Parnell Pharmaceuticals Holdings Ltd

ABN 32 137 904 413

Annual Report

For the Year Ended 31 December 2019

Parnell Pharmaceuticals Holdings Ltd
ABN 32 137 904 413

Contents

For the Year Ended 31 December 2019

Directors' Report

31 December 2019

The directors present their report, together with the financial statements of the Group, being Parnell Pharmaceuticals Holdings Ltd (the Company) and its controlled entities (The Group), for the financial year ended 31 December 2019.

1. General information

Information on directors

The names, qualifications, experience and special responsibilities of each person who has been a director during the year and to the date of this report are:

Dr. Alan Bell	Chairman (Appointed Executive Director 9th January 2018)
Brad McCarthy	Executive Director (Appointed CEO 9th January 2018)
Tony G Hartnell AM	Independent Director (Appointed 2nd January 2018)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

We believe that each of our current directors has relevant industry experience. Our Constitution specifies that there must be a minimum of one director and a maximum of ten, and our Board of Directors may determine the number of directors within those limits. Our directors serve until removed by us by resolution.

Our Board of Directors has established delegated limits of authority, which define the matters that are delegated to management and those that require Board of Directors approval. Our non executive directors do not have any service contracts with the Company or any of its subsidiaries providing for benefits upon termination of employment.

Alan Bell. Dr. Bell has been our Director and Chairman since 2006. From July 1986 until 2006, he was the sole owner and Managing Director of Parnell Laboratories (Aust) Pty Ltd, our legacy entity.In 1986, Alan purchased Parnell from the retiring owner Dr Richard Boon. Over the next 20 years Alan worked as an equine veterinarian as well as becoming a well-known horse breeder, racehorse owner and syndicator and ultimately a championship winning thoroughbred horse trainer in Sydney. In 2005 Alan decided he wanted to grow Parnell to be a global player in the veterinary market and ultimately make Parnell an accredited FDA facility which became a reality in 2013. Alan holds a Bachelor's degree in Veterinary Science (1979) from University of Queensland completing his initial appointments in mixed practice and large animal practice in rural New South Wales, then moving to Equine practice.

Brad McCarthy. Mr. McCarthy joined us as Chief Financial Officer and Director in February 2010, and was appointed Chief Operating Officer of Parnell Manufacturing Pty Ltd, one of our wholly owned subsidiaries, in 2012 (overseeing the successful FDA approval of Parnell's new manufacturing facility). He was appointed CEO of the Group on 9 January 2018. Prior to Parnell, Brad spent six years at SIRVA Inc. in London (largest removals and relocation organisation in the world) where he worked in various roles as VP of Forecasting and Planning and Analysis (Europe), then leading SIRVA's divestment of its European operations, and Chief Financial Officer of the SIRVA subsidiary Pickford's Removals. Prior to SIRVA, Brad worked at Volkswagen Group Australia in the finance team. Brad holds a Bachelor's degree in Science (majoring in Physiology and Pharmacology) from University of Queensland, as well as a Bachelor of Business Administration and Commerce at Macquarie University. He is a Certified Public Accountant.

Directors' Report

31 December 2019

1. General information

Information on directors

Tony G Hartnell AM. Tony joined Parnell as an Independent Director in January 2018 bringing impeccable credentials in business success, enterprise financing and good governance, and unique expertise in corporate law and regulation. Mr. Hartnell brings a wealth of knowledge and experience, having chaired five publicly listed companies including BT Global Asset Management Ltd, Television & Media Services Ltd and Chiquita Brands South Pacific Ltd. His distinguished career also includes his service as the Inaugural Chairman of the Australian Securities Commission and Chairman of the National Companies and Securities Commission.

Mr. Hartnell began his legal career in government, rising rapidly to Deputy Secretary, Department of Business and Consumer Affairs, and then moved to private practice as a corporate and commercial lawyer as a partner at Allen Allen & Hemsley and a partner and co-founder of Atanaskovic Hartnell. In that time Mr. Hartnell also served on numerous governmental advisory bodies in the fields of trade, telecommunications and corporate regulation.

Mr. Hartnell was awarded Member in the Order of Australia (AM), and subsequently the Centenary Medal, in recognition of his achievements in structuring and chairing the peak bodies for corporate regulation in Australia.

Mr. Hartnell holds a BEc, LLB (Hons) from ANU and LLM (Highest Hons) from George Washington University.

Principal activities and significant changes in nature of activities

The Group is a fully integrated veterinary pharmaceutical company focused on developing, manufacturing and commercializing innovative health solutions. We currently market five products for companion and production animals in 10 countries and augment our pharmaceutical products with our proprietary mySYNCH® software platform.

The principal activities of the Group during the financial year were:

- the manufacture for global sale of animal pharmaceutical product; and
- the research and development of pharmaceutical products for global animal health markets.

Our History

The original Parnell company was founded by a veterinarian (Richard Boon) in Australia in the early 1960's. In 1986 he sold the assets of that business to Dr Alan Bell a practising equine veterinarian. Over the next twenty years, we developed over 30 generic veterinary products and registered them in over twenty countries. In 2006, our board implemented a global expansion of our company focusing on developing proprietary drug products and expanding our presence in the US market. As part of this process, we sold our legacy generic drug product assets to fund the development of new chemical entities and to fund in part the construction of our current FDA approved sterile manufacturing facility.

Over the last decade, we have significantly enhanced our core competencies across the entire pharmaceutical value chain. Our products have been approved by regulators in the U.S., Canada, Australia, New Zealand and multiple other jurisdictions throughout Latin America, Asia, the Middle East and Africa. Our clinical science expertise is augmented by a strong network of academic institutions, private research organizations and veterinary clinics across multiple countries around the world.

We have constructed a sterile manufacturing facility located in Sydney, Australia which was FDA inspected in September 2012 and approved in January 2013. We believe this facility provides us with a low cost and reliable supply of our products and has approximately 45% available capacity above our current manufacturing demand, creating significant contract manufacturing and pipeline expansion opportunities. In 2016 we were awarded our first contract manufacturing agreement, followed by additional agreements in 2017 and 2019 which has resulted in this business segment growing and now contributing 39% of our total revenues in this financial year. We intend to leverage our manufacturing facility to continue to expand this contract manufacturing business segment.

Directors' Report

31 December 2019

1. General information

Principal activities and significant changes in nature of activities

We have expanded our business operations in the last five years to focus on the U.S. market. This shift in focus has enabled us to establish a U.S. sales and marketing presence in the production animal market with the launch in 2013 of our reproductive hormones; Estroplan and Gonabreed and the recent launch of mySYNCH, our digital application for use by dairy producers and veterinarians. Since 2015, we have also established a small presence in the companion animal segment with the launch of Glyde for dogs.

The address of our Australia office is Unit 4 Century Estate, 476 Gardeners Road, Alexandria, NSW, 2015, Australia and the telephone number is +612 9667 4411 and in the U.S., it is 7015 College Blvd, Suite 650, Overland Park, Kansas 66211, and the telephone number is +1 9132742100.

Our Business

We are a fully integrated, veterinary pharmaceutical company focused on developing, manufacturing and commercializing innovative animal health solutions. We currently manufacture and market five products for companion animals and production animals in 10 countries and augment our production animal pharmaceutical products with proprietary software platform mySYNCH®. This innovative technology solution is designed to enhance the quality of life and/or performance of animals and is provided to producers and animal owners who use our drug products as a value added service offering to differentiate us from our competitors.

Our reproductive hormone products, estroPLAN® and GONAbreed®, are designed to safely and effectively improve cattle breeding performance and are currently marketed in 10 countries. We were the first company to achieve FDA approval for the indication of estrous synchronization in lactating dairy and beef cows. We market our reproductive hormone products in conjunction with our proprietary software platform, mySYNCH, in order to deliver superior breeding outcomes. Since launching in the U.S. in mid 2013, we have steadily acquired market share and significantly grown our customer base and utilisation of mySYNCH.

We believe our production animal products are differentiated through our complementary digital technologies designed to assist producers and veterinarians in maximizing the performance and application of our products. mySYNCH, for production animal customers, provides a personalized software solution which provides mobile and interactive education and diagnostics, data analytics and customer management capabilities. mySYNCH also provide us with direct interaction with animal owners to manage and personalize their brand experience with our products. Our technology offering enables us to identify and win potential new customers, increase customer interaction, provide brand recognition and overall customer satisfaction.

We have constructed a sterile manufacturing facility located in Sydney, Australia which has been inspected by the FDA, and other regulatory agencies enabling us to manufacture products for sale in Australia, New Zealand, Canada as well as other jurisdictions under mutual recognition procedures. We believe this new facility provides us with a low cost and reliable supply of our products and has approximately 45% available capacity above our current manufacturing demand which in turn provides significant contract manufacturing and pipeline expansion opportunities. In 2016 we signed our first contract manufacturing agreement which is a multi-million dollar opportunity over seven years and added further agreements in 2017, 2019 and 2020. We are continuing to seek further contract manufacturing opportunities with various pharmaceutical companies thereby establishing our contract manufacturing business segment as a profitable contributor to our corporate operations.

Our disease modifying product, Zydax®, for the treatment of osteoarthritis, or OA, in dogs and horses, both stimulates the growth of new cartilage and inhibits cartilage breakdown. OA is a slowly progressive and often severely debilitating degenerative joint disease, or DJD. The most common treatments for OA are anti-inflammatory drugs, which ease symptoms but do not address the underlying disease process. By contrast, Zydax is designed to enable veterinarians and animal owners to safely and effectively address the underlying causes of OA. Zydax and Glyde have been treating OA in the Australian market for many years and have led to improved quality of life for dogs and improved performance of sport horses. In addition to Zydax we also have a nutraceutical product, Glyde®, which is a combination of glycoaminoglycans, a building block for cartilage (derived from chondroitin sulfate and glucosamine) and a potent natural antiinflammatory, eicosatetraenoic acid (derived from New Zealand green-lipped mussels). Glyde is currently marketed in Australia where we also market Zydax. We launched Glyde in the U.S. in September 2015.

Directors' Report
31 December 2019

1. General information

Principal activities and significant changes in nature of activities
Our current revenues are derived from operations in 10 countries, with a direct marketing presence in Australia, New Zealand and the U.S. We utilize a range of multinational and local marketing partners in other markets including the Middle East and Africa and will continue to seek additional marketing partners who can assist us in bringing our products to market in those geographies where we do not expect to establish a direct presence. We believe that our fully integrated, pharmaceutical value chain positions us to effectively and efficiently leverage our current product portfolios, expand and scale our contract manufacturing opportunities and elicit in licensing opportunities.

Our Strategy

Our objective is to become a leading provider of animal health solutions that enhance the performance or the quality of life of animals and enhance operational efficiency and profitability for veterinarians and farmers. We seek to differentiate ourselves from other animal health companies through leadership in clinical science in our chosen therapeutic areas, integration of our digital technologies with our animal health products and excellence in the manufacture of highly potent sterile injectables and extrusion chewable products.

2. Operating results and review of operations for the year

The following discussion and analysis of our consolidated statements of operations should be read along with our consolidated financial statements and the notes, which reflect the results of operations of the business for the periods presented.

Review of the consolidated statements of operations

	(AUD$ in thousands, except percentages)		
	Year Ended		
	December 31, 2019	December 31, 2018	v%
Revenues	28,940	26,548	9%
Cost of Goods Sold	(10,670)	(10,117)	5%
Gross Margin	18,270	16,431	11%
Selling and Marketing expenses	(6,158)	(5,240)	18%
Regulatory and R&D expenses	(606)	(586)	3%
Administration expenses	(4,735)	(4,541)	4%
EBITDAOI*	6,771	6,064	12%
Non-recurring items	(441)	(415)	6%
Provision for Doubtful Debts	(2,223)	(5)	(444%)
Depreciation and Amortisation expenses	(3,404)	(2,379)	43%
Finance costs	(7,738)	(6,995)	11%
Other income/(expenses)	86	4,067	(98%)
Income/loss before income tax	(6,949)	337	(2,162%)
Income tax (expense)/benefit	(233)	(207)	12%
Income/loss for the year	(7,182)	130	(5,641%)
Other comprehensive loss for the year, net of tax	(516)	(6,994)	(93%)
Total comprehensive loss for the year	(7,698)	(6,864)	12%

*EBITDAOI: Earnings Before Interest, Tax, Depreciation, Amortisation and Other Income/(Expense)

Review of Operational Results

Total 2019 revenue performance was $28.9 million, an increase of $2.4 million (9%) over the prior year. Underlying operations delivered a positive EBITDAOI result of $6.8 million, which was a year-on-year improvement of $0.7 million.

Revenue:

Total revenue was $28.9 million for the twelve months ended December 31, 2019, being $2.4 million (9%) up over the same period in 2018.

Directors' Report

31 December 2019

2. Operating results and review of operations for the year

Our operating segments performed as follows:

- Production Animal sales of $14.4 million globally for 2019 represented an increase of $1.4 million (11%) over the same period in 2018, comprised of; 9% growth in US Production; 24% growth in Australia and 9% in New Zealand Production and 19% growth year on year in Rest of World Production. The performance in our direct markets (USA, Australia and New Zealand) was particularly pleasing as it further supports our market positioning and value proposition. In the US our market share continued to outgrow the market with in-Market sales increasing by 7% over the twelve months ended December 31, 2018.

- Companion Animal sales of $3.2 million for the year ended December 31, 2019 were flat with to the same period in 2018, arresting the decline in this segment due to underperformance in US Companion seen in 2017 and prior. This in conjunction with the reduction in cost base of the US Companion Animal segment from the completion of our restructure in 2017 delivered a further $0.1 million year on year improvement in contribution margin from this business for the twelve months of 2019.

- Contract Manufacturing revenues for 2019 were $11.3 million, an increase of 9% over revenues of $10.3 million for the same period in 2018. 2019 comprised technology transfer revenues of $3.0 million, compared to $2.6 million in 2018, and batch delivery revenues of $8.3 million, compared to $7.7 million in 2018.

Expenses:

- Cost of Sales for the year ended December 31, 2019 were $10.7 million, compared to $10.1 million for the comparable period in 2018. Gross margin as a percentage of revenue, using a Cost of Goods Sold Product basis, was 83% in 2019 compared to 86% in 2018, due to a slight change in product mix during 2019.

- Selling and Marketing expenses increased by $0.9 million, or 18%, to $6.2 million for the 2019 year compared to the same period in 2018 resulting primarily from increase in US Production Animal sale and marketing costs as a result of having a full year of increased sales presence.

- Regulatory and R&D spending for the year was a 3% increase over the same period in 2018 due to increases in regulatory fees.

- Administration expenses increased $0.2 million, or 4%, to $4.7 million in 2019 compared to $4.5 million for the same period in 2018.

- Finance costs of $7.7 million for the twelve months ended December 31, 2019 increased by $0.7 million over the same period in 2018, due to a full year under the larger senior debt facility entered into in July 2018 with Marathon.

- Other Income/(expense) for the twelve months ended December 31, 2019 was income of $31 thousand compared to $4.1 million for the same period in 2018. This decrease is primarily due to foreign exchange movements between the Australian dollar and the US dollar for the period. For 2018, $0.1 million was recorded in Other Income as part of research and development incentives received in Australia compared to $Nil recorded in 2019.

- Non-recurring items for the twelve months ended December 31, 2019 were an expense of $0.4 million, being the same amount for the same period in 2018. In both 2018 and 2019 this item was all related to settlement and legal costs associated with ex-employee claims.

- Provision for Doubtful Debts for the twelve months ended December 31, 2019 were an expense of $2.2 million, being for the provision of a receivable associated with a licensing agreement of the Group with a third party, for which the milestone has been achieved but of the milestone fee if yet to be received. For the full year ended December 31, 2018, Provision for Doubtful Debts expense was $5,446.

2. Operating results and review of operations for the year

Earnings Before Interest, Tax, Depreciation, Amortization and Other Income/(Expense) (EBITDAOI) & Net Loss after Tax:

- Earnings Before Interest, Tax, Depreciation, Amortization and Other Income/(Expense) for the twelve months ended December 31, 2019, before nonrecurring items, improved by $0.7 million to $6.8 million compared to $6.1 million for the same period in 2018. Including nonrecurring items it was a $6.3 million profit in 2019 compared to $5.7 million in 2018. This was achieved by total revenue being 9% up on prior year whilst continuing to invest in growth for our sales and marketing presence in the US Production Animal segment and our Contract Manufacturing business.

- Net loss after tax for the period ended December 31, 2019 increased by $7.3 million to $7.2 million compared to a $0.1 million profit in 2018 predominantly due to movement in Other Income/(expense) in the prior year.

3. Other items

Dividends paid or recommended

	Year Ended December 31, 2019	Year Ended December 31, 2018
	$	$
Dividends	-	-

There are no dividends paid or recommended during the period (Year Ended December 31, 2018: $Nil). Since the end of the period the directors have not recommended the payment of a dividend.

Events after the reporting date

Since November 2019, the Directors of the Group and their appointed advisors have been working diligently towards a capital solution in recognition that the Company’s cash flows, while substantially improved from 2017 levels, would remain insufficient to accommodate the scheduled July 2020 start of amortization for the Marathon Debt. During this process it became clear that Marathon did not wish to extend or refinance the Marathon Debt but required repayment in full.

The Group’s exhaustively engaged with a wide array of banks, debt and equity funds and potential buyers in the United States, Australia and elsewhere. A debt refinancing proposal by a global bank was close to proceeding in March 2020 only to be negated by the onset of the COVID-19 global pandemic. Concurrently the Company found the wider debt markets to be closed to it, absent a substantial equity injection. Likewise, during COVID-19 companies in our industry have been focused internally, obviating a significant asset sale as an appropriate alternate of meeting the Marathon amortization.

Our lengthy and wide engagement with equity funds yielded a clear front runner in DW Healthcare Partners V, L.P. (“DWHP”), a substantial and successful US based healthcare focused organization.

On December 17th, 2020, the Shareholders of the Group approved a resolution to enter into a capital transaction with DWHP. Of the 12,704,524 shares voted at the Shareholder Meeting, 98.35% voted in favour of the transaction proceeding.

As such, on December 21st, 2020, in return for a 50.01% controlling stake in the Company, DWHP provided a US$28 million plus transaction expenses Convertible Note combined with a third-party senior debt placement to pay out the entire cash component of Marathon Debt, reduce overall indebtedness of the Company including repayment of loans and other monies owed to Management Shareholders, and provide working capital for the Company. As partial consideration for its Royalty Rights under the Marathon Royalty Agreement, Marathon has agreed to accept a 5% shareholding in the Company post-closing.

3. Other items

Events after the reporting date

On the same day, DWHP has also commenced a Tender Offer for all shares, excluding Management Shareholders. DWHP is committed to make an Offer for the outstanding public shares of the Company following issuance of the Convertible Note. The Offer, which DWHP intends to make at US$0.40 per Share - a 208% premium to the closing price on November 13, 2020 - will be submitted to Shareholders concurrent with the issuance of the Convertible Note.

On the same day, White Oak Healthcare Finance, LLC (“White Oak”) provided the third party senior debt facility. White Oak provided the Group with the following senior secured loan facilities, (A) a US$16 million term facility and (B) a US$4 million revolving facility on the terms and conditions set out in the White Oak Credit Agreement, including the grant of a lien on all assets of the applicable Parnell Group Members and satisfaction of the other condition's precedent to funding under the White Oak Credit Agreement. The proceeds from the White Oak Debt were made available to the relevant Parnell Group members (as borrowers) on the Convertible Note Closing Date concurrent with the issue of the Convertible Note. The proceeds from the Convertible Note and the White Oak Debt were used to:

- repay the Marathon Debt in full;
- pay the Marathon Cash Payment;
- repay certain existing loans owed to the Management Shareholders,
- pay certain transaction expenses, and
- with the balance to be used for working capital and general corporate purposes of the Company.

At the time of signing this Annual Report, the Group had not drawn on any of the US$4 million revolving facility and as such it remains fully available for capital and general corporate purposes.

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity. We have taken a number of measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for our people (such as social distancing and working from home) and securing the supply of materials that are essential to our production process.

At this stage, the impact on our business and results has not been significant and based on our experience to date we expect this to remain the case. We will continue to follow the various government policies and advice and, in parallel, we will do our utmost to continue our operations in the best and safest way possible without jeopardising the health of our people.

No additional matters or circumstances have arisen since the end of the financial period which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Future developments and results

Likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

Environmental issues

We are subject to various federal, state, local and foreign environmental, health and safety laws and regulations. These laws and regulations govern matters such as:

- the emission and discharge of hazardous materials into the ground, air or water;
- the generation, use, storage, handling, treatment, packaging, transportation, exposure to, and disposal of hazardous and biological materials, including record keeping, reporting and registration requirements; and
- the health and safety of our employees.

Directors' Report

31 December 2019

3. Other items

Environmental issues

Energy Efficiency Opportunities Guidelines

The Group is not subject to the conditions imposed by the registration and reporting requirements of the Energy Efficiency Opportunities Act 2006 in the current financial year as its energy consumption was below the 0.5 petajoule registration threshold.

If the Group exceeds this threshold in future reporting periods, it will be required to register with the Department of Resources, Energy and Tourism and complete an Energy Savings Action Plan. This plan assesses the energy usage of the Group and identifies opportunities for the Group to reduce its energy consumption.

The Clean Energy Bill 2012 will have an indirect impact on the Company due to increased costs.

Company secretary

The following person held the position of company secretary at the end of the financial year:

Brad McCarthy (CPA) has been the company secretary since March 2011.

Directors' Report
31 December 2019

Meetings of directors

During the financial year, two meetings of directors were held. All board meetings were held at The Group's headquarter in Alexandria, Australia or via circular resolution. Attendances by each director during the year were as follows:

	Directors' Meetings	
	Number eligible to attend	Number attended
Dr Alan Bell	2	2
Tony G Hartnell AM	2	2
Brad McCarthy	2	2

Indemnification and insurance of officers and auditors

During the year ended 31 December 2019, insurance premiums were paid for directors and officers liability by the Group of AUD$135,000 (2018: $120,000) to insure the directors and secretaries of the Group and its Australian based controlled entities.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Options

The fair value of each share option is estimated on the date of grant using the BlackScholes option pricing model. The Company historically has been a private company and lacks company specific historical and implied volatility information. Therefore, it estimates its expected share volatility based on the historical volatility of its publicly traded peer companies and expects to do so until such time as it has adequate historical data regarding the volatility of its own traded share price. The risk-free interest rate is determined by reference to the appropriate reserve bank yield in effect at the time of grant of the award for time periods approximately equal to the expected term of the award. The expected term is determined based on the life of the grant of 10 years. Expected dividend yield is based on the fact that the Company has never paid cash dividends and does not expect to pay any cash dividends in the foreseeable future. The fair value of the underlying ordinary shares is determined by the closing price of our ordinary shares on the NASDAQ Global Market. The fair value of the share options was estimated using the following assumptions:

	12 months ended December 31, 2019	12 months ended December 31, 2018
Share price at grant date per ordinary share	N/A	N/A
Risk free interest rate	N/A	N/A
Expected term (in years)	N/A	N/A
Expected volatility	N/A	N/A
Expected dividend yield	zero	zero

Options

If any assumptions used in the option pricing model changed significantly, share based compensation for future awards may differ materially from the awards granted previously.

The following table summarizes share option activity for the year ended December 31, 2019:

	Shares Issuable Under Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2018	49,931	4.44	1	-
Granted	-	-	-	-
Exercised	-	-	-	-
Expired or forfeited	(49,931)	-	-	-
Outstanding as of December 31, 2019	-	-	-	-
Options vested and expected to vest as of December 31, 2019	-	-		

The following table summarizes share option activity for the year ended December 31, 2018:

	Shares Issuable Under Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2017	49,931	4.44	1	-
Granted	-	-	-	-
Exercised	-	-	-	-
Expired or forfeited	-	-	-	-
Outstanding as of December 31, 2017	49,931	4.44	1	-
Options vested and expected to vest as of December 31, 2018	49,931	4.44		

The aggregate intrinsic value of share options is calculated as the difference between the exercise price of the share options and the fair value of the Company's ordinary shares for those share options that had exercise prices lower than the fair value of the Company's ordinary shares.

There were no options exercised during the years ended December 31, 2019 and December 31, 2018. The Company did not receive cash proceeds from stock option exercises for the years ended December 31, 2019 and December 31, 2018.

During 2019, the company transitioned all non-Executive Director Employee annual bonus programs from the Employee Equity Program to the company’s Annual Bonus Program which is cash based only. No further equity programs exist for non-Executive Director Employees.

Directors' Report
31 December 2019

Options

In addition to the stock options described above, the Company has granted service based RSU's to its employees. RSU's are valued at the fair value of the underlying ordinary shares as of the date of the grant.

The following table summarizes restricted stock unit activity for the year ended December 31, 2019:

	Number of Restricted Share Units	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2018	368,379	1.05	0.16	-
Granted	-			-
Exercised	-			-
Expired or forfeited	(368,379)			-
Outstanding as of December 31, 2019	-			-

The following table summarizes restricted stock unit activity for the year ended December 31, 2018:

	Number of Restricted Share Units	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2017	646,021	1.05	0.16	-
Granted	-			-
Exercised	-			-
Expired or forfeited	(277,642)			-
Outstanding as of December 31, 2018	368,379			-

For the years ended December 31, 2019 and December 31, 2018, share-based compensation expense/(recovery) was $Nil and ($31) thousand.

Directors' Report

31 December 2019

Proceedings on behalf of 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.

Auditor's independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001* for the year ended 31 December 2019 has been received and can be found on page 13 of the financial report.

This director's report is signed in accordance with a resolution of the Board of Directors.

Director: ....
Brad McCarthy (Chief Executive Officer)

Director: ....
Alan Bell (Executive Chairman)

Dated: 21 January 2021

Auditor's Independence Declaration

As lead auditor for the audit of Parnell Pharmaceuticals Holdings Ltd for the year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Parnell Pharmaceuticals Holdings Ltd and the entities it controlled during the period.

N. James

Nicholas James
Partner
PricewaterhouseCoopers

Sydney
21 January 2021

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Parnell Pharmaceuticals Holdings Ltd
ABN 32 137 904 413

Consolidated statement of profit or loss and comprehensive loss

	Note	12 months to 31 December 2019 AUD$	12 months to 31 December 2018 AUD$
Revenue	3	**28,939,769**	26,548,015
Other income	3	**85,362**	4,078,021
Cost of goods sold		**(11,604,197)**	(11,024,617)
Selling and marketing expenses		**(6,159,167)**	(5,240,459)
Regulatory and research and development expenses		**(605,813)**	(585,506)
Administration expenses		**(7,644,253)**	(6,437,839)
Provision for doubtful debt	4	**(2,222,980)**	(5,446)
Finance costs	4	**(7,738,065)**	(6,995,130)
(Loss)/profit before income tax		**(6,949,344)**	337,039
Income tax expense	5	**(232,817)**	(207,419)
(Loss)/profit for the period		**(7,182,161)**	129,620
Other comprehensive (loss)/income, net of income tax			
Items that will be reclassified subsequently to profit or loss			
Foreign currency translation		**(516,405)**	(6,994,009)
Other comprehensive (loss)/income for the year, net of tax		**(516,405)**	(6,994,009)
Total comprehensive loss for the year		**(7,698,566)**	(6,864,389)

Net earnings/(loss) per share		AUD$	AUD$
Net earnings/(loss) attributable to common stockholders, basic and diluted	17(a)	(0.28)	0.01

The accompanying notes form part of these financial statements.

Consolidated balance sheet

	Note	31 December 2019 AUD$	31 December 2018 AUD$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	**4,510,442**	4,400,647
Trade and other receivables	9	**2,969,965**	1,739,466
Inventories	10	**1,856,057**	3,194,154
Prepayments		**490,997**	444,313
TOTAL CURRENT ASSETS		**9,827,461**	9,778,580
NON-CURRENT ASSETS			
Trade and other receivables	9	**65,237**	60,200
Plant and equipment	11	**10,382,252**	10,593,307
Intangible assets	12	**13,626,441**	13,052,325
Right-of-use assets	13	**5,134,356**	-
TOTAL NON-CURRENT ASSETS		**29,208,286**	23,705,832
TOTAL ASSETS		**39,035,747**	33,484,412
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	14	**9,144,085**	5,974,086
Borrowings	15	**6,075,425**	9,718
Provision for employee benefits	16	**820,956**	780,970
Lease liabilities		**385,664**	-
TOTAL CURRENT LIABILITIES		**16,426,130**	6,764,774
NON-CURRENT LIABILITIES			
Trade and other payables	14	**-**	62,319
Borrowings	15	**43,398,744**	45,032,806
Provision for employee benefits	16	**229,744**	152,127
Lease liabilities		**5,207,309**	-
TOTAL NON-CURRENT LIABILITIES		**48,835,797**	45,247,252
TOTAL LIABILITIES		**65,261,927**	52,012,026
NET ASSETS/ LIABILITIES		**(26,226,180)**	(18,527,614)
EQUITY			
Ordinary shares	17	**63,515,902**	63,515,902
Share-based compensation reserve	18	**3,251,515**	3,251,515
Reserves	18	**(7,538,741)**	(7,022,336)
Accumulated losses	19	**(85,454,856)**	(78,272,695)
TOTAL EQUITY		**(26,226,180)**	(18,527,614)

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

	Ordinary Shares	Retained Earnings	Foreign Currency Translation Reserve	Option/Share based compensation Reserve	Total
	AUD$	AUD$	AUD$	AUD$	AUD$
Balance at 1 January 2019	**63,515,902**	**(78,272,695)**	**(7,022,336)**	**3,251,515**	**(18,527,614)**
Loss for the period	**-**	**(7,182,161)**	**-**	**-**	**(7,182,161)**
Other comprehensive loss for the period	**-**	**-**	**(516,405)**	**-**	**(516,405)**
Transactions with owners in their capacity as owners					
Balance at 31 December 2019	**63,515,902**	**(85,454,856)**	**(7,538,741)**	**3,251,515**	**(26,226,180)**
Balance at 1 January 2018	63,521,533	(78,402,315)	(28,327)	3,592,250	(11,316,859)
Profit for the period	-	129,620	-	-	129,620
Other comprehensive loss for the period	-	-	(6,994,009)	-	(6,994,009)
Transactions with owners in their capacity as owners					
Contribution of equity, net of transaction costs	(5,631)	-	-	-	(5,631)
Share based payment transactions	-	-	-	(340,735)	(340,735)
Balance at 31 December 2018	63,515,902	(78,272,695)	(7,022,336)	3,251,515	(18,527,614)

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

	Note	12 months to 31 December 2019 AUD$	12 months to 31 December 2018 AUD$
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers		**25,284,503**	26,132,877
Payments to suppliers and employees		**(17,923,739)**	(23,890,025)
Interest received		**170**	4,375
Finance costs		**(4,860,602)**	(3,860,433)
Income taxes paid		**(232,197)**	(5,589)
Net cash provided by/(used in) operating activities	28	**2,268,135**	(1,618,795)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment		**(828,174)**	(1,049,248)
Purchases of intangible assets		**(1,912,542)**	(1,706,631)
Net cash used in investing activities		**(2,740,716)**	(2,755,879)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Redemption of 2013 Convertible Bonds		**-**	(2,556,308)
Proceeds from bank loans		**-**	43,062,845
Repayment of bank loans		**-**	(32,631,156)
Payment of borrowings cost		**-**	(1,694,966)
Payment of lease liabilities		**(306,957)**	(24,018)
Proceeds of related party loans		**1,300,000**	-
Net cash provided by/(used in) financing activities		**993,043**	6,156,397
Net increase/(decrease) in cash and cash equivalents held		**520,462**	1,781,723
Cash and cash equivalents at beginning of period		**4,400,647**	2,378,950
Effects of exchange rate changes on cash and cash equivalents		**(410,667)**	239,974
Cash and cash equivalents at end of financial year	8	**4,510,442**	4,400,647

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

1 Nature of the Business

This financial report covers the consolidated financial statements and notes of Parnell Pharmaceuticals Holdings Limited (the 'Company') and controlled entities (the 'Group'). The Company is limited by shares and domiciled in Australia, with its shares publicly traded on the OTC Pink® Open Market under the ticker symbol 'PARN' and is a for-profit group.

The Group is a fully integrated veterinary pharmaceutical company focused on developing, manufacturing and commercializing innovative health solutions. The Group markets five products for companion and production animals in 10 countries and augments its pharmaceutical products with its proprietary software platforms.

The principal activities of the Group during the financial period were:

- the manufacture for global sale of animal pharmaceutical product; and
- the research and development of pharmaceutical products for global animal health markets.

The Group is subject to risks common to companies in the biotechnology and pharmaceutical industries. There can be no assurance that the Group's research and development will be successfully completed, that adequate protection for the Group's technology will be obtained, that any products developed will obtain necessary government regulatory approval or that any approved products will be commercially viable. The Group operates in an environment of substantial competition from other animal health companies. In addition, the Group is dependent upon the services of its employees and consultants, as well as third-party contract research organizations and manufacturers.

Each of the entities within the Group prepare their financial statements based on the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

This financial report covers the consolidated financial statements of the Group and were authorised for issue by the directors on January 21, 2021.

2 Summary of Significant Accounting Policies

(a) Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

These financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

2 Summary of Significant Accounting Policies

(b) Going Concern

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

For the year ended 31 December 2019, the Group experienced a loss from continuing operations of AUD ($7,182,161) (2018: AUD profit $129,620) and operating cash inflows of AUD $2,268,135 (2018: AUD outflow of ($1,618,795)) for the year then ended.

The Group has focused on setting the business for future profitability and growth with this seen in the underlying EBITDAOI (excluding one-offs) for 2019 being AUD $6,771,080 (2018: AUD $6,063,803). When you include one-off items the EBITDAOI was AUD $4,107,026 (2018: AUD ($5,648,894).

The Group also at 31 December 2019 has a net liability position of AUD $(26,226,180) (2018: AUD $18,527,614) and a net current liability position of AUD $(6,598,669) (2018: AUD $3,013,806).

During 2018 the Group refinanced the SWK Holdings LL ("SWK") loan facility (USD$20,000,000) with a new USD$32,000,000 term loan from Marathon Healthcare Finance Fund, L.P. and Wilmington Trust, National Association (as the Agent) ("Marathon").

As at December 31, 2019, the Group was in compliance with the financial covenants associated with the Marathon facility, however during 2020 the amortisation of this loan facility commenced and this resulted in the Group entering into an Event of Default.

Since November 2019, the Directors of the Group and their appointed advisors have been working diligently towards a capital solution in recognition that the Company’s cash flows, while substantially improved from 2017 levels, would remain insufficient to accommodate the scheduled July 2020 start of amortization for the Marathon Debt. During this process it became clear that Marathon did not wish to extend or refinance the Marathon Debt but required repayment in full.

The Group’s exhaustively engaged with a wide array of banks, debt and equity funds and potential buyers in the United States, Australia and elsewhere. A debt refinancing proposal by a global bank was on the brink of proceeding in March 2020 only to be negated by the onset of the COVID-19 global pandemic. Concurrently the Company found the wider debt markets to be closed to it, absent a substantial equity injection. Likewise, during COVID-19 companies in our industry have been focused internally, obviating a significant asset sale as an appropriate alternate of meeting the Marathon amortization.

Our lengthy and wide engagement with equity funds yielded a clear front runner in DW Healthcare Partners V, L.P. (“DWHP”), a substantial and successful US based healthcare focused organization.

On December 17th, 2020, the Shareholders of the Group approved a resolution to enter into a capital transaction with DWHP. Of the 12,704,524 shares voted at the Shareholder Meeting, 98.35% voted in favour of the transaction proceeding.

As such, on December 21st,,2020, in return for a 50.01% controlling stake in the Company, DWHP provided a US$28 million plus transaction expenses Convertible Note combined with a third-party senior debt placement to pay out the entire cash component of Marathon Debt, reduce overall indebtedness of the Company including repayment of loans and other monies owed to Management Shareholders, and provide working capital for the Company. As partial consideration for its Royalty Rights under the Marathon Royalty Agreement, Marathon has agreed to accept a 5% shareholding in the Company post-closing.

2 Summary of Significant Accounting Policies

On the same day, DWHP has also commenced a Tender Offer for all shares, excluding Management Shareholders. DWHP is committed to make an Offer for the outstanding public shares of the Company following issuance of the Convertible Note. The Offer, which DWHP intends to make at US$0.40 per Share - a 208% premium to the closing price on November 13, 2020 - will be submitted to Shareholders concurrent with the issuance of the Convertible Note.

On the same day, White Oak Healthcare Finance, LLC ("White Oak") provided the third party senior debt facility. White Oak provided the Group with the following senior secured loan facilities, (A) a US$16 million term facility and (B) a US$4 million revolving facility on the terms and conditions set out in the White Oak Credit Agreement, including the grant of a lien on all assets of the applicable Parnell Group Members and satisfaction of the other conditions precedent to funding under the White Oak Credit Agreement. The proceeds from the White Oak Debt were made available to the relevant Parnell Group members (as borrowers) on the Convertible Note Closing Date concurrent with the issue of the Convertible Note. The proceeds from the Principal Amount and the White Oak Debt were used to:

- repay the Marathon Debt in full;
- pay the Marathon Cash Payment,
- repay certain existing loans owed to the Management Shareholders,
- pay certain transaction expenses, and
- with the balance to be used for working capital and general corporate purposes of the Company.

At the time of signing this Annual Report, the Group had not drawn on any of the US$4 million revolving facility and as such it remains fully available for capital and general corporate purposes.

The Directors and management have a responsibility to prepare the financial statements in accordance with accounting standards, which requires entities to prepare financial statements on a going concern basis unless the directors intend to liquidate the entity, cease trading or have no realistic alternative but to do so. No adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or classification of liabilities that might be necessary should the Group not continue as a going concern. With the recently secured DWHP and White Oak agreements, in conjunction with the continued operational growth of the Company, the Directors and management believe that the Group has sufficient available cashflows for the coming 12 month period and accordingly, have prepared the financial report on a going concern basis.

(c) Critical accounting estimates and judgments

Key estimates

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

Estimated impairment of long life assets

The Group reviews intangible assets and property, plant and equipment for impairment whenever external or internal factors indicate that the carrying amount of the assets may not be fully recoverable. Factors considered in deciding when to perform an impairment review include significant declines in market value, negative outlooks on the industry or economy, obsolescence or damage to the assets, significant underperformance of the business compared to expectations and changes in the use of the assets. If an impairment analysis is performed to evaluate a long-lived asset for recoverability, management compares forecasts of cash flows expected to result from the use and eventual disposition of the long-lived asset to its carrying value. If the expected cash flows are less than the carrying amount an impairment charge would be recognised.

2 Summary of Significant Accounting Policies

(c) Critical accounting estimates and judgments

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The Group has not recognised deferred tax assets relating to carried forward tax losses as at December 31, 2019. However, utilization of the tax losses going forward will depend on the ability of the entity, to satisfy certain tests at the time the losses are recouped.

Lease accounting

Estimates and judgements in relation to lease accounting in accordance with AASB 16 Leases are disclosed in note 13.

Key judgements

The key judgment relating to the Group is the recognition criteria for the capitalization of intangible assets which accounting treatment of these assets has been documented in Note 2(p).

(d) Principles of Consolidation

The consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost.

Intragroup assets, liabilities, equity, income, expenses and cashflows relating to transactions between entities in the consolidated entity have been eliminated in full for the purpose of these financial statements.

Appropriate adjustments have been made to a controlled entity’s financial position, performance and cash flows where the accounting policies used by that entity were different from those adopted by the consolidated entity.

All controlled entities have a December financial year end.

A list of controlled entities is contained in Note 25 to the financial statements.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the parent has control. Control is established when the parent 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 relevant activities of the entity.

(e) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The executive directors are the chief operating decision maker, responsible for allocating resources and assessing performance of the operating segments.

2 Summary of Significant Accounting Policies

(f) Income Tax

The tax expense recognised in the consolidated statement of profit or loss and comprehensive loss relates to current income tax expense plus deferred tax expense (being the movement in deferred tax assets and liabilities and unused tax losses during the year).

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for the year and is measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is provided on temporary differences which are determined by comparing the carrying amounts of tax bases of assets and liabilities to the carrying amounts in the consolidated financial statements.

Deferred tax is not provided for the following:

- The initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).
- Taxable temporary differences arising on the initial recognition of goodwill.
- Temporary differences related to investment in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and losses can be utilised.

Current tax assets and liabilities are offset where there is a legally enforceable right to set off the recognised amounts and there is an intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset where there is a legal right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Current and deferred tax is recognised as income or an expense and included in profit or loss for the period except where the tax arises from a transaction which is recognised in other comprehensive income or equity, in which case the tax is recognised in other comprehensive income/(loss) or equity respectively.

The Company and its wholly-owned Australian controlled entities have formed a tax-consolidated group under the legislation and as a consequence these entities are taxed as a single entity.

2 Summary of Significant Accounting Policies

(g) Revenue and other income

Revenue from contracts with customers

The core principle of AASB 15 is that revenue is recognised on a basis that reflects the transfer of promised goods or services to customers at an amount that reflects the consideration the Group expects to receive in exchange for those goods or services. Revenue is recognised by applying a five-step model as follows:
1. Identify the contract with the customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognise revenue as and when control of the performance obligations is transferred

Specific revenue streams

The revenue recognition policies as described above are applied to the principal revenue streams of the Group, which are:

- Sale of Goods

- Services Revenue

Government tax credit

Government grants, including Australian Research and Development incentives, are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognized as income over the periods necessary to match the grant to the costs they are compensating. Government grants were available to the Group through year end 2017. Beginning in 2018 the Group reached a revenue threshold that precludes it from receiving these government grants. Instead, the Group qualifies for a tax credit for the same amount to be used to reduce taxes payable in future periods. These tax credits are recognised at fair value where there is reasonable assurance that the tax credit will be received, and all necessary conditions are met. Tax credits relating to expense items are recognised as a deferred tax asset.

Interest revenue

Interest is recognised using the effective interest method.

(h) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), which is recoverable from the Australian Taxation Office (ATO).

Receivables and payable are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the consolidated balance sheet.

Cash flows in the consolidated statement of cash flows are included on a gross basis which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

2 Summary of Significant Accounting Policies

(i) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Bank overdrafts also form part of cash and cash equivalents for the purpose of the consolidated statement of cash flows and are presented within current liabilities on the consolidated balance sheet.

(j) Leases

The lease liability is initially measured at the present value of the remaining lease payments at the commencement of the lease. The discount rate is the rate implicit in the lease, however where this cannot be readily determined then the Group's incremental borrowing rate is used.

Subsequent to initial recognition, the lease liability is measured at amortised cost using the effective interest rate method. The lease liability is remeasured whether there is a lease modification, change in estimate of the lease term or index upon which the lease payments are based (e.g. CPI) or a change in the Group's assessment of lease term.

Where the lease liability is remeasured, the right-of-use asset is adjusted to reflect the remeasurement or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

At the lease commencement, the Group recognises a right-of-use asset and associated lease liability for the lease term. The lease term includes extension periods where the Group believes it is reasonably certain that the option will be exercised.

The right-of-use asset is measured using the cost model where cost on initial recognition comprises of the lease liability, initial direct costs, prepaid lease payments, estimated cost of removal and restoration less any lease incentives received.

The right-of-use asset is depreciated over the lease term on a straight-line basis and assessed for impairment in accordance with the impairment of assets accounting policy.

Exceptions to lease accounting

The Group has elected to apply the exceptions to lease accounting for both short-term leases (i.e. leases with a term of less than or equal to 12 months) and leases of low-value assets. The Group recognises the payments associated with these leases as an expense on a straight-line basis over the lease term.

For comparative year

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis over the life of the lease term.

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

(k) Trade receivables

Trade receivables are amounts due from customers for products sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

2 Summary of Significant Accounting Policies

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

(l) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost of inventory is determined using the standard cost basis and are net of any rebates and discounts received.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the costs necessary to make the sale. Net realisable value is estimated using the most reliable evidence available at the reporting date and inventory is written down through an obsolescence provision if necessary.

(m) Property, Plant and Equipment

Classes of property, plant and equipment are measured using the cost model as specified below.

Under the cost model the asset is carried at its cost less any accumulated depreciation and any impairment losses. Costs include purchase price, other directly attributable costs and the initial estimate of the costs of dismantling and restoring the asset, where applicable. Expenditures for repairs and maintenance of assets are charged to expense as incurred.

Expenditures of repairs and maintenance of assets are charged to expense as incurred.

Depreciation

The depreciable amount of all property, plant and equipment is depreciated on a straight-line method from the date that management determine that the asset is available for use.

Assets held under a finance lease and leasehold improvements are depreciated over the shorter of the term of the lease and the assets useful life.

The depreciation rates used for each class of depreciable asset are shown below:

Fixed asset class	Depreciation rate
Plant and Equipment	5% - 33%
Leased plant and equipment	20% - 30%
Office Equipment	10% - 50%

At the end of each annual reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within Other Income and Other Expenses.

2 Summary of Significant Accounting Policies

(m) Property, Plant and Equipment

Capital works in progress of AUD$988,907 relates to enhancements to the manufacturing facility (December 31, 2018: $913,306).

(n) Financial instruments

Financial assets

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification

On initial recognition, the Group classifies its financial assets into the following categories, those measured at:
- amortised cost
- fair value through profit or loss - FVTPL
- fair value through other comprehensive income - equity instrument (FVOCI - equity)
- fair value through other comprehensive income - debt investments (FVOCI - debt)

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets.

Amortised cost

Assets measured at amortised cost are financial assets where:
- the business model is to hold assets to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows are solely payments of principal and interest on the principal amount outstanding.

The Group's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the consolidated balance sheet.

Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest rate method less provision for impairment.

Interest income, foreign exchange gains or losses and impairment are recognised in profit or loss. Gain or loss on derecognition is recognised in profit or loss.

Fair value through other comprehensive income

Equity instruments

The Group has a number of strategic investments in listed and unlisted entities over which are they do not have significant influence nor control. The Group has made an irrevocable election to classify these equity investments as fair value through other comprehensive income as they are not held for trading purposes.

These investments are carried at fair value with changes in fair value recognised in other comprehensive income (financial asset reserve). On disposal any balance in the financial asset reserve is transferred to retained earnings and is not reclassified to profit or loss.

2 Summary of Significant Accounting Policies

(n) Financial instruments

Financial assets

Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI.

Financial assets through profit or loss

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at FVTPL.

Net gains or losses, including any interest or dividend income are recognised in profit or loss (refer to hedging accounting policy for derivatives designated as hedging instruments.)

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Impairment of financial assets

Impairment of financial assets is recognised on an expected credit loss (ECL) basis for the following assets:
- financial assets measured at amortised cost
- debt investments measured at FVOCI

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

The Group uses the presumption that an asset which is more than 30 days past due has seen a significant increase in credit risk.

The Group uses the presumption that a financial asset is in default when:
- the other party is unlikely to pay its credit obligations to the Group in full, without recourse to the Group to actions such as realising security (if any is held); or
- the financial assets is more than 90 days past due.

Credit losses are measured as the present value of the difference between the cash flows due to the Group in accordance with the contract and the cash flows expected to be received. This is applied using a probability weighted approach.

Trade receivables and contract assets

Impairment of trade receivables and contract assets have been determined using the simplified approach in AASB 9 which uses an estimation of lifetime expected credit losses. The Group has determined the probability of non-payment of the receivable and contract asset and multiplied this by the amount of the expected loss arising from default.

2 Summary of Significant Accounting Policies

(n) Financial instruments

Financial assets

The amount of the impairment is recorded in a separate allowance account with the loss being recognised in finance expense. Once the receivable is determined to be uncollectable then the gross carrying amount is written off against the associated allowance.

Where the Group renegotiates the terms of trade receivables due from certain customers, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in profit or loss.

Other financial assets measured at amortised cost

Impairment of other financial assets measured at amortised cost are determined using the expected credit loss model in AASB 9. On initial recognition of the asset, an estimate of the expected credit losses for the next 12 months is recognised. Where the asset has experienced significant increase in credit risk then the lifetime losses are estimated and recognised.

Financial liabilities

The Group classifies financial liabilities into either:

- liabilities measured at fair value through profit or loss; or
- other financial liabilities.

Liabilities measured at fair value through profit or loss comprise of derivative financial instruments and changes in fair value are recorded in profit or loss at each reporting period.

Other financial liabilities are initially recorded at fair value less transaction costs, subsequently financial liabilities are measured at amortised cost using the effective interest rate method. Other financial liabilities comprise trade payables, bank and other loans and finance lease liabilities.

(o) Impairment of non-financial assets

At the end of each reporting period, the Group determines whether there is evidence of an impairment indicator for non-financial assets. Where there is evidence of such an impairment indicator, the recoverable amount of the assets is estimated.

Where assets do not operate independently of other assets, the recoverable amount of the relevant cash-generating unit (CGU) is estimated.

The recoverable amount of an asset or CGU is the higher of the fair value less costs of disposal and the value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Where the recoverable amount is less than the carrying amount, an impairment loss is recognised in the consolidated statement of comprehensive income immediately.

Reversal indicators are considered in subsequent periods for all assets which have suffered an impairment loss, except for goodwill.

2 Summary of Significant Accounting Policies

(p) Intangible Assets

Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of enhancements or extensions of products) are recognised as intangible assets when all of the below criteria exist:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits can be demonstrated;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The Group considers the criteria met for recognizing an intangible asset, usually when a regulatory filing has been made in a major market and approval is considered probable.

The expenditure capitalized comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which is estimated at 10 years.

IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalized include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortization is calculated on a straight-line basis over periods generally ranging from 3 to 5 years.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the group has an intention and ability to use the asset.

(q) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortized cost using the effective interest method.

(r) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

2 Summary of Significant Accounting Policies

(r) Provisions

Provisions are measured at the present value of management's best estimate of the outflow required to settle the obligation at the end of the reporting period. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the unwinding of the discount is taken to finance costs in the consolidated statement of profit or loss and comprehensive loss.

(s) Employee benefits

(i) Short-term obligations

Liabilities for annual leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

The liability for annual leave is recognised in the provision for employee benefits as a current liability.

(ii) Other long-term employee benefit obligations

The liabilities for long service leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period 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 end of the reporting period of corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) Profit-sharing and bonus plans

The Group recognizes a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(t) Borrowings

Secured and unsecured loans have been obtained. Loans that are repayable within 12 months are presented as current liabilities.

The fair value of the liability portion of the convertible notes are determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion or maturity of the notes. The remainder of the proceeds is allocated to the conversion option/warrants. This is recognised separately as a derivative on the balance sheet.

2 Summary of Significant Accounting Policies

(t) Borrowings

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit and loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(u) Capitalised borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

(v) Finance costs

Borrowing costs incurred for the construction or development of any qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(w) Contributed equity

Ordinary shares are classified as equity.

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

(x) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

(y) Net earnings/(loss) per share

(i) Basic net earnings/(loss) per share
Basic net loss per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted net earnings/loss per share
Diluted net loss 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 additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2 Summary of Significant Accounting Policies

(y) Net earnings/(loss) per share

For periods in which the Company has reported net earnings/losses, diluted net income/loss per share attributable to common shareholders is the same as basic net earnings/loss per share attributable to common stockholders, since their impact would be anti-dilutive to the calculation of net earnings/loss per share. Diluted net income/loss per share attributable to common stockholders is the same as basic net earnings/loss per share attributable to common stockholders for the years ended December 31, 2019 and December 31, 2018 respectively.

(z) Foreign currency transactions and balances

Functional and presentation currency

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

Transaction and balances

Foreign currency transactions are recorded at the spot rate on the date of the transaction.

At the end of the reporting period:

- Foreign currency monetary items are translated using the closing rate;
- Non-monetary items that are measured at historical cost are translated using the exchange rate at the date of the transaction; and
- Non-monetary items that are measured at fair value are translated using the rate at the date when fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition or in prior reporting periods are recognised through profit or loss, except where they relate to an item of other comprehensive income or whether they are deferred in equity as qualifying hedges.

Group companies

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

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period where the average rate approximates the rate at the date of the transaction; and
- retained earnings are translated using the historical method.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the consolidated balance sheet. These differences are recognised in the consolidated statement of profit or loss and comprehensive loss in the period in which the operation is disposed.

2 Summary of Significant Accounting Policies

(aa) Adoption of new and revised accounting standards

The Group has applied the following standards and amendments for the first time for their reporting period commencing 1 January 2019:

- AASB 16 Leases
- AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015- 2017 Cycle
- AASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement
- Interpretation 23 Uncertainty over Income Tax Treatments

The impacts of these new standards are disclosed in note 22.

(ab) New Accounting Standards and Interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

3 Revenue and Other Income

	12 months to 31 December 2019 AUD$	12 months to 31 December 2018 AUD$
Sales revenue		
Sale of goods	**25,962,291**	23,950,321
Services revenue	**2,977,478**	2,597,694
	28,939,769	26,548,015

Other Income		
Government grants (a)	**53,799**	149,345
Foreign exchange gain	**30,978**	3,918,855
Interest received	**172**	4,375
Other income	**413**	5,446
	85,362	4,078,021

(a) Government grants

International and domestic government grants/tax incentives recognised during the year totalled $53,799 (12 months ended December 31, 2018: $149,345) and recognised as other income.

4 Expenses

(a) Loss before income tax includes the following specific expenses:

	Note	12 months to 31 December 2019 AUD$	12 months to 31 December 2018 AUD$
Interest expense		**7,647,190**	6,357,317
Borrowing costs		**350,838**	806,819
Amounts capitalised	(b)	**(259,963)**	(169,006)
Finance costs expensed		**7,738,065**	6,995,130
Depreciation		**1,992,588**	1,043,461
Amortisation		**1,411,081**	1,335,427
Employee benefits expense		**10,468,300**	9,203,642
Rental expense relating to operating leases		**125,043**	632,098
Defined contribution superannuation expense		**479,801**	418,320
Impairment/(recovery) of bad debts		**2,222,980**	5,446

(b) Capitalized borrowing costs

The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the entity's outstanding borrowings during the year ended December 31, 2019, in this case 13.25% (year ended December 31, 2018: 13.25%).

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

5 Income Tax Expense

(a) The major components of tax expense comprise:

	12 months to 31 December 2019 AUD$	12 months to 31 December 2018 AUD$
Current tax expense	**26,416**	207,419
Deferred tax expense	**206,401**	-
Income tax expense	**232,817**	207,419

(b) Reconciliation of income tax to accounting profit:

	12 months to 31 December 2019 AUD$	12 months to 31 December 2018 AUD$
Loss before income tax	**(6,949,344)**	337,039
At 30% tax rate	**(2,084,803)**	101,112
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
- Non-assessable research and development income	**(16,140)**	(44,570)
- Non-deductible research and development expenditure	**934,876**	-
- Amount of share issues costs not able to be recognised	**-**	-
- Difference in overseas tax rates	**169,998**	162,725
- Tax losses unrecognised during the year	**3,903,449**	393,489
- Tax losses incurred but not recognised during the year	**(2,674,563)**	(405,337)
Income tax expense	**232,817**	207,419

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

5 Income Tax Expense

	12 months to 31 December 2019 AUD$	12 months to 31 December 2018 AUD$
Unrecorded tax losses		
Potential tax benefit @ 30% for unused tax losses for which no deferred tax asset has been recognised - available for use in Australia	**21,804,512**	14,873,145
Potential tax benefit @ 35% for unused tax losses for which no deferred tax asset has been recognised - available for use in USA	**22,123,706**	11,270,141
	43,928,218	26,143,286
Total tax losses		
Potential tax benefit @ 30% for total Australian tax losses carried forward	**21,804,512**	14,873,145
Potential tax benefit @ 35% for total USA tax losses carried forward	**22,123,706**	11,270,141
	43,928,218	26,143,286
Total unused tax losses	**135,892,294**	81,777,552

The tax losses available for future use in U.S. will expire starting in 2033. The tax losses available for future use in Australia do not expire but are subject to satisfying certain conditions (e.g. same business and continuity of ownership).

(c) **Amounts recognised directly in equity**

Aggregate deferred tax arising in the reporting period are not recognised in net profit or loss or other comprehensive income/(loss) but are directly credited to equity.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

6 Tax

	Opening Balance AUD$	Adoption of AASB 16 AUD$	Charged to Income AUD$	Exchange Differences AUD$	Unrecognized AUD$	Closing Balance AUD$
Deferred tax assets						
Provisions	150,512	-	141,353	-	-	291,865
Accruals	425,729	-	282,954	-	(407,814)	300,869
Intangible assets	-	-	602,628	-	(186,514)	416,114
Research & Development	-	-	723,782	-	-	723,782
Property, plant and equipment	-	-	43,497	-	(991)	42,506
Balance at 31 December 2018	576,241	-	1,794,214	-	(595,319)	1,775,136
Provisions	**291,865**	**-**	**701,751**	**-**	**(993,616)**	**-**
Accruals	**300,869**	**-**	**402,969**	**-**	**(703,838)**	**-**
Intangible assets	**416,114**	**-**	**153,590**	**-**	**(190,326)**	**379,378**
Lease liabilities	**-**	**1,746,331**	**(68,439)**	**-**	**-**	**1,677,892**
Research & development	**723,782**	**-**	**934,876**	**-**	**(1,658,658)**	**-**
Property, plant and equipment	**42,506**	**-**	**(42,506)**	**-**	**-**	**-**
Balance at 31 December 2019	**1,775,136**	**1,746,331**	**2,082,241**	**-**	**(3,546,438)**	**2,057,270**

	Opening Balance AUD$	Adoption of AASB 16 AUD$	Charged to Income AUD$	Exchange Differences AUD$	Unrecognized AUD$	Closing Balance AUD$
Deferred tax liability						
Unrealised foreign exchange	-	-	1,196,245	-	-	1,196,245
Borrowing cost asset	191,366	-	387,525	-	-	578,891
Balance at 31 December 2018	191,366	-	1,583,770	-	-	1,775,136
Unrealised foreign exchange	**1,196,245**	**-**	**(1,158,018)**	**-**	**-**	**38,227**
Right of use asset	**-**	**1,746,331**	**(206,024)**	**-**	**-**	**1,540,307**
Borrowing cost asset	**578,891**	**-**	**(100,155)**	**-**	**-**	**478,736**
Balance at 31 December 2019	**1,775,136**	**1,746,331**	**(1,464,197)**	**-**	**-**	**2,057,270**

During 2019, management evaluated the evidence bearing upon the realizability of its deferred tax assets, which primarily consist of net loss carry forwards. Management considered the facts that the Group has historically not been able to generate income, considered the future forecasts and investment costs of pipeline products, the incurred with the development of an FDA approved manufacturing facility, and the costs completing an initial public offering and other tax planning strategies. Based on the analysis management determined that the Group will not utilize the tax benefit of $43,928,218 as of December 31, 2019 ($32,209,134 as of December 31, 2018) and accordingly did not record these amounts as a deferred tax asset at December 31, 2019 or December 31, 2018. This element of unrecognised future tax benefits will be assessed by management going forward and maybe recorded at a point in which management believes they will be utilised.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

7 Segment Information

Description of segments

The animal health pharmaceutical industry is characterized by meaningful differences in customer needs across different animal species and regions. In addition, our FDA approved sterile manufacturing facility has different operational characteristics. As a result of these differences, among other things, we manage our operations through four separate reportable segments.

Companion Animal

This segment covers the Groups Osteoarthritis portfolios across both Canine and Equine species. It is responsible for sales of our patented product Zydax, along with the complementary product Glyde across Australia, New Zealand, United States, the Middle East and Asia.

Production Animal - U.S.

This segment covers the Groups Reproductive Hormone portfolio across Production Animal in the United States of America. It is responsible for the sales of the first reproductive hormone products approved for the indication of estrous synchronization in both dairy and beef cows in the U.S.

Production Animal - Rest of World

This segment covers the Group's Reproductive Hormone portfolio in Production Animal across all regions outside of the United States of America. It is responsible for the sales of these reproductive hormone products in Australia, New Zealand, the Middle East, Asia and Canada.

Manufacturing Operations

This segment is responsible for the operation of the Group's FDA approved sterile manufacturing facility, the manufacture and release of all of the Groups pharmaceutical products and performing contract manufacturing. The Manufacturing operations are also responsible for increasing factory utilization via exploring future contract manufacturing opportunities.

Review of information by the CODM's

The Executive Directors (which includes the CEO and Chairman), who are the Group's chief operating decision maker's ("CODM's"), use the revenues and the segment results, being Adjusted Earnings Before Interest, Tax, Depreciation, Amortization and Other Income (Adjusted EBITDAOI) of the four segments, among other factors, for performance evaluation of the individual segments and the overall Group, and the allocation of resources.

The CODM's believe that Adjusted EBITDAOI represents the results of our underlying operating segments prior to considering certain income statement elements and other certain significant items, which are not directly associated with the activities of the operating segment.

The basis of calculating Adjusted EBITDAOI is by the removal of certain significant items and also additional items that are substantive and non-operating in nature. The items that are always removed are:

- net foreign exchange losses/(gains) associated with the translation of foreign currency denominated indebtedness over time, which is considered to be a direct result of financing activities that is dependent upon fluctuations in foreign currency rates
- other income which typically include; income from the sale of assets or research and grant income received
- Certain transactions and events where expenses are incurred that are associated with capital structure of the Group or certain significant purchase accounting items that result from business combinations and/or asset acquisitions and divestments.

7 Segment Information

Other Costs and Business Activities

Certain costs are not allocated to our reporting segment results, such as costs associated with the following:

- Corporate overheads, which is responsible for centralized functions such as information technology, facilities, legal, finance, human resources, business development, and procurement. These costs also include compensation costs and other miscellaneous operating expenses not charged to our operating segments, as well as interest and tax income and expense.

These costs are included within 'unallocated' in our segment performance.

Other Assets and Liabilities

We manage our assets and liabilities on a Group basis, not by segment. CODM does not regularly review any asset or liability information by segment and its preparation is impracticable. Accordingly, we do not report asset and liability information by segment.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

7 Segment Information

(a) Segment performance

	Companion Animal AUD$	Production Animal - U.S. AUD$	Production Animal - Rest of World AUD$	Manufacturing Operations AUD$	Unallocated AUD$	Total AUD$
12 months to 31 December 2019						
Revenues						
Products	3,182,135	11,953,031	2,512,446	11,292,157	-	28,939,769
Total Revenues	**3,182,135**	**11,953,031**	**2,512,446**	**11,292,157**	**-**	**28,939,769**
Cost of Sales						
Products	(843,106)	(1,538,012)	(665,334)	(2,070,769)	-	(5,117,221)
Facility costs	-	-	-	(5,552,428)	-	(5,552,428)
Total Costs of Sales	(843,106)	(1,538,012)	(665,334)	(7,623,197)	-	(10,669,649)
Gross Margin	**2,339,029**	**10,415,019**	**1,847,112**	**3,668,960**	**-**	**18,270,120**
Segment Costs	(1,689,500)	(4,121,281)	(347,528)	-	-	(6,158,309)
Adjusted EBITDAOI	**649,529**	**6,293,738**	**1,499,584**	**3,668,960**	**(5,340,731)**	**6,771,080**

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

7 Segment Information

(a) Segment performance

	Companion Animal	Production Animal - U.S.	Production Animal - Rest of World	Manufacturing Operations	Unallocated	Total
	AUD$	AUD$	AUD$	AUD$	AUD$	AUD$
12 months to 31 December 2018						
Revenues						
Products	3,164,565	10,948,222	2,103,915	10,331,313	-	26,548,015
Total revenues	**3,164,565**	**10,948,222**	**2,103,915**	**10,331,313**	**-**	**26,548,015**
Cost of sales						
Products	(836,527)	(1,370,283)	(472,572)	(1,472,417)	-	(4,151,799)
Facility costs	-	-	-	(5,965,411)	-	(5,965,411)
Total Cost of Sales	(836,527)	(1,370,283)	(472,572)	(7,437,828)	-	(10,117,210)
Gross Margin	**2,328,038**	**9,577,939**	**1,631,343**	**2,893,485**	**-**	**16,430,805**
Segment Costs	(1,769,407)	(2,792,931)	(677,742)	-	-	(5,240,080)
Adjusted EBITDAOI	**558,631**	**6,785,008**	**953,601**	**2,893,485**	**(5,126,922)**	**6,063,803**

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

7 Segment Information

(b) Reconciliations

Cost of sales reconciliation

	12 months to 31 December 2019 AUD$	12 months to 31 December 2018 AUD$
Total segment cost of sales	**(10,669,649)**	(10,117,210)
Depreciation and amortization expense	**(934,548)**	(907,407)
Total cost of sales	**(11,604,197)**	(11,024,617)

Reconciliation of Adjusted EBITDAOI result to loss before income tax

	12 months to 31 December 2019 AUD$	12 months to 31 December 2018 AUD$
Adjusted EBITDAOI	**6,771,080**	6,063,803
Non-recurring items	**(441,073)**	(414,909)
Other income/(expense) - net	**85,363**	4,062,163
Provision for doubtful debt	**(2,222,980)**	-
Depreciation	**(1,992,588)**	(1,043,461)
Amortization	**(1,411,081)**	(1,335,427)
Finance costs	**(7,738,065)**	(6,995,130)
Profit/(loss) before income tax	**(6,949,344)**	337,039

The total segment costs and unallocated expenses reconcile to selling and marketing expenses, regulatory expenses and administration expenses on the statement of comprehensive loss less depreciation and amortization.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

7 Segment Information

(b) Reconciliations

A reconciliation of segment and unallocated costs to operating costs provided as follows:

	12 months to 31 December 2019 AUD$	12 months to 31 December 2018 AUD$
Segment and unallocated costs	**(11,499,040)**	(10,367,002)
Depreciation and amortization expense	**(2,469,121)**	(1,471,481)
Non-recurring items	**(441,073)**	(414,909)
Operating costs as presented in the statement of comprehensive profit or loss	**(14,409,234)**	(12,253,392)
Selling and marketing expenses	**(6,159,167)**	(5,240,459)
Regulatory expenses	**(605,813)**	(585,506)
Administration expenses	**(7,644,254)**	(6,427,427)
Operating costs as presented in statement of comprehensive profit or loss	**(14,409,234)**	(12,253,392)

7 Segment Information

(c) Geographical information

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers whereas segment assets are based on the location of the assets.

The Group is domiciled in Australia, with the amount of its revenue from external customers for the year ended December 31, 2019 in Australia totalling $3,448,038 (year ended December 31, 2018: $3,144,347) revenues from external customers in the USA totalling $24,211,942 (year ended December 31, 2018: $22,293,777), revenues from external customers in New Zealand totalling $447,947 (year ended December 31, 2018: $411,377) and the total revenues from external customers in other countries totalling $831,841 (year ended December 31, 2018: $698,514). Segment revenues are based on the country in which the customer is based.

	No of customers 31 December 2019	No of customers 31 December 2018	Total revenues 31 December 2019 AUD$	Total revenues 31 December 2018 AUD$
Major customers				
Production Animal - US	2	2	11,126,002	10,138,204
Manufacturing Operations	1	1	8,313,981	10,331,312

8 Cash and cash equivalents

	31 December 2019 AUD$	31 December 2018 AUD$
Cash on hand	**3,406**	1,103
Cash at bank	**4,507,036**	4,399,544
	4,510,442	4,400,647

(a) Risk exposure

The Group's exposure to interest rate risk is discussed in note 21. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

9 Trade and other receivables

	31 December 2019 AUD$	31 December 2018 AUD$
CURRENT		
Trade receivables	**2,331,872**	1,686,842
Other receivables	**2,860,644**	61,110
Provision for impairment	**(2,222,551)**	(8,486)
	2,969,965	1,739,466

	31 December 2019 AUD$	31 December 2018 AUD$
NON-CURRENT		
Other receivables	**65,237**	60,200
Total non-current	**65,237**	60,200

Non-current other receivables relate to deposits paid by the Group in the ordinary course of business.

(a) Amounts recognised in profit or loss

During the year, the following losses recognised in profit or loss in relation to impaired or provided for receivables.

	Year ended 31 December 2019 AUD$	Year ended 31 December 2018 AUD$
Bad debts written off/(recovered)	**429**	5,446
Provision for doubtful debts	**2,222,551**	-
	2,222,980	5,446

9 Trade and other receivables

Credit risk

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties. The class of assets described as 'trade and other receivables' is considered to be the main source of credit risk related to the Group.

On a geographical basis, the Group has significant credit risk exposures in Australia, New Zealand, Canada and United States of America given the substantial operations in those regions. The Group's exposure to credit risk for receivables at the end of the reporting period in those regions is as follows:

	31 December 2019 AUD$	31 December 2018 AUD$
Australia	**372,295**	386,640
United States of America	**1,417,963**	1,205,329
	1,790,258	1,591,969

The following table details the Group's trade and other receivables exposure to credit risk (prior to collateral and other credit enhancements) with aging analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, within the terms and conditions agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there is objective evidence indicating that the debt may not be fully repaid to the Group.

The balances of receivables that do not remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

	Past due but not impaired (days overdue)			
	< 30 AUD$	31-60 AUD$	61-90 AUD$	> 90 AUD$
31 December 2019				
Trade and term receivables	**390,378**	**40,865**	**196,239**	**15,620**
31 December 2018				
Trade and term receivables	268,160	17,404	11,599	51,230

The Group does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

The other classes of receivables do not contain impaired assets.
The carrying value of trade and other receivables is considered a reasonable approximation of fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable in the financial statements.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

9 Trade and other receivables

(b) Impairment of receivables

The Group applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance provision as at 31 December 2019 is determined as follows, the expected credit losses incorporate forward looking information.

31 December 2019	Current	< 30 days overdue	< 90 days overdue	> 90 days overdue	Total
Expected loss rate (%)	-	-	-	-	-
Gross carrying amount ($)	-	-	-	-	-
ECL provision	-	-	-	-	-

31 December 2018	Current	< 30 days overdue	< 90 days overdue	> 90 days overdue	Total
Expected loss rate (%)	-	-	-	-	-
Gross carrying amount ($)	-	-	-	-	-
ECL provision	-	-	-	-	-

10 Inventories

	31 December 2019 AUD$	31 December 2018 AUD$
CURRENT		
Raw materials and consumables	**867,067**	1,647,374
Work in progress	**301,441**	683,253
Finished goods	**687,549**	863,527
	1,856,057	3,194,154

Write downs of inventories to net realizable value during the year were $ 157,449 (year ended December 31, 2018: $Nil).

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

11 Plant and equipment

	31 December 2019 AUD$	31 December 2018 AUD$
Capital works in progress		
At cost	**1,882,005**	913,306
Plant and equipment		
At cost	**16,013,635**	15,928,175
Accumulated depreciation	**(7,622,588)**	(6,384,715)
Total plant and equipment	**8,391,047**	9,543,460
Leased plant and equipment		
Capitalised leased assets	**325,801**	325,801
Accumulated depreciation	**(325,801)**	(325,801)
Total leased plant and equipment	**-**	-
Office equipment		
At cost	**686,822**	904,842
Accumulated depreciation	**(577,622)**	(768,301)
Total office equipment	**109,200**	136,541
Total plant and equipment	**10,382,252**	10,593,307

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

11 Plant and equipment

(a) Movements in carrying amounts of plant and equipment

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

Consolidated	Capital Works in Progress AUD$	Plant and Equipment AUD$	Office Equipment AUD$	Total AUD$
Year ended 31 December 2019				
Balance at the beginning of year	**913,306**	**9,543,460**	**136,541**	**10,593,307**
Additions	**988,907**	**65,079**	**49,262**	**1,103,248**
Transfers	**-**	**16,083**	**(16,083)**	**-**
Disposals	**(20,208)**	**-**	**3,887**	**(16,321)**
Foreign exchange movements	**-**	**5,350**	**(2,660)**	**2,690**
Depreciation expense	**-**	**(1,238,925)**	**(61,747)**	**(1,300,672)**
Balance at the end of the year	**1,882,005**	**8,391,047**	**109,200**	**10,382,252**

Consolidated	Capital Works in Progress AUD$	Plant and Equipment AUD$	Office Equipment AUD$	Total AUD$
Year ended 31 December 2018				
Balance at the beginning of year	911,536	9,546,904	134,943	10,593,383
Additions	930,068	-	12,457	942,525
Transfers	(934,243)	923,189	11,054	-
Foreign exchange movements	5,945	31,631	63,284	100,860
Depreciation expense	-	(958,264)	(85,197)	(1,043,461)
Balance at the end of the year	913,306	9,543,460	136,541	10,593,307

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

12 Intangible Assets

	31 December 2019 AUD$	31 December 2018 AUD$
Development costs		
Cost	**37,199,394**	34,964,036
Grants (b)	**(10,507,789)**	(10,355,187)
Impairment and disposal	**-**	(5,537,703)
Accumulated amortisation	**(13,088,024)**	(6,064,454)
Total development costs	**13,603,581**	13,006,692
Computer software		
Cost	**282,280**	334,209
Accumulated amortisation	**(259,420)**	(288,576)
Total computer software	**22,860**	45,633
Total Intangibles	**13,626,441**	13,052,325

(a) Movements in carrying amounts of intangibles

Consolidated	Development costs AUD$	Computer software AUD$	Total AUD$
Year ended 31 December 2019			
Balance at the beginning of the year	**13,006,692**	**45,633**	**13,052,325**
Additions	**1,925,267**	**-**	**1,925,267**
Amortisation	**(1,388,427)**	**(22,654)**	**(1,411,081)**
Foreign exchange movements	**60,049**	**(119)**	**59,930**
Closing value at 31 December 2019	**13,603,581**	**22,860**	**13,626,441**
Year ended 31 December 2018			
Balance at the beginning of the year	12,120,999	47,715	12,168,714
Additions	1,102,899	23,959	1,126,858
Amortisation	(998,685)	(30,741)	(1,029,426)
Foreign exchange movements	781,479	4,700	786,179
Closing value at 31 December 2018	13,006,692	45,633	13,052,325

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

13 Leases

The Group has applied AASB 16 using the modified retrospective (cumulative catch-up) method and therefore the comparative information has not been restated and continues to be reported under AASB 117 and related Interpretations.

The Group as a lessee

The Group has leases over a range of assets including land and buildings, vehicles, machinery and IT equipment.

The Group has chosen not to apply AASB 16 to leases of intangible assets.

Information relating to the leases in place and associated balances and transactions are provided below.

Terms and conditions of leases

The Group leases various offices, warehouses and equipment under non cancellable operating leases expiring within 6 months to 3 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of these leases are renegotiated. In September of 2019 the Group signed an extension to the lease for the US Office in Overland Park, Kansas. The lease terminates in April 2022, with renewal options through 2024.

In July of 2018 the Group signed an extension to the lease for the Manufacturing facility in Sydney. This lease terminates in June 2028, with renewal options though 2050.

Right-of-use assets

	Property AUD$
Year ended 31 December 2019	
Additions	**5,824,936**
Depreciation expense	**(690,580)**
Balance at end of year	**5,134,356**

Lease liabilities

The maturity analysis of lease liabilities based on contractual discounted cash flows is shown in the table below:

	< 1 year AUD$	1 - 5 years AUD$	> 5 years AUD$	Total undiscounted lease liabilities AUD$	Lease liabilities included in this Consolidated Balance Sheet AUD$
2019					
Lease liabilities	**385,664**	**2,038,132**	**3,118,211**	**5,542,007**	**5,592,973**

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

13 Leases

Extension options

A number of the building leases contain extension options which allow the Group to extend the lease term by up to twice the original non-cancellable period of the lease.

The Group includes options in the leases to provide flexibility and certainty to the Group operations and reduce costs of moving premises and the extension options are at the Group's discretion.

At commencement date and each subsequent reporting date, the Group assesses where it is reasonably certain that the extension options will be exercised.

There are no potential future lease payments which are included in lease liabilities as the Group has assessed that the exercise of the option is not reasonably certain.

Consolidated statement of profit or loss and comprehensive loss

The amounts recognised in the consolidated statement of profit or loss and comprehensive loss relating to leases where the Group is a lessee are shown below:

	2019
	AUD$
Interest expense on lease liabilities	711,550
Depreciation of right-of-use assets	690,580
	1,402,130

Consolidated statement of cash flows

	2019
	AUD$
Total cash outflow for leases	990,667

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

14 Trade and other payables

	31 December 2019 AUD$	31 December 2018 AUD$
CURRENT		
Trade payables	**5,561,521**	3,816,566
Accrued expenses	**2,664,524**	1,711,113
Other payables	**918,040**	446,407
Total current trade and other payables	**9,144,085**	5,974,086
NON-CURRENT		
Deferred lease incentive	**-**	62,319
Total non-current trade and other payables	**-**	62,319

All the carrying values are considered to be a reasonable approximation of fair value.

(a) Risk exposure

Information about the Group's exposure to foreign exchange risk is provided in note 21.

15 Borrowings

	Note	31 December 2019 AUD$	31 December 2018 AUD$
CURRENT			
Secured liabilities:			
Loan facility		**6,065,990**	-
Lease liability		**9,435**	9,718
Total current borrowings		**6,075,425**	9,718
NON-CURRENT			
Secured liabilities:			
Loan facility		**43,624,986**	46,962,442
Related party		**1,369,545**	-
		44,994,531	46,962,442
Less: borrowing costs attributable to loan facility		**(1,595,787)**	(1,929,636)
Total non-current borrowings		**43,398,744**	45,032,806

As at December 31, 2019, the Company had borrowings related to a term-loan of $49,690,976 (December 31, 2018: $46,962,442) and the 2013 Parnell Bonds of $Nil (December 31, 2018: $Nil). The Company had lease liabilities that are secured by the related leased assets of $9,435 (December 31, 2018: $9,718).

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

15 Borrowings

Loan Facility

2018 Term Loan Facility

In July of 2018, the Group entered into a credit arrangement with U.S. based lenders, Marathon Healthcare Finance Fund, L.P. and Wilmington Trust, National Association (as the Agent) for a USD $32,000,000 senior security facility. The credit facility was utilized to pay off our previous senior debt facility with SWK Holdings LLC, which was due to mature in 2020, as well as the Group's 2013 Parnell Bonds. Following the payment of fees and associated costs of establishing this new credit facility of approximately USD $1,256,701, USD$2,153,570 of funds were immediately available for working and growth capital. The credit facility contained two financial covenants requiring the Company to maintain a ratio of Employee Priority Liabilities not to excel 70% of the book value of inventory, and for the EBITDA for the most recent four Fiscal Quarters be greater than the minimum set forth in a schedule within the newly formed credit agreement. At December 31, 2019 the Group was in compliance with these covenants.

Additionally, during the period, the Group received loans from related parties to the value of $1,300,000 which accrued interest at 7% p.a.

2013 Parnell Bonds

	31 December 2019 AUD$	31 December 2018 AUD$
CURRENT		
Face value of bonds	-	4,300,000
Bond redemptions	-	(4,300,000)
Interest expense - current year**	-	457,697
Interest expense - brought forward	-	274,188
Interest paid	-	(731,885)

The 2013 Parnell Bonds were repaid in 2018 with funds from the term loan facility. As of December 31, 2018 there are no bonds outstanding and no bonds were issued during the year ended December 31, 2019.

** Interest expense is calculated by applying the effective interest rate of 10% for the 2013 Parnell bonds.

16 Provision for Employee Benefits

	31 December 2019 AUD$	31 December 2018 AUD$
CURRENT		
Annual leave	**664,405**	631,548
Long service leave	**156,551**	149,422
Total current employee benefits	**820,956**	780,970
NON-CURRENT		
Long service leave	**229,744**	152,127

Notes to the Consolidated Financial Statements
For the Fiscal Period Ended 31 December 2019

17 Ordinary shares

	31 December 2019 AUD$	31 December 2018 AUD$
Ordinary Class shares	**63,515,902**	63,515,902
Total	**63,515,902**	63,515,902

Movements in ordinary share capital

Date	Details	No of shares	Issue price AUD$	AUD$
31/12/16	**Balance**	**18,145,760**		**63,522,251**
31/3/17	Adjustment to equity issue costs			6,436
30/6/17	Cancellation of Employee share issuance	(108,405)		
31/8/17	Employee share issuance	667		-
30/9/17	Employee share issuance	300		-
30/9/17	Shares bought back	(10,288)		(7,154)
31/12/17	**Balance**	**18,028,034**		**63,521,533**
31/10/18	Return of shares	(4,420)		(5,631)
31/12/2018	**Balance**	**18,023,614**		**63,515,902**
31/12/2019	Nil movement	-		-
31/12/2019	**Balance**	**18,023,614**		**63,515,902**

On June 18, 2014, the Company completed an initial public offering of 5,000,000 shares on the NASDAQ Global Market at a share price of USD$10.00 (AUD$10.61) per share resulting in proceeds of AUD$53,067,289. The proceeds were partially offset by commissions and issuance costs of AUD$5,724,638 for net proceeds of AUD$47,363,267.

On May 17, 2016, the Company completed a secondary public offering of 2,550,000 shares on the NASDAQ at a share price of USD$1.65 per share resulting in gross proceeds of USD$4,207,500. The proceeds were partially offset by commissions and issuance costs of USD$252,450 for net proceeds of USD$3,955,050.

On June 8, 2016, the underwriters of the secondary public offering elected to take-up 380,500 overallotment shares on the NASDAQ at a share price of USD$1.65 per share resulting in gross proceeds of USD$627,825. The proceeds were partially offset by commissions and issuance costs of USD$37,669 for net proceeds of USD$590,156.

There were no other movements in other classes of ordinary shares in 2015, 2014 and 2013, other than those previously discussed in the notes to the consolidated financial statements.

Ordinary shares of the Company have no par value.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

17 Ordinary shares

(a) Net earnings/(loss) per share

Basic and diluted net loss per share calculated for the Group have been disclosed in the Statements of Comprehensive Loss.

A reconciliation of the net loss used in calculating net loss per share is included below:

	12 months to 31 December 2019 AUD$	12 months to 31 December 2018 AUD$
Basic and diluted net loss per share		
Net Profit/(Loss) for the year	**(7,182,161)**	129,620

A calculation of the weighted average number of shares used for the denominator is included below:

	12 months to 31 December 2019	12 months to 31 December 2018
Weighted average number of ordinary shares used in the basic and diluted net loss per share calculation	**18,023,614**	18,027,295

(b) Capital Management

	31 December 2019 AUD$	31 December 2018 AUD$
Total Liabilities	**65,261,927**	52,012,026
Total Equity	**(26,226,180)**	(18,527,614)
Debt-to-Equity Ratio	**(2.49)**	(2.81)

18 Reserves

	12 months to 31 December 2019 AUD$	12 months to 31 December 2018 AUD$
Foreign currency translation reserve		
Opening balance	**(7,022,336)**	(28,327)
Currency translation differences arising during the period	**(516,405)**	(6,994,009)
	(7,538,741)	(7,022,336)
Share-based compensation reserve		
Opening balance	**3,251,515**	3,592,250
Share-based compensation expense	**-**	(340,735)
	3,251,515	3,251,515

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

18 Reserves

(a) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income - foreign currency translation reserve. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

19 Accumulated Losses

	12 months to 31 December 2019 AUD$	12 months to 31 December 2018 AUD$
Accumulated losses at the beginning of the financial period	**(78,272,695)**	(78,402,315)
(Loss)/profit for the period	**(7,182,161)**	129,620
Accumulated losses at end of the financial period	**(85,454,856)**	(78,272,695)

20 Capital and Leasing Commitments

(a) Operating Leases

	31 December 2019 AUD$	31 December 2018 AUD$
Minimum lease payments under non-cancellable operating leases:		
- not later than one year	-	975,570
- between one year and five years	-	3,445,911
- later than five years	-	3,831,930
	-	8,253,411

Refer to note 13 for information on leases for the year ended 31 December 2019.

21 Financial Risk Management

The Group is exposed to a variety of financial risks through its use of financial instruments.

This note discloses the Group‘s objectives, policies and processes for managing and measuring these risks.

The Group‘s overall risk management plan seeks to minimize potential adverse effects due to the unpredictability of financial markets.

The Group does not speculate in financial instruments.

The most significant financial risks to which the Group is exposed to are described below:

Specific risks

- Market risk - currency risk and cash flow interest rate risk
- Credit risk
- Liquidity risk

Financial instruments used

The principal categories of financial instrument used by the Group are:

- Trade receivables
- Cash at bank
- Trade and other payables
- Loan facility
- Finance leases

Objectives, policies and processes

Risk management is carried out by the Group’s Risk Management Committee under the delegated power from the Board of Directors. The Finance Manager has primary responsibility for the development of relevant policies and procedures to mitigate the risk exposure of the Group, these policies and procedures are then approved by the risk management committee and tabled at the board meeting following their approval.

Reports are presented at each Board meeting regarding the implementation of these policies and any risk exposure which the Risk Management Committee believes the Board should be aware of.

Specific information regarding the mitigation of each financial risk to which Group is exposed is provided below.

Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group and arises principally from the Group's receivables.

It is the Group’s policy that all customers who wish to trade on credit terms undergo a credit assessment process which takes into account the customer’s financial position, past experience and other factors. Credit limits are then set based on ratings in accordance with the limits set by the Board of Directors, these limits are reviewed on a regular basis.

21 Financial Risk Management

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The Group maintains cash and marketable securities to meet its liquidity requirements for up to 30-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business.

Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day period are identified monthly.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

21 Financial Risk Management

Liquidity risk

At the reporting date, these reports indicate that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

The Group's liabilities have contractual maturities which are summarized below:

	Not later than 1 month		1 to 3 months		3 months to 1 year		1 to 5 years	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
	AUD$	**AUD$**	**AUD$**	**AUD$**	**AUD$**	**AUD$**	**AUD$**	**AUD$**
Trade payables	**5,561,521**	3,816,566	**-**	-	**-**	-	**-**	-

21 Financial Risk Management

Market risk

(i) Foreign currency sensitivity

Most of the Group's transactions are carried out in Australian Dollars. Exposures to currency exchange rates arise from the Group's overseas sales and purchases, which are primarily denominated in US dollars, Canadian dollars and New Zealand dollars.

To mitigate the Group's exposure to foreign currency risk, non-Australian Dollar cash flows are monitored in accordance with Group's risk management policies.

In order to monitor the effectiveness of this policy, the Board receives a monthly report showing the settlement date of transactions denominated in non-Australian Dollar currencies and expected cash reserves in that currency.

Foreign currency denominated financial assets and liabilities, translated into Australian Dollars at the closing rate, are as follows:

	Consolidated				
	USD	**CAD**	**CHF**	**GBP**	**NZD**
31 December 2019	**$**	**$**	**$**	**$**	**$**
Trade receivables	**1,417,963**	**-**	**-**	**-**	**33,188**
Borrowing cost asset	**1,943,958**	**-**	**-**	**-**	**-**
Trade payables	**(407,433)**	**-**	**-**	**-**	**-**
Loan facility	**(50,005,944)**	**-**	**-**	**-**	**-**
31 December 2018					
Trade receivables	1,205,329	-	-	-	32,851
Borrowing cost asset	1,929,636	-	-	-	-
Trade payables	(2,140,635)	(55)	-	-	-
Loan facility	(46,962,442)	-	-	-	-

The following table illustrates the sensitivity of the net result for the period and equity in regards to the Group's financial assets and financial liabilities and the US Dollar, Canadian Dollar and New Zealand Dollar to the Australian dollar exchange rate. There have been no changes in the assumptions calculating this sensitivity from prior periods.

It assumes a +/- 10% change of the Australian Dollar/foreign currency exchange rate for the period ended 31 December 2019 (31 December 2018: 10%). This percentages has been determined based on the average market volatility in exchange rates in the previous 12 months.

The sensitivity analysis is based on the foreign currency financial instruments held at the reporting date.

21 Financial Risk Management

If the Australian dollar had strengthened and weakened against the following currencies by 10% (31 December 2018: 10%) then this would have had the following impact:

	31 December 2019		31 December 2018	
	+10%	**-10%**	**+10%**	**-10%**
USD				
Net results/equity impact	**4,265,554**	**(4,692,110)**	4,178,919	(4,569,881)
CAD				
Net results/equity impact	**-**	**-**	5	(5)
NZD				
Net results/equity impact	**(3,017)**	**3,319**	(2,986)	3,285

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to foreign currency risk.

(ii) Cash flow interest rate sensitivity

The 2018 Term Loan facility is a fixed rate facility; as such there is no interest sensitivity on this facility.

Credit risk

Credit risk refers to the risk that counterparties will default on its contractual obligations resulting in a financial loss to the Group.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposure to wholesale and retail customers, including outstanding receivables and committed transactions.

The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The utilization of credit limits by customers is regularly monitored by line management. Customers who subsequently fail to meet their credit terms are required to make purchases on a prepayment basis until creditworthiness can be re-established.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The five largest trade receivables balance total $1,524,748 as at December 31, 2019 (December 31, 2018: $1,156,160).

The Board receives monthly reports summarising the turnover, trade receivables balance and aging profile of each of the key customers individually and the Group's other customers analyzed by industry sector as well as a list of customers currently transacting on a prepayment basis or who have balances in excess of their credit limits. Refer to Note 7.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

21 Financial Risk Management

Credit risk

Management considers that all the financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Credit quality

	31 December 2019 AUD$	31 December 2018 AUD$
Cash at bank - Fitch Ratings		
BBB+	**478,055**	808,967
A	**1,177,605**	758,045
AA-	**2,854,782**	2,833,635
	4,510,442	4,400,647

21 Financial Risk Management

Fair value estimation

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the consolidated balance sheet. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgment and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

	31 December 2019		31 December 2018	
	Net Carrying Value	Net Fair value	Net Carrying Value	Net Fair value
	AUD$	AUD$	AUD$	AUD$
Financial liabilities				
Long term loan	**49,690,976**	**56,275,030**	46,962,442	53,184,966
	49,690,976	**56,275,030**	46,962,442	53,184,966

22 Change in Accounting Policy

During the year AASB 16 Leases was adopted. Refer to note 2(j) for the updated accounting policies which have been adopted. The following adjustments were noted on implementation:

	Previously stated	1 January 2019 Adjustments	Restated
	AUD$	AUD$	AUD$
Consolidated balance sheet			
Right-of-use assets	-	5,824,936	5,824,936
Total non-current assets	23,705,832	5,824,936	29,530,768
Total assets	33,484,412	5,824,936	39,309,348
Lease liability - current	-	282,928	282,928
Total current liabilities	6,764,774	282,928	7,047,702
Lease liability - non-current	-	5,542,008	5,542,008
Total non-current liabilities	45,247,252	5,542,008	50,789,260
Total liabilities	52,012,026	5,824,936	57,836,962
Net assets	(18,527,614)	-	(18,527,614)

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

23 Key Management Personnel Disclosures

Key management personnel remuneration included within employee expenses for the year is shown below:

	12 months to 31 December 2019	12 months to 31 December 2018
	AUD$	AUD$
Short-term employee benefits	**958,667**	986,449
Long-term benefits	**6,825**	6,824
Share-based payments	**-**	30,698
	965,492	1,023,971

For the purposes of this note, Key Management Personnel has been assessed as being the Board of Directors, which includes the Chief Executive Officer and the Chief Financial Officer.

Other key management personnel transactions

For details of other transactions with key management personnel, refer to Note 27: Related Party Transactions.

24 Remuneration of Auditors

	12 months to 31 December 2019	12 months to 31 December 2018
	AUD$	AUD$
Remuneration of the auditor of the parent entity, PricewaterhouseCoopers Australia, for:		
- auditing or reviewing the financial report	**180,827**	209,500
- taxation services	**22,950**	12,500
Total remuneration of PricewaterhouseCoopers Australia	**203,777**	222,000

25 Interests in Subsidiaries

The parent entity within the Group is Parnell Pharmaceuticals Holdings Limited, which changed its name from Parnell Pharmaceuticals Holdings Pty Limited on June 6, 2014 upon becoming a public entity. There is no ultimate parent entity above the Group.

(a) Composition of the Group

	Principal place of business / Country of Incorporation	Percentage Owned (%)* 31 December 2019	Percentage Owned (%)* 31 December 2018
Subsidiaries:			
Parnell Technologies Pty Limited	Australia	**100**	100
Parnell Pharmaceuticals Pty Limited	Australia	**100**	100
Parnell, Inc.	United States of America	**100**	100
Parnell Technologies NZ Pty Limited	Australia	**100**	100
Parnell Technologies (UK) Limited	United Kingdom	**100**	100
Australian Pharma Services Pty Limited	Australia	**100**	100

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

25 Interests in Subsidiaries

(a) Composition of the Group

	Principal place of business / Country of Incorporation	Percentage Owned (%)* 31 December 2019	Percentage Owned (%)* 31 December 2018
Parnell Manufacturing Pty Limited	Australia	**100**	100
Parnell Corporate Services Pty Limited	Australia	**100**	100
Parnell Australia Pty Limited	Australia	**100**	100
Parnell North America Pty Limited	Australia	**100**	100
Parnell Europe Pty Limited	Australia	**100**	100
Parnell NZ Co Limited	New Zealand	**100**	100
Parnell Corporate Services U.S., Inc.	United States of America	**100**	100
Parnell U.S. 1, Inc.	United States of America	**100**	100
Veterinary Investigative Services, Inc.	United States of America	**100**	100

*The percentage of ownership interest held is equivalent to the percentage voting rights for all subsidiaries.

26 Contingencies

In the opinion of management, the Group did not have any material contingencies at December 31, 2019 (December 31, 2018: None).

27 Related Parties

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

Transaction with related parties:

	12 months to 31 December 2019 AUD$	12 months to 31 December 2018 AUD$
Contributions to superannuation funds on behalf of employees	**479,801**	418,401
Rental and outgoings amounts paid to a Company controlled by a director	**745,813**	784,567
Interest paid/payable to associated connected to related parties for the 2013 Parnell Bonds	**-**	144,471
Consultancy fees paid to a director	**-**	12,387

In 2018 the Parnell bonds were repaid in full.

The Company did not issue any Restricted Stock Units during the year ended 2019, 2018 (Nil), 2017 (Nil), 2016 (13,386). Additionally, the Company did not issue any stock options during the year ended December 31, 2019, 2018 (Nil), 2017 (Nil), 2016 (31,949).

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

27 Related Parties

Related Parties

The Group's main related parties are as follows:

(i) 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.

For the purposes of this note, Key Management Personnel has been assessed as being the Board of Directors.

For details of remuneration disclosures relating to key management personnel, refer to Note 23: Interests of Key Management Personnel (KMP).

Other transactions with KMP and their related entities are shown below.

(ii) Subsidiaries:

The consolidated financial statements include the financial statements of Parnell Pharmaceuticals Holdings Ltd and those entities disclosed in note 25.

(b) Loans from Directors

Unsecured loans are made by the directors on an arm's length basis. Loans are unsecured and repayable in cash.

	Opening balance AUD$	Closing balance AUD$	Interest paid/payable AUD$
Loans from Directors			
31 December 2019	-	**1,300,000**	**69,545**
31 December 2018	-	-	-

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

28 Cash Flow Information

Reconciliation of result for the year to cashflows from operating activities

Reconciliation of net income to net cash provided by operating activities:

	12 months to 31 December 2019	12 months to 31 December 2018
	AUD$	AUD$
Net profit/(loss) attributable to members	(7,182,161)	129,620
Cash flows excluded		
- Non-cash interest income	-	(57,512)
- Non-cash interest expense	2,836,675	4,234,583
Non-cash flows in profit:		
- depreciation and amortization	3,137,083	2,653,028
- Stock compensation expense	466,054	203,596
- Other operating expenses	534,511	828,160
- net exchange differences	153,945	(4,761,423)
Changes in assets and liabilities:		
- (increase)/decrease in trade and other receivables	(1,233,231)	845,242
- (increase)/decrease in inventories	1,356,774	(936,380)
- (increase)/decrease in deferred tax asset	-	201,830
- (increase)/decrease in other assets	(906,214)	(1,413,276)
- increase/(decrease) in capitalized debt interest	-	(731,885)
- increase/(decrease) in trade and other payables	3,104,699	(1,124,984)
- increase/(decrease) in deferred revenue	-	(1,689,394)
Net cash used in operating activities	2,268,135	(1,618,795)

(a) Changes in liabilities arising from financing activities

			Non-cash changes			
	2018	Cash flows	Foreign exchange movement	Fair value changes	Other non-cash movement	2019
	$	$	$	$	$	$
Long term borrowings	46,962,442	-	348,565	-	2,379,969	49,690,976
Deferred lease liability	-	(282,928)	-	-	5,824,936	5,542,008
Lease liabilities	9,718	(24,029)	-	-	23,746	9,435
Related party loans	-	1,300,000	-	-	69,545	1,369,545
Total liabilities from financing activities	46,972,160	993,043	348,565	-	8,298,196	56,611,964

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

28 Cash Flow Information

(a) Changes in liabilities arising from financing activities

			Non-cash changes			
	2017	Cash flows	Foreign exchange movement	Fair value changes	Other non-cash movement	2018
	$	$	$	$	$	$
Long term borrowings	29,693,494	10,431,689	3,121,645	-	3,715,614	46,962,442
2013 Parnell bonds	3,119,188	(2,556,308)	(562,880)	-	-	-
Lease liabilities	9,990	(24,018)	-	-	23,746	9,718
Total liabilities from financing activities	32,822,672	7,851,363	2,558,765	-	3,739,360	46,972,160

(b) Net debt

	2019	2018
	$	$
Cash and cash equivalents	**4,510,441**	4,400,647
Borrowings-repayable after one year	**(43,624,986)**	(46,962,442)
Net debt	**(39,114,545)**	(42,561,795)
Cash and liquid investments	**4,510,441**	4,400,647
Gross fixed debt	**(43,624,986)**	(46,962,442)
Net debt	**(39,114,545)**	(42,561,795)

29 Share-based Payments

The Company established the 2014 Omnibus Equity Incentive Plan (the "2014 Plan") in June 2014 to allow for the issuance of up to 1,500,000 shares to officers and employees, and other individuals, including non-employee directors. The Company amended the Plan in May 2015 increasing the available shares for issuance to 3,000,000 shares. The Company may issue share options, share awards, share units, performance shares, performance units, and other share-based awards to eligible individuals. The 2014 Plan is administered by the Company's board of directors. All awards are evidenced by a written agreement between the Company and the holder of the award. The board of directors has the authority to construe or interpret the terms of the 2014 Plan and awards granted under the 2014 Plan.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2019

29 Share-based Payments

Pursuant to the 2014 Plan the board of directors approved the initial issuance of stock option and restricted stock units during the year ended December 31, 2017.

The fair value of each share option is estimated on the date of grant using the Black-Scholes option-pricing model. The Company historically has been a private company and lacks company-specific historical and implied volatility information. Therefore, it estimates its expected share volatility based on the historical volatility of its publicly traded peer companies and expects to do so until such time as it has adequate historical data regarding the volatility of its own traded share price. The risk-free interest rate is determined by reference to the appropriate reserve bank yield in effect at the time of grant of the award for time periods approximately equal to the expected term of the award. The expected term is determined based on the life of the grant of 10 years. Expected dividend yield is based on the fact that the Company has never paid cash dividends and does not expect to pay any cash dividends in the foreseeable future. The fair value of the underlying ordinary shares is determined by the closing price of our ordinary shares on the OTC Pink® Open Market. The fair value of the share options was estimated using the following assumptions:

	12 months ended December 31, 2019	12 months ended December 31, 2018
Share price at grant date per ordinary share	N/A	N/A
Risk free interest rate	N/A	N/A
Expected term (in years)	N/A	N/A
Expected volatility	N/A	N/A
Expected dividend yield	zero	zero

If any assumptions used in the option-pricing model changed significantly, share-based compensation for future awards may differ materially from the awards granted previously.

The following table summarizes share option activity for the year ended December 31, 2019:

	Shares Issuable Under Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2018	49,931	4.44	1	-
Granted	-	-		-
Exercised	-	-	-	-
Expired or forfeited	(49,931)	-	-	-
Outstanding as of December 31, 2019	-	-	-	-
Options vested and expected to vest, as of December 31, 2019	-	-		

The aggregate intrinsic value of share options is calculated as the difference between the exercise price of the share options and the fair value of the Company's ordinary shares for those share options that had exercise prices lower than the fair value of the Company's ordinary shares.

There were no options exercised during the years ended December 31, 2019 and December 31, 2018. The Company did not receive cash proceeds from stock option exercises for the years ended December 31, 2019 and December 31, 2018.

29 Share-based Payments

In addition to the stock options described above, the Company has granted service-based RSU's to its employees. RSU's are valued at the fair value of the underlying ordinary shares as of the date of the grant. The following table summarizes restricted stock unit activity for the year ended December 31, 2019:

	Number of Restricted Share Units	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2018	368,379	1.05	-	-
Granted	-	-	-	-
Exercised	-	-	-	-
Expired or forfeited	(368,379)	-	-	-
Outstanding as of December 31, 2019	-	-	-	

For the years ended December 31, 2019 and December 31, 2018, share-based compensation expense/(recovery) was $Nil and ($31) thousand.

30 Parent entity

The following information has been extracted from the books and records of the parent, Parnell Pharmaceuticals Holdings Ltd and has been prepared in accordance with Australian Accounting Standards.

The financial information for the parent entity, Parnell Pharmaceuticals Holdings Ltd has been prepared on the same basis as the consolidated financial statements except as disclosed below.

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries are accounted for at cost in the financial statements of the parent entity. Dividends received from associates are recognised in the parent entity profit or loss, rather than being deducted from the carrying amount of these investments.

Tax consolidation legislation

Parnell Pharmaceuticals Holdings Ltd and its wholly-owned Australian subsidiaries have formed an income tax consolidated group.

Each entity in the tax consolidated group accounts for their own current and deferred tax amounts. These tax amounts are measured using the 'stand-alone taxpayer' approach to allocation.

Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the parent entity.

The tax consolidated group has entered into a tax funding agreement whereby each entity within the group contributes to the income tax payable by the Group in proportion to their contribution to the Group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding agreement are recognised as either a contribution by, or distribution to the head entity.

The individual financial statements for the parent entity, Parnell Pharmaceuticals Holdings Ltd, show the following aggregate amounts:

	31 December 2019	**31 December 2018**
	AUD$	**AUD$**
Balance sheet		
Assets		
Current assets	**39,801,774**	39,318,276
Non-current assets	**8,299,466**	6,792,637
Total Assets	**48,101,240**	46,110,913
Liabilities		
Current liabilities	**8,130,804**	6,492,500
Non-current liabilities	**3,882,658**	1,314,218
Total Liabilities	**12,013,462**	7,806,718
Equity		
Issued capital	**63,521,533**	63,521,533
Accumulated losses	**(31,269,397)**	(29,052,980)
Reserves	**3,835,642**	3,835,642
Total Equity	**36,087,778**	38,304,195

30 Parent entity

	31 December 2019 AUD$	31 December 2018 AUD$
Statement of comprehensive loss		
Total (loss)/profit for the year	**(2,216,417)**	213,048
Other comprehensive income	**-**	-
Total comprehensive income/(loss)	**(2,216,417)**	213,048

31 Events Occurring After the Reporting Date

Since November 2019, the Directors of the Group and their appointed advisors have been working diligently towards a capital solution in recognition that the Company's cash flows, while substantially improved from 2017 levels, would remain insufficient to accommodate the scheduled July 2020 start of amortization for the Marathon Debt. During this process it became clear that Marathon did not wish to extend or refinance the Marathon Debt but required repayment in full.

The Group's exhaustively engaged with a wide array of banks, debt and equity funds and potential buyers in the United States, Australia and elsewhere. A debt refinancing proposal by a global bank was close to proceeding in March 2020 only to be negated by the onset of the COVID19 global pandemic. Concurrently the Company found the wider debt markets to be closed to it, absent a substantial equity injection. Likewise, during COVID19 companies in our industry have been focused internally, obviating a significant asset sale as an appropriate alternate of meeting the Marathon amortization.

Our lengthy and wide engagement with equity funds yielded a clear front runner in DW Healthcare Partners V, L.P. ("DWHP"), a substantial and successful US based healthcare focused organization.

On December 17th, 2020, the Shareholders of the Group approved a resolution to enter into a capital transaction with DWHP. Of the 12,704,524 shares voted at the Shareholder Meeting, 98.35% voted in favour of the transaction proceeding.

As such, on December 21st,, 2020, in return for a 50.01% controlling stake in the Company, DWHP provided a US$28 million plus transaction expenses Convertible Note combined with a third-party senior debt placement to pay out the entire cash component of Marathon Debt, reduce overall indebtedness of the Company including repayment of loans and other monies owed to Management Shareholders, and provide working capital for the Company. As partial consideration for its Royalty Rights under the Marathon Royalty Agreement, Marathon has agreed to accept a 5% shareholding in the Company post-closing.

On the same day, DWHP has also commenced a Tender Offer for all shares, excluding Management Shareholders. DWHP is committed to make an Offer for the outstanding public shares of the Company following issuance of the Convertible Note. The Offer, which DWHP intends to make at US$0.40 per Share - a 208% premium to the closing price on November 13, 2020 - will be submitted to Shareholders concurrent with the issuance of the Convertible Note.

31 Events Occurring After the Reporting Date

On the same day, White Oak Healthcare Finance, LLC ("White Oak") provided the third party senior debt facility. White Oak provided the Group with the following senior secured loan facilities, (A) a US$16 million term facility and (B) a US$4 million revolving facility on the terms and conditions set out in the White Oak Credit Agreement, including the grant of a lien on all assets of the applicable Parnell Group Members and satisfaction of the other condition's precedent to funding under the White Oak Credit Agreement. The proceeds from the White Oak Debt were made available to the relevant Parnell Group members (as borrowers) on the Convertible Note Closing Date concurrent with the issue of the Convertible Note. The proceeds from the Convertible Note and the White Oak Debt were used to:

- repay the Marathon Debt in full;
- pay the Marathon Cash Payment;
- repay certain existing loans owed to the Management Shareholders,
- pay certain transaction expenses, and
- with the balance to be used for working capital and general corporate purposes of the Company.

At the time of signing this Annual Report, the Group had not drawn on any of the US$4 million revolving facility and as such it remains fully available for capital and general corporate purposes.

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity. We have taken a number of measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for our people (such as social distancing and working from home) and securing the supply of materials that are essential to our production process.

At this stage, the impact on our business and results has not been significant and based on our experience to date we expect this to remain the case. We will continue to follow the various government policies and advice and, in parallel, we will do our utmost to continue our operations in the best and safest way possible without jeopardising the health of our people.

No additional matters or circumstances have arisen since the end of the financial period which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

32 Company Details

The registered office and principal place of business of the company in Australia is:

Parnell Pharmaceuticals Holdings Limited
Unit 4 Century Estate
476 Gardeners Road
Alexandria NSW 2015

The principal place of business of the company in the United States is:

7015 College Blvd
Suite 600 Overland Park KS 66211

Directors' Declaration

The directors of the Group declare that:

1. the financial statements and notes for the year ended 31 December 2019 are in accordance with the *Corporations Act 2001* and:

    a. comply with Australian Accounting Standards, which, as stated in basis of preparation Note 2 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and

    b. give a true and fair view of the financial position and performance of the consolidated group;

3. in the directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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

Director ....
Brad McCarthy (Chief Executive Officer)

Director ....
Alan Bell (Executive Chairman)

Dated 21 January 2021

Independent auditor's report

To the members of Parnell Pharmaceuticals Holdings Ltd

Our opinion

In our opinion:

The accompanying financial report of Parnell Pharmaceuticals Holdings Ltd (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 31 December 2019
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & 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.

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 December 2019, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* 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 have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

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

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

PricewaterhouseCoopers.

PricewaterhouseCoopers

N. James.

Nicholas James
Partner

Sydney
21 January 2021