chair	25 May 2020
David Foster	Executive Director	1 October 2020

Remuneration policy and relationship with company performance

The Company has a Remuneration and Nomination Committee, which consists of Anna Lavelle (Chair of Remuneration Committee), David Brookes, Paul MacLeman and Albert Hansen. The remuneration policy, which is set out below, is designed to promote superior performance and long-term commitment to the Company. An overview of the Remuneration & Nomination Committee is outlined below.

The Remuneration & Nomination Committee establishes, amends, reviews and approves the compensation and equity incentive plans with respect to senior management and employees of the Company, including determining individual elements of total compensation of the Executive Director and other members of senior management. The Remuneration & Nomination Committee is also responsible for reviewing the performance of the Company's executive officers with respect to these elements of compensation. It recommends the Director nominees for each annual general meeting and ensures that the Audit & Risk Committee and Remuneration & Nomination Committee have the benefit of qualified and experienced directors.

During the period, the Committee did not engage remuneration consultants in the process of reviewing Executive KMP and Non-executive Director remuneration.

Long Term Incentive (LTI)

From time to time Board approval may be sought for the issue of securities (performance rights or options) to staff and executives as a means of providing a medium to long term incentive for performance and loyalty. Any such performance rights are issued under the Island Pharmaceuticals Limited Employee Incentive Plan.

Details of options over ordinary shares in the Company that were granted as compensation to each of the key management personnel are set out below.

Key management personnel	Number granted	Grant date	Value per option at grant date	Exercise price	Vesting and first exercise date	Number vested	Expiry date
Anna Lavelle	400,000	7/4/2021	$0.1366	$0.3625	13/4/2023	400,000	30/4/2024
David Brookes	400,000	7/4/2021	$0.1366	$0.3625	13/4/2023	400,000	30/4/2024
Albert Hansen	400,000	7/4/2021	$0.1366	$0.3625	13/4/2023	400,000	30/4/2024
Paul MacLeman	2,325,000	7/4/2021	$0.1366	$0.3625	13/4/2023	2,325,000	30/4/2024
David Foster	177,778	7/4/2021	$0.1440	$0.3125	13/4/2023	177,778	30/4/2024
David Foster	177,778	7/4/2021	$0.1349	$0.3750	13/4/2023	177,778	30/4/2024
David Foster	177,777	7/4/2021	$0.1271	$0.4375	13/4/2023	177,777	30/4/2024

The options were provided at no cost to the recipients. All options expire on the earlier of the expiry date or termination of the individual's employment. There are no other service or performance conditions applicable.

An amount of $215,906 (2022: $274,586) has been recognised in the consolidated statement of profit and loss and other comprehensive income for the financial year ended 30 June 2023 by way of shared based payment expense.

Director compensation

Arrangements with key management personnel:

Position	Annual salary (inclusive of superannuation)
Executive Chair	$150,000
Executive Director	$280,500
Non-Executive Director	$45,000
Non-Executive Director & Chair of Committee	$50,000

Directors' Report

30 June 2023

Executive Chair remuneration

Paul MacLeman is employed in the position of Executive Chair of the Company on the following material terms:

(1) Effective 13 April 2021 being the date that the Company is admitted to the Official List of ASX, a salary of $150,000 inclusive of statutory superannuation.
(2) Effective 13 April 2021 either party is entitled to terminate the employment contract by giving 12 weeks' notice.

Executive Director remuneration

David Foster is employed in the position of CEO and Managing Director of the Company on the following material terms:
(1) Effective 13 April 2021 being the date that the Company is admitted to the Official List of ASX, a salary of $250,000 inclusive of any statutory superannuation. The Board approved the Remuneration and Nominations committee recommendation to increase David's salary to $280,500 effective 1 July 2022 (salary from 1 September 2021 was $255,000).
(2) A short-term cash incentive of up to 20% and a short-term stretch target cash incentive of up to 10% of the annual salary subject to achieving key performance objectives as set by the Board from time to time.
(3) Long Term Incentives (LTI) will be made available through the Company's Share Option Plan. The terms will be at the sole discretion of the Board and determined by the Board after the first six months and thereafter on the anniversary of David's commencement.
(4) Effective 13 April 2021 either party is entitled to terminate the employment contract by giving 12 weeks' notice.

Non-Executive Directors (NEDs) remuneration

The Constitution and the ASX Listing Rules specify that the aggregate compensation of NEDs shall be determined from time to time by a general meeting. An amount not exceeding the amount approved by shareholders is then divided between the directors as agreed by the Board. An amount of $500,000 was approved by the Company's shareholder in October 2020. The Board does not intend to seek any increase for the NEDs maximum aggregate fee pool at the 2023 AGM.

The board seeks to set NEDs fees at a level which provides the Group with the ability to attract and retain NEDs of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

The fee structure will be reviewed annually against fees paid to NEDs of comparable companies in similar industries.

NEDs may be reimbursed for expenses reasonably incurred in attending to the Group's affairs. NEDs do not receive retirement benefits.

Directors' Report

30 June 2023

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the Group are set out in the following tables.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2023	**Cash salary and fees $**	**Cash bonus [1] $**	**Non-monetary $**	**Super-annuation $**	**Long service leave $**	**Equity-settled options $**	**Total $**
Non-Executive Directors:							
Anna Lavelle	50,000	-	-	-	-	21,306	71,306
David Brookes	45,248	-	-	4,751	-	21,306	71,305
Albert Hansen	45,000	-	-	-	-	21,306	66,306
Executive Directors:							
Paul MacLeman	135,746	-	14,917	14,253	-	123,844	288,760
David Foster	280,500	27,958	(1,755)	-	-	28,144	334,847
	556,494	**27,958**	**13,162**	**19,004**	**-**	**215,906**	**832,524**

[1] As part of the Employment Agreement and in line with achieving key performance objectives as set by the Board, a potential bonus of up to $84,150 was eligible to be paid (30% of annual salary). Based off an assessment of these key performance objectives, a bonus of $27,958 was paid during the year (33.22% of total eligible bonus, with the remaining 66.78% forfeited).

Directors' Report

30 June 2023

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2022	Cash salary and fees $	Cash bonus $	Non-monetary $	Super-annuation $	Long service leave $	Equity-settled options $	Total $
Non-Executive Directors:							
Anna Lavelle[1]	50,000	-	-	-	-	27,097	77,097
David Brookes[1]	45,455	-	-	4,545	-	27,097	77,097
Albert Hansen[1]	45,000	-	-	-	-	27,097	72,097
Executive Directors:							
Paul MacLeman	136,364	-	-	13,636	-	157,502	307,502
David Foster	254,167	-	-	-	-	35,793	289,960
	530,986	**-**	**-**	**18,181**	**-**	**274,586**	**823,753**

[1] During the period, 100,000 shares were granted to each of Anna Lavelle, David Brookes and Albert Hansen on 18 November 2021 at an issue price of $0.25, this relates to a prior year obligation for their services for the period from appointment to the date of listing (1 October 2020 to 13 April 2021), as disclosed in the Key management personnel equity holdings.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

	Fixed remuneration		At risk - STI		At risk - LTI	
Name	2023	2022	2023	2022	2023	2022
Non-Executive Directors:						
Anna Lavelle	70%	65%	-	-	30%	35%
David Brookes	70%	65%	-	-	30%	35%
Albert Hansen	68%	62%	-	-	32%	38%
Executive Directors:						
Paul MacLeman	57%	49%	-	-	43%	51%
David Foster	84%	88%	8%	-	8%	12%

Key management personnel equity holdings

Shareholding

The number of shares in the company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions[1]	Disposals / other	Balance at the end of the year
Ordinary shares - 2023					
Anna Lavelle	100,000	-	-	-	100,000
David Brookes	100,000	-	-	-	100,000
Albert Hansen	10,937,367	-	-	-	10,937,367
Paul MacLeman	85,054	-	-	-	85,054
David Foster	5,251,393	-	31,303	-	5,282,696
	16,473,814	**-**	**31,303**	**-**	**16,505,117**

[1] On market purchase.

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals / other	Balance at the end of the year
Ordinary shares - 2022					
Anna Lavelle	-	100,000	-	-	100,000
David Brookes	-	100,000	-	-	100,000
Albert Hansen	10,837,367	100,000	-	-	10,937,367
Paul MacLeman	85,054	-	-	-	85,054
David Foster	5,211,393	-	40,000	-	5,251,393
	16,133,814	**300,000**	**40,000**	**-**	**16,473,814**

Option holding

The number of options over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Granted as part of remuneration	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Options over ordinary shares - 2023					
Anna Lavelle	400,000	-	-	-	400,000
David Brookes	400,000	-	-	-	400,000
Albert Hansen	423,023	-	-	(23,023)	400,000
Paul MacLeman	2,325,000	-	-	-	2,325,000
David Foster	533,333	-	-	-	533,333
	4,081,356	**-**	**-**	**(23,023)**	**4,058,333**

	Balance at the start of the year	Received as part of remuneration	Exercised	Disposals/ other	Balance at the end of the year
Options over ordinary shares - 2022					
Anna Lavelle	400,000	-	-	-	400,000
David Brookes	400,000	-	-	-	400,000
Albert Hansen	423,030	-	-	-	423,030
Paul MacLeman	2,325,000	-	-	-	2,325,000
David Foster	533,333	-	-	-	533,333
	4,081,363	**-**	**-**	**-**	**4,081,363**

Directors' Report

30 June 2023

Additional information

The earnings of the Group for the three years to 30 June 2023 are summarised below:

	2023 $	2022 $	2021 $
Loss after income tax	(2,830,449)	(2,606,887)	(2,126,754)

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2023	2022	2021
Share price at financial year end ($)	0.10	0.15	0.28
Total dividends declared (cents per share)	-	-	-
Basic loss per share (cents per share)	3.48	3.22	11.41
Diluted loss per share (cents per share)	3.48	3.22	11.41

This concludes the remuneration report, which has been audited.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Paul MacLeman
Executive Chair

30 August 2023
Melbourne

William Buck
ACCOUNTANTS & ADVISORS

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF ISLAND PHARMACEUTICALS LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2023 there have been:

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

William Buck

William Buck Audit (Vic) Pty Ltd
ABN 59 116 151 136

N. S. Benbow
Director
Melbourne, 30 August 2023

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2023

	Note	2023 $	2022 $
Revenue			
		11,065	
Total revenue		**11,065**	-
Expenses			
Employee benefits expense		(308,458)	(254,167)
Share based payment expense	9	(297,619)	(448,435)
Research and development costs		(1,140,643)	(1,029,776)
Professional services expenses		(162,773)	(180,003)
Corporate and administration expenses		(998,638)	(896,624)
Finance costs		(9,000)	-
Effect of changes in foreign exchange rates		75,617	202,118
Total expenses		**(2,841,514)**	**(2,606,887)**
Loss before income tax expense		(2,830,449)	(2,606,887)
Income tax expense		**-**	**-**
Loss after income tax expense for the year attributable to the owners of Island Pharmaceuticals Limited		(2,830,449)	(2,606,887)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		60	2,515
Other comprehensive income for the year, net of tax		60	2,515
Total comprehensive income for the year attributable to the owners of Island Pharmaceuticals Limited		**(2,830,389)**	**(2,604,372)**
		Cents	**Cents**
Basic earnings per share	6	(3.48)	(3.22)
Diluted earnings per share	6	(3.48)	(3.22)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Consolidated statement of financial position

As at 30 June 2023

	Note	2023 $	2022 $
Assets			
Current assets			
Cash and cash equivalents		1,998,263	4,787,437
Trade and other receivables		17,231	20,890
Prepayments		33,725	90,549
Total current assets		**2,049,219**	**4,898,876**
Total assets		2,049,219	4,898,876
Liabilities			
Current liabilities			
Trade and other payables	7	213,159	543,210
Employee benefits		50,687	37,523
Total current liabilities		**263,846**	**580,733**
Total liabilities		263,846	580,733
Net assets		**1,785,373**	**4,318,143**
Equity			
Issued capital	8	19,900,792	19,900,792
Reserves	9	1,647,838	(10,848,350)
Accumulated losses		(19,763,257)	(4,734,299)
Total equity		**1,785,373**	**4,318,143**

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

Consolidated statement of changes in equity

For the year ended 30 June 2023

	Issued capital $	Foreign exchange reserve $	Share-based payment reserve $	Restructure reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2021	19,825,793	(1,192)	1,349,796	(12,647,904)	(2,127,412)	6,399,081
Loss after income tax expense for the year	-	-	-	-	(2,606,887)	(2,606,887)
Other comprehensive income for the year, net of tax	-	2,515	-	-	-	2,515
Total comprehensive income for the year	-	2,515	-	-	(2,606,887)	(2,604,372)
Transactions with owners in their capacity as owners:						
Share-based payments	-	-	448,435	-	-	448,435
Issue of ordinary shares	74,999	-	-	-	-	74,999
Balance at 30 June 2022	**19,900,792**	**1,323**	**1,798,231**	**(12,647,904)**	**(4,734,299)**	**4,318,143**

	Issued capital $	Foreign ex-change reserve $	Share-based payment reserve $	Restructure reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2022	19,900,792	1,323	1,798,231	(12,647,904)	(4,734,299)	4,318,14
Loss after income tax expense for the year	-	-	-	-	(2,830,449)	(2,830,449)
Other comprehensive income for the year, net of tax	-	60	-	-	-	60
Total comprehensive income for the year	-	60	-	-	(2,830,449)	(2,830,389)
Transactions with owners in their capacity as owners:						
Share-based payments	-	-	297,619	-	-	297,619
Restructure reserve allocation	-	-	-	12,647,904	(12,647,904)	-
Transfer of fair value on expired options	-	-	(449,395)	-	449,395	-
Balance at 30 June 2023	**19,900,792**	**1,383**	**1,646,455**	**-**	**(19,763,257)**	**1,785,373**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

Consolidated statement of cash flows

For the year ended 30 June 2023

	Note	2023 $	2022 $
Cash flows from operating activities			
Interest received		11,065	-
Payments to suppliers and employees (inclusive of GST)		(2,710,826)	(1,877,638)
Net cash used in operating activities	11	(2,699,761)	(1,877,638)
Cash flows from investing activities			
Net cash from investing activities		-	-
Cash flows from financing activities			
Repayment of insurance financing arrangement		(171,356)	-
Interest and other finance costs paid		(9,000)	-
Net cash from financing activities		(180,356)	-
Net decrease in cash and cash equivalents		(2,880,117)	(1,877,638)
Cash and cash equivalents at the beginning of the financial year		4,787,437	6,460,644
Effects of exchange rate changes on cash and cash equivalents		90,943	204,431
Cash and cash equivalents at the end of the financial year		**1,998,263**	**4,787,437**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

Notes to the financial statements

30 June 2023

Note 1. General information

The financial statements cover Island Pharmaceuticals Limited as a Group consisting of Island Pharmaceuticals Limited and the entities it controlled at the end of, or during, the year ("the Group"). The financial statements are presented in Australian dollars, which is the Group's functional and presentation currency.

Island Pharmaceuticals Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

c/- Bio101 Financial Advisory Pty Ltd
Suite 201
697 Burke Road
Camberwell, VIC 3124

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 30 August 2023. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period, there was no impact on the amounts recognised in current or prior period and no expected significant changes in future periods.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Note 2. Significant accounting policies (continued)

Going concern

These financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

For the period ended 30 June 2023 the entity has incurred a loss after tax of $2,830,449 and incurred a net cash outflow from operating activities of $2,699,761. As at 30 June 2023, the entity has had net assets of $1,785,373 and cash reserves of $1,998,263.

The ability of the company to continue as a going concern is principally dependent upon the ability of the company to secure funds by raising capital from equity markets and managing cash flow in line with the available funds. These conditions indicate material uncertainty that may cast significant doubt about the ability of the company to continue as a going concern.

The directors have considered a cash flow forecast, which indicates that the company will be required to obtain additional capital in order to have sufficient cash flows to meet all commitments and working capital requirements for the 12 month period from the date of signing this financial report. The directors also considered the other following matters in their cashflow forecast, all of which are contingent upon future matters which may or may eventuate:

- The Company can scale down its operations sufficiently (and narrow the scope of its planned activities) should the above capital raising not occur;
- The Company holds no leases over 3+ months;
- The Company may be able to claim the Research & Development tax incentive from the ATO for eligible spend.
- The Company has the ability to raise additional capital as an ASX listed company.

Based on the cash flow forecasts and other factors referred to above, the directors are satisfied that the going concern basis of preparation is appropriate and the directors are confident of the company's ability to raise additional funds as and when they are required.

Should the company be unable to achieve the matters as described above, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or to the amount and classification of liabilities that might result should the company be unable to continue as a going concern and meet its debt when they fall due.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 13.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Island Pharmaceuticals Limited ('company' or 'parent entity') as at 30 June 2023 and the results of all subsidiaries for the year then ended. Island Pharmaceuticals Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Note 2. Significant accounting policies (continued)

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Island Pharmaceuticals Limited's functional and presentation currency. Isla Pharmaceuticals Inc's functional currency is United States dollars.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition

The Group recognises revenue as follows:

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Government research and development tax incentives

Government grants, including research and development incentives are recognised at fair value when there is reasonable assurance that the grant will be received and all grant conditions will be met.

Note 2. Significant accounting policies (continued)

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

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

Note 2. Significant accounting policies (continued)

Trade and other receivables

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Financial assets at amortised cost

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Research and development expenditure

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources and intent to complete the development; and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit.

Note 2. Significant accounting policies (continued)

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

Note 2. Significant accounting policies (continued)

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Issued capital

Ordinary shares are classified as equity.

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

Business restructures

Any business restructure that falls outside of AASB3 Business Combinations, is brought into account by applying the pooling of interests method.

The pooling of interest method accounts for the transaction of the combining parties as follows:

- The assets and liabilities of the combining parties are reflected at their carrying amounts;
- No adjustments are made to reflect fair values, or recognise any new assets or liabilities;
- No new goodwill is recorded in relation to the combination:
- The only goodwill that is recognised is any existing goodwill relating to either of the combining entities. Any difference between the consideration transferred and the acquired net assets is reflected within equity as a merger reserve; and
- The income statement reflects the results of the combining entities from the date of restructure.

Presentation of financial information

Where the pooling of interest method has been applied, the financial information is presented using the prospective method. Financial information is presented on the basis that prior to the transaction the combination did not exist. Therefore any retained or current earnings of the acquired party prior to the transaction is recorded in equity.

Note 2. Significant accounting policies (continued)

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Island Pharmaceuticals Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. No deferred tax assets was recognised during the year.

Research and Development Tax Incentive credits

During the year, the Company has incurred costs that may be eligible for the Research and Development Tax Incentive refund. Actual receipt of the R&D refund may occur after the Balance Date. While the R&D income is based on lodged submissions, there is however some uncertainty relating to the final receipt and R&D income, as this is subject to ATO finalisation. Because of this uncertainty, revenue for R&D income has not been recognised during the year and will be recognised when the benefit is received.

Assessment of R&D expenditure not advancing to a stage of technical feasibility

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources and intent to complete the development; and its costs can be measured reliably.

Note 4. Operating segments

During the year the Group continued to operate a single segment, being research and development activities principally in the geographic regions of Australia and the United States of America.

Note 5. Share based payment expense

During the year no new share-based payment arrangements were granted or issued. The share-based payment expense reflected in the profit or loss reflects the vesting of the service conditions attached to the share options, as reported disclosed under options on issue in the issued capital note. None of these options had any other vesting conditions aside from their service vesting conditions.

During the year, a total of 4,245,871 options with a strike price of 37.30 cents expired on 4 April 2023. An amount of $449,395 in prior vesting charges for these options was repatriated from the share-based payment reserve to accumulated losses in respect of these expired options.

Notes to the financial statements

30 June 2023

Note 6. Loss per share

	2023 $	2022 $
Loss after income tax attributable to the owners of Island Pharmaceuticals Limited	(2,830,449)	(2,606,887)

	Number	Number
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	81,268,468	80,930,746
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	81,268,468	80,930,746

	Cents	Cents
Basic earnings per share	(3.48)	(3.22)
Diluted earnings per share	(3.48)	(3.22)

Options are not considered to be dilutive therefore options are not included in the calculation of diluted loss per share. As at the reporting date there are 11,579,011 options (June 2022: 15,824,882) issued, there are no options issued and currently in the money that could potentially dilute basic earning per shares in the future.

Note 7. Current liabilities - trade and other payables

	2023 $	2022 $
Trade payables	112,503	240,885
Accrued expenses	95,863	297,500
Other payables	4,793	4,825
	213,159	**543,210**

Refer to note 12 for further information on financial instruments.

Notes to the financial statements

30 June 2023

Note 8. Equity - issued capital

Ordinary shares

	2023 Shares	2022 Shares	2023 $	2022 $
Ordinary shares - fully paid	**81,268,468**	**81,268,468**	**19,900,792**	**19,900,792**

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

Upon a poll each share shall have one vote.

Options and warrants on issue

The following share-based payment arrangements were in existence at the end of the current reporting period:

No. of Options	Grant date	Expiry date	Grant date fair value	Vesting date	Exercise price	Number vested
58,389	7/4/2021	7/4/2024	$0.1612	13/4/2023	$0.2130	58,389
3,925,000	7/4/2021	30/4/2024	$0.1366	13/4/2023	$0.3625	3,925,000
177,778	7/4/2021	30/4/2024	$0.1440	13/4/2023	$0.3125	177,778
177,778	7/4/2021	30/4/2024	$0.1349	13/4/2023	$0.3750	177,778
177,777	7/4/2021	30/4/2024	$0.1271	13/4/2023	$0.4375	177,777
3,669,744	7/4/2021	13/4/2024	$0.1430	7/4/2021	$0.3125	3,669,744
1,808,743	7/4/2021	1/12/2023	$0.1576	1/12/2021	$0.2000	1,808,743
203,802	7/4/2021	1/1/2025	$0.1733	7/4/2021	$0.2130	203,802
1,150,000	28/4/2022	28/4/2026	$0.1331	28/4/2022	$0.2100	1,150,000
230,000	28/4/2022	28/4/2026	$0.1331	28/4/2022	$0.2100	230,000

As at 30 June 2023, the range of exercise price of options is between $0.2000 and $0.4375 with the weighted average exercise price of $0.30. The weighted average remaining contractual life of options outstanding at the end of the financial year was 1 year.

There is no current on-market share buy-back.

Notes to the financial statements

30 June 2023

Note 9. Equity - reserves

	2023 $	2022 $
Foreign currency reserve	1,383	1,323
Share-based payments reserve	1,646,455	1,798,231
Restructure reserve	-	(12,647,904)
	1,647,838	**(10,848,350)**

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

	2023 $	2022 $
Reconciliation:		
Balance at beginning of period	1,798,231	1,349,796
Transfer of fair value on expired options	(449,395)	-
Share based payment expense	297,619	448,435
Balance at end of period	**1,646,455**	**1,798,231**

Note 10. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Note 11. Reconciliation of loss after income tax to net cash used in operating activities

	2023 $	2022 $
Loss after income tax expense for the year	(2,830,449)	(2,606,887)
Adjustments for:		
Share-based payments	297,619	448,435
Foreign exchange differences	89,474	(126,916)
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	3,659	38,257
(Increase)/decrease in prepayments	56,824	25,570
Increase/(decrease) in trade and other payables	(330,052)	312,727
Increase/(decrease) in employee benefits	13,164	31,176
Net cash used in operating activities	**(2,699,761)**	**(1,877,638)**

Note 12. Financial instruments

Financial risk management objectives

The Group's material financial assets and liabilities consist of cash and accounts payable.

The Group's activities expose it to two financial risks, being foreign exchange and liquidity risk. These risks are managed at Board level through cashflow forecasting analyses.

Market risk

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

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

Note 12. Financial instruments (continued)

The Group undertakes transactions denominated in foreign currencies, mainly in US dollars; consequently, exposures to exchange rate fluctuations arise. At 30 June 2023, the Company has cash denominated in US dollars, US$1,150,271 (2022: US$1,621,554). The A$ equivalent at 30 June 2023 is $1,731,514 (2022: $2,351,871). A 5% movement in foreign exchange rates would increase or decrease the Group's loss before tax by approximately $91,132 (2022: $111,994).

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity by maintaining adequate banking facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

2023 contractual cash flows	Carrying amount $	Less than 1 month $	1-3 months $	3-12 months $	1 year to 5 years $	Total contractual cash flows $
Trade and other payables	213,159	213,159	-	-	-	213,159

2022 contractual cash flows	Carrying amount $	Less than 1 month $	1-3 months $	3-12 months $	1 year to 5 years $	Total contractual cash flows $
Trade and other payables	543,210	543,210	-	-	-	543,210

Fair value of financial instruments

As at 30 June 2023 the carrying values of all financial assets and liabilities approximated their fair value.

Note 13. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2023 $	2022 $
Loss after income tax	(2,830,452)	(2,601,060)
Total comprehensive income	(2,830,452)	(2,601,060)

Statement of financial position

	Parent	
	2023 $	2022 $
Total current assets	2,047,467	4,897,184
Total assets	2,047,467	4,897,184
Total current liabilities	263,846	580,732
Total liabilities	263,846	580,732
Equity		
Issued capital	7,158,676	7,158,676
Share-based payments reserve	1,646,455	1,798,231
Accumulated losses	(7,021,511)	(4,640,455)
Total equity	1,783,620	4,316,452

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2023.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2023.

Note 13. Parent entity information (continued)

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2023.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:
- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 14. Related party transactions

Key Management personnel
Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered key management personnel.

Directors and Key Management Personnel compensation
The Directors and Key Management Personnel compensation included in "employee expenses" are as follows:

Nature of compensation	2023 $	2022 $
Short-term employee benefits	597,614	530,986
Post-employment benefits	19,004	18,181
Share-based payments	215,906	274,586
	832,524	**823,753**

Subsidiaries
Interests in subsidiaries are set out in note 16.

Other related party transactions
Transactions with related parties
There were no transactions with related parties during the current and previous financial year.

Receivable from and payable to related parties
There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties
There were no loans to or from related parties at the current and previous reporting date.

Notes to the financial statements

30 June 2023

Note 15. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by William Buck Pty Ltd, (2022: Grant Thornton Pty Ltd), the auditor of the company:

	2023 $	2022 $
Audit services		
Audit or review of the financial statements	**37,500**	**65,000**

Note 16. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy described in note 2:

		Ownership interest	
Name	**Principal place of business / Country of incorporation**	**2023 %**	**2022 %**
Isla Pharmaceuticals Inc.	United States of America	100%	100.%

Note 17. Commitments and contingencies

There are no significant commitments and contingencies at balance date in the current or prior reporting periods.

Note 18. Events after the reporting period

No matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Directors' Declaration

30 June 2023

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Paul MacLeman
Executive Chair

30 August 2023
Melbourne

William Buck
ACCOUNTANTS & ADVISORS

Island Pharmaceuticals Limited
Independent auditor's report to members

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the financial report of Island Pharmaceuticals Limited (the Company) and its controlled entities (together, 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, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group, is 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 financial performance for the year ended on that date; and

ii. 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 auditor independence requirements of 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 to the financial statements, which states that the Company incurred a net loss after tax of $2,830,449 and net cash outflows from operations of $2,699,761 for the year ended 30 June 2023. As stated in Note 2, these events and conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined that the following matters described below to be the key audit matters to be communicated in our report:

ACCOUNTING FOR SHARE-BASED PAYMENTS	
Area of focus **Refer also to notes 3, 5, 8 and 9**	**How our audit addressed it**
The Group actively encourages its employees, key management personnel and other contracting parties to be aligned with overall shareholder value through share-based payment arrangements. Its share-based payment arrangements in periods leading up to and for the year ended 30 June 2023 took the form of share options. These arrangements have some complexity in their calculation, namely around the following: — The determination of their grant date, which sets the value of the share-based payment arrangement; — Applying a valuation model that is appropriate in the context of the vesting terms of the arrangement, particularly concerning any market and non-market based vesting terms; — Applying inputs into the valuation models, particularly concerning the determination of expected volatility calculations; and — Assessing the appropriateness of the vesting charge of each share-based payment arrangement taken to the profit or loss during the year. This is a key audit matter as vesting charges concerning key management personnel remuneration are recorded in the Remuneration Report, which accompanies these financial statements.	For the year ended 30 June 2023 there were no new share-based payment arrangements; however vesting charges continued to accrue to the profit or loss in-respect of prior period share-based payment arrangements. These also impacted disclosures in the Remuneration Report and in Related Party transaction arrangements. As such, our audit procedures involved: — Rolling forward share-based payment arrangement from the prior year; — Ensuring that none of these arrangements were modified by examining board minutes, public announcements and through our discussions with management; and — Recomputing the vesting charge applied from those arrangements. We also ensured that these existing share-based payment arrangements were appropriately disclosed in the financial report and Remuneration Report.

Other Information

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

Our opinion on the financial report does not cover the other information and 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.

Other Matter

The financial report of the Group for the year ended 30 June 2022 was audited by another auditor who expressed an unmodified opinion on the financial report on 25 August 2022.

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* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group 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 has 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 these financial statements is located at the Auditing and Assurance Standards Board website at:
https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our independent auditor's report.

William Buck
ACCOUNTANTS & ADVISORS

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2023.

In our opinion, the Remuneration Report of Island Pharmaceuticals Limited for the year ended 30 June 2023 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

William Buck

William Buck Audit (Vic) Pty Ltd
ABN 59 116 151 136

N. S. Benbow
Director
Melbourne, 30 August 2023

Shareholder information

30 June 2023

The shareholder information set out below was applicable as at 9 August 2023.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

Holding ranges	Holders	Total units	% Issued Share Capital
Above 0 up to and including 1,000	46	20,788	0.03%
Above 1,000 up to and including 5,000	224	613,044	0.75%
Above 5,000 up to and including 10,000	129	1,051,973	1.29%
Above 10,000 up to and including 100,000	241	8,293,391	10.20%
Above 100,000	54	71,289,272	87.73%
	694	**81,268,468**	

There are 282 shareholdings held with less than a marketable parcel, totalling 699,960 shares or 0.86% of the total share capital.

Shareholder information

30 June 2023

Equity security holders

Voting rights - Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Position	Holder	Holding	% held
1	DR WILLIAM JAMES GARNER	22,056,105	27.14%
2	MR JASON ALAN CARROLL	12,626,500	15.54%
3	KESA PARTNERS INC	10,837,367	13.34%
4	DR DAVID C FOSTER	5,146,829	6.33%
5	MANCHESTER EXPLORER LP	2,771,376	3.41%
6	CITICORP NOMINEES PTY LIMITED	1,928,951	2.37%
7	MR ANDRE FRAGA FIGUEIREDO	1,832,947	2.26%
8	PR PERRY NOMINEES PTY LTD – DONESK FAMILY A/C	1,810,000	2.23%
9	MR ALISTAIR ROBERT BAKER	1,105,885	1.36%
10	MR ANDREW DAVID WALKER & MRS ANGELA ROSEMARY WALKER	880,892	1.08%
11	MR RICHARD M HEMRY	679,340	0.84%
12	MRS PATRICIA FERNANDES DIAS DE ALMEIDA	660,861	0.81%
13	MRS AZAM MOHSENIN-MOSHIRI	500,000	0.62%
14	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	475,000	0.58%
15	BNP PARIBAS NOMINEES PTY LTD – IB AU NOMS RETAILCLIENT DRP	440,143	0.54%
16	MR FENG LI	400,000	0.49%
17	MR PHILLIP RICHARD PERRY & MRS TETYANA PERRY - DONESKA SUPER FUND A/C	390,000	0.48%
18	MR ALAN GILES SAURAN & MRS SUZANNE AUBRUN – NTH TURRAMURRA CONS S/F A/C	371,042	0.46%
19	MS JENNIFER ANNE CIRO	340,000	0.42%
20	CANDOUR ASSET MANAGEMENT PTY LTD – NO 1 A/C	327,000	0.40%
	Total	**65,580,238**	**80.70%**
	Total issued capital - selected security class(es)	**81,268,468**	**100.00%**

Shareholder information

30 June 2023

Substantial shareholders

The names of substantial shareholders in accordance with section 671B of the Corporations Act 2001 are:

Position	Shareholder	Holding	IC %
1	DR WILLIAM JAMES GARNER	22,056,105	27.14%
2	JASON ALAN CARROLL	12,626,500	15.54%
3	ALBERT HANSEN	10,837,367	13.34%
4	DR DAVID C FOSTER	5,211,393	6.44%

Unquoted securities

The Company has the following unquoted securities on issue:

1,808,743 options expiring 1 December 2023 @ $0.20 – 4 holders	Number	%
Holders with more than 20%		
Mr Rodrigo Masses	679,340	37.56%
Mr Larry Norder	509,505	28.17%
Mr Kevin Swiss	509,505	28.17%

203,802 options expiring 1 January 2025 @ $0.2130 – 1 holder	Number	%
Holders with more than 20%		
Mr Joseph Green	203,802	100.00%

58,389 options expiring 7 April 2024 @ $0.2130 – 1 holder	Number	%
Holders with more than 20%		
60P Australia Pty Ltd	58,389	100.00%

3,669,744 options expiring 13 April 2024 @ $0.3125 – 1 holder	Number	%
Holders with more than 20%		
PAC Partners Securities Pty Ltd	3,669,744	100.00%

3,925,000 options expiring 30 April 2024 @ $0.3625 – 5 holders	Number	%
Holders with more than 20%		
Dalroar Pty Ltd - MacLeman Investment A/C	2,325,000	59.24%

Shareholder information

30 June 2023

177,778 options expiring 30 April 2024 @ $0.3125 – 1 holder	Number	%
Holders with more than 20%		
Dr David C Foster	177,778	100.00%

177,778 options expiring 30 April 2024 @ $0.3750 – 1 holder	Number	%
Holders with more than 20%		
Dr David C Foster	177,778	100.00%

177,777 options expiring 30 April 2024 @ $0.4375 – 1 holder	Number	%
Holders with more than 20%		
Dr David C Foster	177,777	100.00%

1,380,000 options expiring 28 April 2026 @ $0.2100 – 4 holders	Number	%
Holders with more than 20%		
Stephen Thomas	460,000	33.33%
Leigh Farrell	460,000	33.33%

Restricted & Escrowed Securities

The Company has no restricted or escrowed securities.

Use of funds

Since admission the Company has used its cash in a way consistent with its business objectives.

On-Market buy-back

There is no current on-market buy-back.

Corporate Governance Statement

The Company's corporate governance statement is located at the Company's website:

Required Statements

The Company advises that the Annual General Meeting (AGM) of the Company is currently scheduled for 16 November 2023 at 11:30am (AEDT). The location of the AGM is K&L Gates, 31/1 O'Connell Street, Sydney NSW 2000.

Further to Listing Rule 3.13.1, Listing Rule 14.3 and Clause 13.3 of the Company's Constitution, nominations for election of directors at the AGM must be received not less than 30 Business Days before the meeting, being no later than 4 October 2023.