Parnell Pharmaceuticals Holdings Ltd

ABN 32 137 904 413

Financial Statements

For the Year Ended 31 December 2017

Parnell Pharmaceuticals Holdings Ltd
ABN 32 137 904 413

Contents

For the Year Ended 31 December 2017

Directors' Report

31 December 2017

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 2017.

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)
Robert Joseph	CEO and Executive Director (Removed 29th December 2017)
Brad McCarthy	CFO and 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. Earlier in his career, Dr. Bell worked in private veterinary practice for eight years. He received his bachelor of veterinary science degree from the University of Queensland in Australia, and is a member of the Australian Institute of Company Directors. Alan was appointed Executive Director of the Group on 9th January 2018.

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. Prior to joining us, Mr. McCarthy worked in several positions with subsidiaries of SIRVA, Inc., formerly Allied Worldwide, a privately owned moving industry company, including as Chief Financial Officer from 2007 to 2010 of Pickfords Removals, a former subsidiary company of SIRVA, Inc, and Head of Forecasting, Planning and Analysis, Europe,. Earlier in his career Mr. McCarthy served in financial and accounting positions with Centrica PLC, a multinational utility company, and Volkswagen Group Australia Pty Ltd, a subsidiary of Volkswagen Group, a manufacturer of passenger and commercial vehicles. Mr. McCarthy began his career as a financial accountant with Beale Gaertner Young, an Australian accounting firm. He has undergraduate degrees in science (pharmacology and physiology) from the University of Queensland, as well as degrees in accounting (accounting and corporate law) and management from Macquarie University in Australia. He is also a Certified Public Accountant in Australia. Brad was appointed CEO of the Group on 9th January 2018.

Directors' Report

31 December 2017

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 cofounder 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 14 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., Europe, 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 deemed acceptable in January 2013 and we were successfully inspected by the Australian Therapeutic Goods Administration under mutual recognition procedures with the European Medicines Agency, or EMA in April 2015. We believe this facility provides us with a lowcost 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. We intend to leverage our manufacturing facility to expand contract manufacturing business segment.

Directors' Report

31 December 2017

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 and since 2015, and to establish a small presence in the companion animal segment with the launch of Glyde for dogs and FETCH, our digital application intended for use by veterinarians and pet parents.

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 14 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 are provided to 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 12 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.

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 the European Union, Australia, New Zealand, Canada as well as other jurisdictions under mutual recognition procedures. We believe this new facility provides us with a lowcost 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 multimillion dollar opportunity over seven years and in 2017 we signed our second multimillion dollar agreement. We are also in active contract manufacturing negotiations with various pharmaceutical companies and believe we can sign multiple contract manufacturing agreements in the future thereby establishing our contract manufacturing business segment as a profitable contributor to our corporate operations.

Our diseasemodifying 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 antiinflammatory 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, with one million doses of Zydax sold, 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, ecoisatetranoic acid (derived from New Zealand greenlipped mussels). Glyde is currently marketed in Australia where we also market Zydax. We launched Glyde in the U.S. in September 2015. We have also launched Reviderm in the US market in 2016, a patented antimicrobial liquid (sprayon) bandage for use in companion animals.

Directors' Report

31 December 2017

1. General information

Principal activities and significant changes in nature of activities

Our current revenues are derived from operations in 14 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 Canada, 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 such as Europe, Asia and Latin America. We believe that our fullyintegrated, pharmaceutical value chain positions us to effectively and efficiently leverage our current product portfolios, expand and scale our contract manufacturing opportunities and elicit inlicensing opportunities.

Our Strategy

Our objective is to become a leading provider of animal health solutions that enhance the quality of life or performance 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, 2017	December 31, 2016	v%
Revenues	19,127	19,049	0%
Cost of Goods Sold	(7,348)	(8,211)	(11%)
Gross Margin	11,779	10,838	9%
Selling and Marketing expenses	(6,479)	(14,112)	(54%)
Regulatory and R&D expenses	(939)	(1,495)	(37%)
Administration expenses	(4,221)	(11,147)	(62%)
EBITDAOI	140	(15,196)	(101%)
Extraordinary items	(3,152)	(236)	1235%
Impairment of intangible assets	(5,537)	-	
Depreciation and Amortisation expenses	(2,510)	(2,625)	(4%)
Finance costs	(9,245)	(3,821)	142%
Other income/(expenses)	(2,812)	916	(407%)
Loss before income tax	(23,116)	(21,682)	7%
Income tax (expense)/benefit	(12)	(9)	34%
Loss for the year	(23,128)	(21,691)	7%
Other comprehensive loss for the year, net of tax	3,914	(728)	(638%)
Total comprehensive loss for the year	(19,214)	(22,419)	(14%)

Review of Operational Results

Total 2017 revenue performance was in line with 2016, although underperformance in our US Companion business throughout 2017 resulted in a substantial lower revenue result for this segment. Underlying operations delivered a positive EBITDAOI result of $0.1 million, which was a year in year improvement of $16.1 million.

2. Operating results and review of operations for the year

Revenue:

Total revenue was $19.1 million for the twelve months ended December 31, 2017, and was flat with the same period in 2016.

Our operating segments performed as follows:

- Production Animal – US: ex-Parnell revenue for the period was $9.2 million, which was in line with the same period in 2016. Despite having an average of only 5 territories occupied by sales staff, our market share continued to grow with in-Market sales increasing by 15% over the twelve months ended December 31, 2016.

- Production Animal – Rest of World (ROW): Revenue for twelve months ended December 31, 2017 increased by $0.3 million (14%) to $2.3 million compared to the same period in 2016. This increase is due to the combined effect of increases in Australia ($0.1 million), the Middle East & Africa ($0.1 million) and New Zealand ($0.1 million).

- Companion Animal: Companion Animal revenues were $3.3 million for the period, a 14% reduction compared to the same period in 2016. This was due to a $0.8 million (36%) reduction in US Companion revenue, partially offset by a continued strong performance in the Australian Companion Animal business which grew by a further $0.2 million (12%) for the full year 2017 compared to the same period in 2016.

- Contract Manufacturing: revenues of $4.3 million were generated in the twelve months of 2017 compared to $3.9 million during the same period in 2016, a $0.5 million or 12% increase.

Expenses:

- Cost of Sales for the year ended 2017 were $7.3 million, compared to $8.2 million for the comparable period in 2016. Gross margin as a percentage of revenue, using a Cost of Goods Sold – Product basis, was 84% for 2017 compared to 81% in 2016.

- Selling and Marketing expenses decreased by $7.6 million, or 54% to $6.5 million in 2017 compared to the same period in 2016 resulting from the continued reduction of our US Companion Animal field sales and marketing cost base as previously communicated.

- Regulatory and R&D spending year for 2017 was $0.9 million, a 37% reduction over the $1.5 million spent for the same period in 2016. All development costs directly associated with the Zydax development work during the periods ended December 31, 2017 and 2016 respectively, have been capitalized and a full impairment charge for the Zydax Canine project was taken at December 31, 2017 (see below).

- Administration expenses in line with the move from the NASDAQ to the OTC Open Market in December 2016 and due to an overall reduction in the size of corporate operations, administration expenses decreased $6.9 million, or 62% to $4.2 million, in the year ended 2017, compared to $11.1 million for the same period in 2016.

- Finance costs increased $5.4 million to $9.2 million in 2017 compared to $3.8 million for the same period in 2016. The increase in 2017 is due to refinancing of our previously held $USD11.0 million term loan in late 2016. This facility was in place for the first 10 months of 2016 and was fully paid out with the proceeds of a $USD20.0 million term loan in November 2016, resulting in higher interest charges and deferred finance costs incurred in 2017 compared to the same period in 2016.

- Other Income/(expense) for the twelve months ended December 31, 2017 was an expense of $2.8 million compared to $0.9 million income for the same period in 2016. This increase is primarily due to foreign exchange movements between the Australian dollar and the US dollar for the period. For 2017, $0.7 million was recorded in Other Income as part of research and development incentives received in Australia compared to $1.0 million recorded during the same period in 2016.

2. Operating results and review of operations for the year

- Extraordinary items for the twelve months ended December 31, 2017 was an expense of $3.2 million compared to $0.2 million for the same period in 2016. These items comprised; $1.0 million in 2017 of settlement and legal costs associated with ex-employee claims and $0.2 million in 2016, $1.5 million in inventory revaluation charges taken as a result of improved manufacturing efficiencies thereby reducing the cost of inventory recorded ($Nil in 2016) and a $0.6 million write off of receivables due to a customer being placed into administration in the Middle East ($Nil in 2016).

- Impairment of Intangible Assets for the twelve months ended December 31, 2017 an impairment of Intangible Assets charge of $5.5 million was incurred compared to $Nil million for in 2016. In late 2017, the Company received regulatory notifications stating that the clinical results of the most recent Zydax Canine clinical study did not meet the endpoint for marketing authorization. From those and subsequent regulatory communications it became clear to the Board that further studies pursuing the proposed indication would not be acceptable, nullifying the investment to date in clinical studies targeted at that product claim. Based on that information the carrying value of the Zydax Canine project was written down to $Nil at December 31, 2017

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, 2017 improved by $16.1 million to a small profit of $0.1 million compared to a $15.9 million loss for the same period in 2016. This was achieved by total revenue being in line with prior year and significant operational cost reductions of $15.1 million and improvement in manufacturing operations delivering an $0.9 million increase in gross margin.

- Net loss after tax for the period ended December 31, 2017 decreased by $1.4 million to $23.1 million compared to $21.7 million in 2016 as a result of the items detailed above.

3. Other items

Dividends paid or recommended

	Year Ended December 31, 2017 $	Year Ended December 31, 2016 $
Dividends	-	-

There are no dividends paid or recommended during the period (Year Ended December 31, 2016: $Nil). Since the end of the period the directors have not recommended the payment of a dividend.

Events after the reporting date

The Group subsequent to year end also entered into a commercial agreement with a third party which provides an upfront payment, which the Group will receive before 30 June 2018, followed by further payments if milestones are achieved.

No additional matters or circumstances have arisen since the end of the financial year 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.

Directors' Report

31 December 2017

3. Other items

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.

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.

Meetings of directors

During the financial year, six meetings of directors were held. Two of these meetings were held in the Company's US offices in Kansas City, Kansas. Attendances by each director during the year were as follows:

	Directors' Meetings	
	Number eligible to attend	**Number attended**
Dr Alan Bell	6	6
Robert Joseph	1	1
Brad McCarthy	6	6

Indemnification and insurance of officers and auditors

During the year ended 31 December 2017, insurance premiums were paid for directors and officers liability by the Group of AUD$120,000 (2016: $240,000) to insure the directors and secretaries of the Group and its Australian based controlled entities.

Indemnification and insurance of officers and auditors

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 willful 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, 2017	12 months ended December 31, 2016
Share price at grant date per ordinary share	N/A	$2.26 - $2.60
Risk free interest rate	N/A	1.82 - 1.85%
Expected term (in years)	N/A	10
Expected volatility	N/A	44% - 48%
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, 2017:

	Shares Issuable Under Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2016	1,258,409	4.44	8.7	-
Granted	-	-	-	-
Exercised	-	-	-	-
Expired or forfeited	(1,208,478)	4.44	-	-
Outstanding as of December 31, 2017	49,931	4.44	1	-
Options vested and expected to vest as of December 31, 2017	49,931	4.44		

Options

The following table summarizes share option activity for the year ended December 31, 2016:

	Shares Issuable Under Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2015	529,591	5.00	9.2	-
Granted	846,939	4.04	-	-
Exercised	-	-	-	-
Expired or forfeited	(118,121)	4.16	-	-
Outstanding as of December 31, 2016	1,258,409	4.44	8.7	-
Options vested and expected to vest as of December 31, 2016	385,469	4.93		

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, 2017 and December 31, 2016. The Company did not receive cash proceeds from stock option exercises for the years ended December 31, 2017 and December 31, 2016.

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, 2017:

	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, 2016	13,386	2.60	1.08	-
Granted	1,337,869	1.05	0.16	-
Exercised	(6,692)	2.60	1	-
Expired or forfeited	(698,542)	1.05	1	-
Outstanding as of December 31, 2017	646,021	1.05	0.16	-

Directors' Report

31 December 2017

Options

The following table summarizes restricted stock unit activity for the year ended December 31, 2016:

	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, 2015	177,570	4.38	0.37	-
Granted	171,058	2.49	-	-
Exercised	(303,468)	3.55	-	-
Expired or forfeited	(31,744)	2.78	-	-
Outstanding as of December 31, 2016	13,386	2.60	1.08	-

On December 30, 2016 the board approved a grant of 780,619 shares of the Company's stock. This grant resulted in an additional AUD$744,371 of stock compensation expense.

For the years ended December 31, 2017 and December, 31, 2016, share based compensation expense/(recovery) was $(217) thousand and $2.2 million.

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 2017 has been received and can be found on page 11 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 27 April 2018

Auditor’s Independence Declaration

As lead auditor for the audit of Parnell Pharmaceuticals Holdings Ltd for the year ended 31 December 2017, 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
27 April 2018

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Consolidated statement of loss and comprehensive loss

	Note	12 months to 31 December 2017 AUD$	12 months to 31 December 2016 AUD$
Revenue	3	**19,127,432**	19,048,651
Other income	3	**697,282**	1,016,781
Cost of goods sold		**(9,747,229)**	(8,977,871)
Selling and marketing expenses		**(6,479,348)**	(14,121,493)
Regulatory and research and development expenses		**(939,137)**	(1,494,800)
Administration expenses		**(13,020,536)**	(13,231,889)
Finance costs		**(9,245,228)**	(3,821,345)
Other expenses		**(3,509,512)**	(100,423)
Loss before income tax		**(23,116,276)**	(21,682,389)
Income tax expense	5	**(12,111)**	(9,054)
Loss for the period		**(23,128,387)**	(21,691,443)
Other comprehensive income/(loss), net of income tax			
Items that will be reclassified subsequently to profit or loss			
Foreign currency translation		**3,913,834**	(727,603)
Other comprehensive income/(loss) for the year, net of tax		**3,913,834**	(727,603)
Total comprehensive loss for the year		**(19,214,553)**	(22,419,046)

Net loss per share		AUD$	AUD$
Net loss attributable to common stockholders, Basic and diluted	16(a)	(1.28)	(1.37)

The accompanying notes form part of these financial statements.

Parnell Pharmaceuticals Holdings Ltd
ABN 32 137 904 413

Consolidated balance sheet

	Note	31 December 2017 AUD$	31 December 2016 AUD$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	**2,378,950**	7,115,498
Trade and other receivables	9	**2,555,341**	4,922,086
Inventories	10	**2,136,123**	3,622,891
Prepayments		**306,352**	441,189
TOTAL CURRENT ASSETS		**7,376,766**	16,101,664
NON-CURRENT ASSETS			
Trade and other receivables	9	**65,306**	723,739
Property, plant and equipment	11	**10,593,383**	12,128,392
Intangible assets	12	**12,168,714**	18,624,832
TOTAL NON-CURRENT ASSETS		**22,827,403**	31,476,963
TOTAL ASSETS		**30,204,169**	47,578,627
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	13	**8,150,610**	7,875,987
Borrowings	14	**9,990**	10,178
Provision for employee benefits	15	**577,840**	623,574
TOTAL CURRENT LIABILITIES		**8,738,440**	8,509,739
NON-CURRENT LIABILITIES			
Trade and other payables	13	**480,872**	1,087,670
Borrowings	14	**32,174,792**	29,831,992
Provision for employee benefits	15	**126,924**	85,528
TOTAL NON-CURRENT LIABILITIES		**32,782,588**	31,005,190
TOTAL LIABILITIES		**41,521,028**	39,514,929
NET ASSETS/ LIABILITIES		**(11,316,859)**	8,063,698
EQUITY			
Ordinary shares	16	**63,521,533**	63,522,251
Share-based compensation reserve	17	**3,592,250**	3,757,536
Reserves	17	**(28,327)**	(3,942,161)
Accumulated losses	18	**(78,402,315)**	(55,273,928)
TOTAL EQUITY		**(11,316,859)**	8,063,698

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

	Ordinary Shares AUD$	Retained Earnings AUD$	Foreign Currency Translation Reserve AUD$	Option/Share based compensation Reserve AUD$	Total AUD$
Balance at 1 January 2017	**63,522,251**	**(55,273,928)**	**(3,942,161)**	**3,757,536**	**8,063,698**
Loss for the period	**-**	**(23,128,387)**	**-**	**-**	**(23,128,387)**
Other comprehensive loss for the period	**-**	**-**	**3,913,834**	**-**	**3,913,834**
Transactions with owners in their capacity as owners					
Buyback or contribution of equity, net of transaction costs	**(718)**	**-**	**-**	**-**	**(718)**
Shares based payment transactions	**-**	**-**	**-**	**(165,286)**	**(165,286)**
Balance at 31 December 2017	**63,521,533**	**(78,402,315)**	**(28,327)**	**3,592,250**	**(11,316,859)**

	Ordinary Shares AUD$	Retained Earnings AUD$	Foreign Currency Translation Reserve AUD$	Option/Share based compensation Reserve AUD$	Total AUD$
Balance at 1 January 2016	55,343,451	(33,582,485)	(3,214,558)	1,708,388	20,254,796
Loss for the period	-	(21,691,443)	-	-	(21,691,443)
Other comprehensive loss for the period	-	-	(727,603)	-	(727,603)
Transactions with owners in their capacity as owners					
Contribution of equity, net of transaction costs	8,178,800	-	-	-	8,178,800
Share based payment transactions	-	-	-	2,049,148	2,049,148
Balance at 31 December 2016	63,522,251	(55,273,928)	(3,942,161)	3,757,536	8,063,698

The accompanying notes form part of these financial statements.

Parnell Pharmaceuticals Holdings Ltd
ABN 32 137 904 413

Consolidated statement of cash flows

	Note	12 months to 31 December 2017 AUD$	12 months to 31 December 2016 AUD$
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers		**22,630,795**	22,905,433
Receipts from government grants		**-**	138,198
Payments to suppliers and employees		**(19,905,207)**	(32,763,246)
Interest received		**5,555**	11,173
Finance costs		**(4,569,396)**	(2,397,679)
Income taxes paid		**(11,796)**	(9,393)
Net cash used in operating activities	26	**(1,850,049)**	(12,115,514)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment		**(515,541)**	(556,321)
Purchases of intangible assets		**(2,022,415)**	(4,526,008)
Net cash used in investing activities		**(2,537,956)**	(5,082,329)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of shares		**-**	8,962,229
Payment of share issuance costs		**-**	(1,225,233)
Proceeds from bank loans		**2,550,000**	30,034,334
Repayment of bank loans		**(2,550,000)**	(17,868,883)
Issuance of warrants		**-**	74,234
Payment of lease liabilities		**(23,412)**	(13,568)
Net cash provided by/(used in) financing activities		**(23,412)**	19,963,113
Net increase/(decrease) in cash and cash equivalents held		**(4,411,417)**	2,765,270
Cash and cash equivalents at beginning of period		**7,115,498**	5,666,679
Effects of exchange rate changes on cash and cash equivalents		**(325,131)**	(1,316,451)
Cash and cash equivalents at end of financial year	8	**2,378,950**	7,115,498

The accompanying notes form part of these financial statements.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2017

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. We currently market five products for companion and production animals in 14 countries and augment our pharmaceutical products with our 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.

On December 21, 2016, the Company filed a Form 25, Notification of Removal from Listing and/or Registration under Section 12(b) of the Securities Exchange Act, with the Securities and Exchange Commission and NASDAQ.

The NASDAQ delisting became effective on December 31, 2016 and trading on the NASDAQ Global market continued up until this date. The Company also filed a Form 15, Notice of Termination of Registration or Suspension of Duty to File, with the Securities and Exchange Commission to terminate its reporting obligations under the Exchange Act.

The Company moved the trading of its ordinary shares to be quoted on the OTC Pink® Open Market, a centralized electronic quotation service for over-the-counter securities. This service enables current shareholders of the Company to continue to buy and sell their shares in the Company after delisting from the NASDAQ.

This financial report covers the consolidated financial statements of the Group and were authorized for issue by the directors on April 27, 2018.

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 2017, the Group experienced a loss from continuing operations of AUD ($23,128,387) (2016: AUD ($21,691,443)) and operating cash outflows of AUD ($1,850,049) (2016: AUD ($12,115,514)) for the year then ended. The loss was largely driven by structural changes in the US business, impairment of some intangibles and higher finance costs.

The Group has focused on the setting the business for future profitability and growth with this seen in the underlying EBITDAOI (excluding oneoffs) being AUD $139,997 (2016: AUD ($15,916,086)). When you include one-off items the EBITDAOI was AUD ($1,178,671) (2016: AUD $16,162,827). The Group expects to continue to see EBITDAOI increase in FY18 and be in the range of $5-6 million.

The Group also at 31 December 2017 has a net liability position of AUD $(11,316,859) (2016: AUD $8,063,698) and net working capital of AUD $(1,361,674) (2016: AUD $(7,591,925). When the Group excludes unearned income of AUD $1,689,394 for which cash has already been received the new working capital position improves to AUD $327,722.

During 2016 the Group refinanced the Midcap loan facility (USD$11,000,000) with a new USD$20,000,000 term loan from SWK Holdings LLC (“SWK”). At December 31, 2017, the Company was in compliance with these covenants and expects to remain in compliance with these for 12 months from the date of signing of the financial statements.

The Group subsequent to year end also entered into a commercial agreement with a third party which provides an upfront payment, which the Group will receive before 30 June 2018, followed by further payments if milestones are achieved.

The continuing viability of the Group and its ability to continue as a going concern and meet its debts and commitments as and when they fall due requires that it meets or exceeds operational budgets in the future, delivers on its existing and new contract manufacturing agreements and continues to have the support from its lenders/or find alternative financing. The Directors and management believe that the Group will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis.

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.

(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:

2 Summary of Significant Accounting Policies

(c) Critical accounting estimates and judgments

Estimated impairment of long life assets

We review 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 we consider 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, we compare 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 recognized.

For 2017 we have determined it appropriate to take an impairment on some of our specific long term intangible assets. These impairments on our products that we are not currently selling and do not have an immediate intention to bringing to market. The following products were fully impaired in 2017; Zydaz Canine ($5.264m), Zydax Equite ($.095m), Zydax Feline ($.160m), and Other ($.017m).

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 recognized deferred tax assets relating to carried forward tax losses as at December 31, 2017. 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.

Government grant revenue

The Group has recognized government grant revenue receivable at December 31, 2017 of $1,597,891 (December 31, 2016: $3,258,350). Management estimates that the costs applied are consistent with the requirements of the R&D incentive scheme.

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.

2 Summary of Significant Accounting Policies

(d) Principles of Consolidation

All controlled entities have a June financial year end.

A list of controlled entities is contained in Note 23 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.

(f) Income Tax

The tax expense recognized in the consolidated statement of 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 realized 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 recognized 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 recognized amounts and there is an intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2 Summary of Significant Accounting Policies

(f) Income Tax

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 recognized as income or an expense and included in profit or loss for the period except where the tax arises from a transaction which is recognized in other comprehensive income or equity, in which case the tax is recognized 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.

(g) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the Group, are classified as finance leases.

Finance leases are capitalized by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

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 recognized as a liability and amortized on a straight-line basis over the life of the lease term.

(h) Revenue and other income

Revenue is recognized when the amount of the revenue can be measured reliably, it is probable that economic benefits associated with the transaction will flow to the entity and specific criteria relating to the type of revenue as noted below, has been satisfied.

Revenue is measured at the fair value of the consideration received or receivable and is presented net of returns, discounts and rebates.

Sale of goods

Revenue is recognized on local sales on delivery of goods to the customer as this is deemed to be the point in time when risks and rewards are transferred and there is no longer any ownership or effective control over the goods. Revenue is recognized on international sales when the goods are available for collection by the customer, and a firm purchase commitment is received. This is the point in time when risks and rewards are transferred and there is no longer any ownership or effective control over the goods.

2 Summary of Significant Accounting Policies

(h) Revenue and other income

Government grant revenue

Government grants, including Australian Research and Development incentives, are recognized 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.

Interest revenue

Interest is recognized using the effective interest method.

(i) Goods and Services Tax (GST)

Revenue, expenses and assets are recognized 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.

(j) 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.

(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.

Trade receivables are recognized 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 realizable value. Cost of inventory is determined using the weighted average cost basis and are net of any rebates and discounts received.

2 Summary of Significant Accounting Policies

(l) Inventories

Net realizable 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 realizable 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%
Motor Vehicles	33%
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 recognized within Other Income and Other Expenses.

Capital works in progress of AUD$911,536 relates to enhancements to the manufacturing facility (December 31, 2016: $709,483).

2 Summary of Significant Accounting Policies

(n) Financial instruments

Derivative instruments

Derivative instruments, including warrants, are measured at fair value. Gains and losses arising from changes in fair value are taken to the consolidated statement of loss and comprehensive loss unless they are designated as hedges.

Financial instruments are recognised initially using trade date accounting, i.e. on the date that the Group becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

Financial Assets

Financial assets are divided into the following categories which are described in detail below:

- loans and receivables; and
- financial assets at fair value through profit or loss.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers but also incorporate other types of contractual monetary assets.

After initial recognition these are measured at amortized cost using the effective interest method, less provision for impairment. Any change in their value is recognized in profit or loss.

The Group’s trade and most other receivables fall into this category of financial instruments.

Receivables are considered for impairment on an individual asset basis when they are past due at the reporting date or when objective evidence is received that a specific counterparty will default.

The amount of the impairment is the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

For trade receivables, impairment provisions are recorded in a separate allowance account with the loss being recognized in profit or loss. When confirmation has been received that the amount is not collectable, the gross carrying value of the asset is written off against the associated impairment provision.

Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

In some circumstances, the Group renegotiates repayment terms with customers which may lead to changes in the timing of the payments, the Group does not necessarily consider the balance to be impaired, however assessment is made on a case-by-case basis.

2 Summary of Significant Accounting Policies

(n) Financial instruments

Financial liabilities

Financial liabilities are recognized when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included in the income statement line items 'finance costs' or 'finance income', unless these interest related charges relate to a qualifying asset in which case they are capitalised to that asset.

Financial liabilities are classified as either financial liabilities ‘at fair value through profit or loss’ or other financial liabilities at amortized cost depending on the purpose for which the liability was acquired. Although the Group uses derivative financial instruments in economic hedges of currency and interest rate risk, it does not hedge account for these transactions.

The Group‘s financial liabilities include borrowings, trade and other payables (including finance lease liabilities), which are measured at amortized cost using the effective interest rate method.

All of the Group‘s derivative financial instruments that are not designated as hedging instruments are accounted for at fair value through profit or loss.

(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 recognized 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 recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of enhancements or extensions of products) are recognized 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 recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs are recorded as intangible assets and amortized 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 recognized 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 recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

(r) Provisions

Provisions are recognized 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 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 recognized 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 recognized 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 recognized separately as a derivative on the balance sheet.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2017

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 recognized 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 Loss per share

(i) Basic net 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 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.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2017

2 Summary of Significant Accounting Policies

(y) Net Loss per share

For periods in which the Company has reported net losses, diluted net loss per share attributable to common shareholders is the same as basic net loss per share attributable to common stockholders, since their impact would be anti-dilutive to the calculation of net loss per share. Diluted net loss per share attributable to common stockholders is the same as basic net loss per share attributable to common stockholders for the years ended December 31, 2017 and December 31, 2016 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 recognized 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 recognized in the consolidated statement of 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 2017:

- AASB 2016 -1 *Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses*
- AASB 2016 - 2 *Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107,* and
- AASB 2017 - 2 *Amendments to Australian Accounting Standards - Further Annual Improvement 2014 to 2016 Cycle*

The adoption of these standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2017

2 Summary of Significant Accounting Policies

(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, 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

Title of Standard	Nature of change	Impact	Mandatory application date/ Date of adoption by Group
AASB 9 Financial Instruments	AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.	Following the changes approved by the AASB in December 2014, the Group no longer expects any impact from the new classification, measurement and derecognition rules on the Group's financial assets and financial liabilities. There will also be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The new hedging rules align hedge accounting more closely with the group's risk management practices. As a general rule it will be easier to apply hedge accounting going forward as the standard introduces a more principles-based approach. The new standard also introduces expanded disclosure requirements and changes in presentation. The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses. The group has no hedging instruments in place at this time.	Must be applied for financial years commencing on or after January 1, 2018. Based on the transitional provisions in the completed AASB 9, early adoption was only permitted for annual reporting periods beginning before February 1, 2015. After that date, the new rules must be adopted in their entirety. Expected date of adoption by the Group: January 1, 2018.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2017

2 Summary of Significant Accounting Policies

(ab) New Accounting Standards and Interpretations not yet adopted

AASB 15 Revenue from Contracts with Customers	The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognize transitional adjustments in retained earnings on the date of initial application (e.g. 1 July 2017), i.e. without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.	Management has reviewed the new standard for revenue recognition, to be put in place on January 1, 2018. Based upon management's review of the new accounting standards, it is determined that no substantial change in revenue recognition policy or timing is necessary in order to comply with the new standards effective January 1, 2018.	Mandatory for financial years commencing on or after January 1, 2018. Expected date of adoption by the group: January 1, 2018.

2 Summary of Significant Accounting Policies

(ab) New Accounting Standards and Interpretations not yet adopted

AASB 16 Leases	The AASB has issued a new standard for leases. This will replace AASB 117. The main impact on lessees is that almost all leases go on balance sheet. This is because the balance sheet distinction between operating and finance leases is removed for lessees. Instead, under the new standard an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exemptions are short-term and low-value leases.	Management is currently assessing the impact of the new rules and believes the adoption of the provisions of this update will have a material impact on The Group's consolidated financial statements. The Standard will affect primarily the accounting for the Group's operating leases. As of the reporting date, The Group has non-cancellable operating lease commitments of $2,681,285 (see note 19). The Group has, however, not yet assessed what adjustments, if any, are necessary. For example, because of the change in definition of the lease term and the different treatment of variable lease payments and extension & termination options, it is therefore not yet possible to estimate the amount of right-of-use assets & lease liabilities that will have to be recognised on adoption of the new standard and how this may affect The Group's profit or loss and classification of cash flows going forward.	Mandatory for financial years commencing on or after 1 January 2019. Expected date of adoption by the Group: 1 January 2019.

There are no other standards that are not yet effective and that would be 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 2017

3 Revenue and Other Income

	12 months to 31 December 2017 AUD$	12 months to 31 December 2016 AUD$
Sales revenue		
Sale of goods	**15,576,799**	17,691,351
Services revenue	**3,550,633**	1,357,300
	19,127,432	19,048,651

Other Income		
Government grants (a)	**668,908**	999,749
Interest received	**5,555**	11,173
Other income	**22,819**	5,859
	697,282	1,016,781

(a) Government grants

International and domestic government grants/tax incentives recognised during the year totalled $668,908 (12 months ended December 31, 2016: $999,749) and recognised as other income. Included in other receivables are government grants for tax incentives totalling $1,597,891 (December 31, 2016: $3,258,350). There are no unfulfilled conditions or contingencies attaching to these grants.

4 Expenses

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

	Note	12 months to 31 December 2017 AUD$	12 months to 31 December 2016 AUD$
Interest expense		**9,136,439**	3,275,044
Borrowing costs		**397,480**	811,310
Amounts capitalised	(b)	**(288,691)**	(265,009)
Finance costs expensed		**9,245,228**	3,821,345
Depreciation		**1,097,582**	1,113,167
Impairment of intangibles		**5,537,704**	-
Amortisation		**1,411,999**	1,512,041
Employee benefits expense		**8,240,064**	18,562,097
Rental expense relating to operating leases		**1,331,292**	1,103,607
Defined contribution superannuation expense		**312,595**	345,243
Impairment/(recovery) of bad debts		**606,763**	(2,672)
Net foreign exchange gain in other income, loss in administration expenses		**2,405,828**	-

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2017

4 Expenses

(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, 2017, in this case 13% (year ended December 31, 2016: 9.3%).

5 Income Tax Expense

(a) The major components of tax expense comprise:

	12 months to 31 December 2017 AUD$	12 months to 31 December 2016 AUD$
Income tax expense	**12,111**	9,054
Income tax expense	**12,111**	9,054

(b) Reconciliation of income tax to accounting profit:

	12 months to 31 December 2017 AUD$	12 months to 31 December 2016 AUD$
Loss before income tax	**(23,128,388)**	(21,682,389)
At 30% tax rate	**(6,938,516)**	(6,504,717)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
- Non-assessable research and development income	**(205,268)**	(259,950)
- Non-deductible research and development expenditure	**898,784**	867,007
- Amount of share issues costs not able to be recognised	**-**	(367,570)
- Difference in overseas tax rates	**515,699**	755,422
- Tax losses unrecognized during the year	**2,439,476**	583,689
- Tax losses incurred but not recognized during the year	**3,301,936**	4,935,173
Income tax expense	**12,111**	9,054

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2017

5 Income Tax Expense

	12 months to 31 December 2017 AUD$	12 months to 31 December 2016 AUD$
Unrecorded tax losses		
Potential tax benefit @ 30% for unused tax losses for which no deferred tax asset has been recognized - available for use in Australia	**14,801,386**	10,544,076
Potential tax benefit @ 35% for unused tax losses for which no deferred tax asset has been recognized - available for use in USA	**10,131,066**	8,450,717
	24,932,452	18,994,793
Total tax losses		
Potential tax benefit @ 30% for total Australian tax losses carried forward	**14,801,386**	10,544,076
Potential tax benefit @ 35% for total USA tax losses carried forward	**10,131,066**	8,450,717
	24,932,452	18,994,793
Total unused tax losses	**78,283,854**	59,291,828

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 recognized directly in equity**

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

	12 months to 31 December 2017 AUD	12 months to 31 December 2016 AUD
Net deferred tax - credited directly to equity	**-**	367,570

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2017

6 Tax

	Opening Balance AUD$	Charged to Income AUD$	Charged directly to Equity AUD$	Exchange Differences AUD$	Closing Balance AUD$
Deferred tax assets					
Provisions	150,512	-	-	-	150,512
Accruals	425,728	-	-	-	425,728
Share issues expenses	1,518,664	(367,570)	-	-	1,151,094
Other	-	(259,017)	-	934	(258,083)
Balance at 31 December 2016	2,094,904	(626,587)	-	934	1,469,251
Provisions	**150,512**	**-**	**-**	**-**	**150,512**
Accruals	**425,728**	**-**	**-**	**-**	**425,728**
Share issues expenses	**1,151,094**	**(1,151,094)**	**-**	**-**	**-**
Other	**(258,083)**	**(126,791)**	**-**	**-**	**(384,874)**
Balance at 31 December 2017	**1,469,251**	**(1,277,885)**	**-**	**-**	**191,366**

	Opening Balance AUD$	Charged to Income AUD$	Charged directly to Equity AUD$	Exchange Differences AUD$	Closing Balance AUD$
Deferred tax liability					
Intangible assets	1,054,292	96,565	-	-	1,150,857
Borrowing costs - asset	210,873	67,159	-	-	278,032
Unrealized foreign exchange	829,739	(789,377)	-	-	40,362
Balance at 31 December 2016	2,094,904	(625,653)	-	-	1,469,251
Intangible assets	**1,150,857**	**(1,150,857)**	**-**	**-**	**-**
Borrowing costs - asset	**278,032**	**(86,666)**	**-**	**-**	**191,366**
Unrealized foreign exchange	**40,362**	**(40,362)**	**-**	**-**	**-**
Balance at 31 December 2017	**1,469,251**	**(1,277,885)**	**-**	**-**	**191,366**

During 2017, 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 $24,932,451 as of December 31, 2017 ($18,994,793 as of December 31, 2016) and accordingly did not record these amounts as a deferred tax asset at December 31, 2017 or December 31, 2016. This element of unrecognized future tax benefits will be assessed by management going forward and maybe recorded at a point in which management believes they will be utilized.

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, 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 2017

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 2017						
Revenues						
Products	3,276,034	9,175,968	2,333,571	4,341,859	-	19,127,432
Total Revenues	**3,276,034**	**9,175,968**	**2,333,571**	**4,341,859**	**-**	**19,127,432**
Cost of Sales						
Products	(913,687)	(1,581,175)	(557,610)	(202,082)	-	(3,254,554)
Facility costs	-	-	-	(4,093,422)	-	(4,093,422)
Total Costs of Sales	(913,687)	(1,581,175)	(557,610)	(4,295,504)	-	(7,347,976)
Gross Margin	**2,362,347**	**7,594,793**	**1,775,961**	**46,355**	**-**	**11,779,456**
Segment Costs	(3,098,547)	(2,187,151)	(1,193,365)	-	-	(6,479,063)
Adjusted EBITDAOI	**(736,200)**	**5,407,642**	**582,596**	**46,355**	**(6,479,064)**	**(1,178,671)**

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2017

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 2016						
Revenues						
Products	3,911,287	9,200,731	2,050,977	3,885,656	-	19,048,651
Total revenues	**3,911,287**	**9,200,731**	**2,050,977**	**3,885,656**	**-**	**19,048,651**
Cost of sales						
Products	(1,153,529)	(1,476,249)	(515,814)	(693,918)	-	(3,839,510)
Facility costs	-	-	-	(4,371,942)	-	(4,371,942)
Total Cost of Sales	(1,153,529)	(1,476,249)	(515,814)	(5,065,860)	-	(8,211,452)
Gross Margin	**2,757,758**	**7,724,482**	**1,535,163**	**(1,180,204)**	**-**	**10,837,199**
Segment Costs	(9,944,463)	(3,211,482)	(955,718)	-	-	(14,111,663)
Adjusted EBITDAOI	**(7,186,705)**	**4,513,000**	**579,445**	**(1,180,204)**	**(12,888,363)**	**(16,162,827)**

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2017

7 Segment Information

(b) Reconciliations

Cost of sales reconciliation

	12 months to 31 December 2017 AUD$	12 months to 31 December 2016 AUD$
Total segment cost of sales	**(7,347,976)**	(8,211,452)
Depreciation and amortization expense	**(845,233)**	(766,419)
Extraordinary items	**(1,554,020)**	-
Total cost of sales	**(9,747,229)**	(8,977,871)

Reconciliation of Adjusted EBITDAOI result to loss before income tax

	12 months to 31 December 2017 AUD$	12 months to 31 December 2016 AUD$
Adjusted EBITDAOI	**(1,178,671)**	(16,162,827)
Extraordinary items	**(1,554,020)**	-
Other income/(expense) - net	**(2,812,233)**	916,358
Depreciation	**(1,097,582)**	(1,113,167)
Impairment	**(5,537,704)**	-
Amortization	**(1,411,999)**	(1,512,041)
Finance costs	**(9,245,228)**	(3,821,345)
Gain on sale of assets	**(278,839)**	10,633
Loss before income tax	**(23,116,276)**	(21,682,389)

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 2017

7 Segment Information

(b) Reconciliations

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

	12 months to 31 December 2017 AUD$	12 months to 31 December 2016 AUD$
Segment and unallocated costs	**(12,958,127)**	(27,000,026)
Impairment	**(5,537,704)**	-
Depreciation and amortization expense	**(1,664,348)**	(1,858,789)
Other expense	**(278,842)**	-
Gain on sale of assets	**-**	10,633
Operating costs as presented in the statement of comprehensive loss	**(20,439,021)**	(28,848,182)
Selling and marketing expenses	**(6,479,348)**	(14,121,493)
Regulatory expenses	**(939,137)**	(1,494,800)
Administration expenses	**(13,020,536)**	(13,231,889)
Operating costs as presented in statement of comprehensive loss	**(20,439,021)**	(28,848,182)

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2017

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, 2017 in Australia totalling $2,692,372 (year ended December 31, 2016: $2,387,870) revenues from external customers in the USA totalling $14,854,140 (year ended December 31, 2016: $15,266,462), revenues from external customers in New Zealand totalling $302,084 (year ended December 31, 2016: $222,956) and the total revenues from external customers in other countries totalling $1,280,112 (year ended December 31, 2016: $1,171,362) Segment revenues are based on the country in which the customer is based.

	No of customers 31 December 2017	No of customers 31 December 2016	Total revenues 31 December 2017 AUD$	Total revenues 31 December 2016 AUD$
Major customers				
Production Animal - US	2	2	10,428,173	9,938,811
Production Animal - Rest of World	-	-	-	-
Manufacturing Operations	1	1	4,343,842	3,885,656

8 Cash and cash equivalents

	31 December 2017 AUD$	31 December 2016 AUD$
Cash on hand	**1,065**	1,426
Cash at bank	**2,377,885**	7,114,072
	2,378,950	7,115,498

(a) Risk exposure

The Group's exposure to interest rate risk is discussed in note 20. 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 2017

9 Trade and other receivables

		31 December 2017 AUD$	31 December 2016 AUD$
CURRENT			
Trade receivables		**958,666**	1,637,646
Provision for impairment	(a)	**(2,394)**	(4,286)
Other receivables		**1,599,069**	3,288,726
		2,555,341	4,922,086

Current other receivables relate primarily to Australian Tax Office R&D Incentives receivable, recorded as per the terms of the R&D Incentive Scheme.

	31 December 2017 AUD$	31 December 2016 AUD$
NON-CURRENT		
Long-term trade receivables	**-**	655,719
Other receivables	**65,306**	68,020
Total non-current	**65,306**	723,739

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

(a) Impairment of receivables

The Group's accounts receivable balances are usually collected within a period of less than 30 days following due date of invoice. We had a onetime write off $608,305 in 2017 of an outstanding balance from a sale that took place in 2015 and early 2016 to a client that went into administration. This is a onetime event as historically our bad debt expense has been negligible, as such we have not provided for doubtful debts in the Group's accounts over this period. In our consolidated balance sheet as at December 31, 2017 trade receivables includes an allowance for doubtful debts of $2,394 (year ended December 31, 2016: $4,286) While we believe, based on the historic profile of the collection of our account receivables amounts, that this is sufficient, we may be required to allow for a provision for doubtful debts in the future if this profile is to adversely change.

(b) Amounts recognized in profit or loss

During the year, the following losses recognized in profit or loss in relation to impaired receivables.

	Year ended 31 December 2017 AUD$	Year ended 31 December 2016 AUD$
Bad debts written off/(recovered)	**606,763**	(2,672)

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2017

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 2017 AUD$	31 December 2016 AUD$
Australia	**223,943**	274,698
United States of America	**733,367**	2,018,666
	957,310	2,293,364

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 2017				
Trade and term receivables	**141,555**	**61,056**	**7,126**	**-**
31 December 2016				
Trade and term receivables	58,143	14,140	2,426	667,678

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 2017

10 Inventories

	31 December 2017 AUD$	31 December 2016 AUD$
CURRENT		
Raw materials and consumables	**1,143,279**	855,323
Work in progress	**327,541**	253,468
Finished goods	**665,303**	2,514,100
	2,136,123	3,622,891

Write downs of inventories to net realizable value during the year were $ NIL (year ended December 31, 2016: $Nil).

11 Plant and equipment

	31 December 2017 AUD$	31 December 2016 AUD$
Capital works in progress		
At cost	**911,536**	709,483
Plant and equipment		
At cost	**14,911,850**	15,604,590
Accumulated depreciation	**(5,364,946)**	(4,681,425)
Total plant and equipment	**9,546,904**	10,923,165
Leased plant and equipment		
Capitalized leased assets	**325,801**	325,801
Accumulated depreciation	**(325,801)**	(325,801)
Total leased plant and equipment	**-**	-
Motor vehicles		
At cost	**21,086**	21,086
Accumulated depreciation	**(21,086)**	(21,086)
Total motor vehicles	**-**	-
Office equipment		
At cost	**818,047**	1,301,613
Accumulated depreciation	**(683,104)**	(805,869)
Total office equipment	**134,943**	495,744
Total plant and equipment	**10,593,383**	12,128,392

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2017

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$	Motor Vehicles AUD$	Office Equipment AUD$	Total AUD$
Year ended 31 December 2017					
Balance at the beginning of year	**709,483**	**10,923,165**	**-**	**495,744**	**12,128,392**
Additions	**452,044**	**47,073**	**-**	**13,359**	**512,476**
Transfers	**(173,856)**	**173,856**	**-**	**-**	**-**
Disposals	**-**	**(582,266)**	**-**	**(188,096)**	**(770,362)**
Foreign exchange movements	**(76,135)**	**(69,357)**	**-**	**(34,048)**	**(179,540)**
Depreciation expense	**-**	**(945,567)**	**-**	**(152,016)**	**(1,097,583)**
Balance at the end of the year	**911,536**	**9,546,904**	**-**	**134,943**	**10,593,383**

Consolidated	Capital Works in Progress AUD$	Plant and Equipment AUD$	Motor Vehicles AUD$	Office Equipment AUD$	Total AUD$
Year ended 31 December 2016					
Balance at the beginning of year	509,620	11,485,622	-	670,972	12,666,214
Additions	199,863	358,136	-	32,715	590,714
Depreciation expense	-	(920,593)	-	(207,943)	(1,128,536)
Balance at the end of the year	709,483	10,923,165	-	495,744	12,128,392

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2017

12 Intangible Assets

	31 December 2017 AUD$	31 December 2016 AUD$
Development costs		
Cost	**31,927,414**	30,652,557
Grants (b)	**(10,355,187)**	(9,435,354)
Impairment and disposal	**(5,537,703)**	-
Accumulated amortization	**(3,913,525)**	(2,702,417)
Total development costs	**12,120,999**	18,514,786
Computer software		
Cost	**380,203**	343,849
Disposal	**(74,654)**	-
Accumulated amortization	**(257,834)**	(233,803)
Total computer software	**47,715**	110,046
Total Intangibles	**12,168,714**	18,624,832

(a) Movements in carrying amounts of intangibles

Consolidated	Development costs AUD$	Computer software AUD$	Total AUD$
Year ended 31 December 2017			
Balance at the beginning of the year	**18,514,786**	**110,046**	**18,624,832**
Additions	**1,274,855**	**-**	**1,274,855**
Amortization	**(1,387,967)**	**(24,032)**	**(1,411,999)**
Impairment and disposal	**(5,537,704)**	**(38,299)**	**(5,576,003)**
Foreign exchange movements	**176,862**	**-**	**176,862**
Grants receivable	**(919,833)**	**-**	**(919,833)**
Closing value at 31 December 2017	**12,120,999**	**47,715**	**12,168,714**
Year ended 31 December 2016			
Balance at the beginning of the year	16,538,519	44,841	16,583,360
Additions	5,874,677	88,073	5,962,750
Amortization	(1,505,186)	(22,868)	(1,528,054)
Grants receivable	(2,393,224)	-	(2,393,224)
Closing value at 31 December 2016	18,514,786	110,046	18,624,832

12 Intangible Assets

(b) Government grants

During the year ended December 31, 2017 the Group recorded a receivable related to Government Grants for tax incentives totalling $1,597,891 (December 31, 2016: $3,258,350) which is included in Note 9 in Other Receivables, with $919,833 (December 31, 2016: $2,393,224) offsetting development costs and $ 678,058 (December 31, 2016: $865,123) included in Other Income.

13 Trade and other payables

	31 December 2017 AUD$	31 December 2016 AUD$
CURRENT		
Trade payables	**3,143,515**	5,860,335
Accrued expenses	**3,066,440**	1,806,242
Unearned income	**1,689,394**	-
Provisions	**-**	55,954
Other payables	**251,261**	153,456
Total current trade and other payables	**8,150,610**	7,875,987
NON-CURRENT		
Deferred lease incentive	**480,872**	1,087,670
Total non-current trade and other payables	**480,872**	1,087,670

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 20.

(b) Movement in provisions

	On-Costs for Stock-based Compensation AUD$	Total AUD$
31 December 2017		
Carrying amount at start of year	**55,954**	55,954
Charged to profit or loss		
- Additional provision recognized	**(55,954)**	(55,954)
Carrying amount at end of year	**-**	-

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2017

14 Borrowings

	Note	31 December 2017 AUD$	31 December 2016 AUD$
CURRENT			
Secured liabilities:			
Lease liability	19	**9,990**	10,178
Total current borrowings		**9,990**	10,178
NON-CURRENT			
Secured liabilities:			
Loan facility		**29,693,494**	27,639,580
2013 Parnell Bonds		**3,119,187**	3,119,188
		32,812,681	30,758,768
Less: borrowing costs attributable to loan facility		**(637,889)**	(926,776)
Total non-current borrowings		**32,174,792**	29,831,992

As at December 31, 2017, the Company had borrowings related to a term-loan of $29,693,494 and the 2013 Parnell Bonds of $3,119,187 (December 31, 2016: $2,845,000). The Company had lease liabilities that are secured by the related leased assets of $9,990 (December 31, 2016: $10,178).

Loan Facility

2016 Term Loan Facility

In November 2016, the Group entered into a credit arrangement with U.S. based lenders, SWK Holdings LLC, HI PPH LLC, and R-S Healthcare Management for a four-year USD $20,000,000 senior security credit facility. The credit facility was utilized to pay off our previous senior debt facility with MidCap Financial Services, LLC, which was due to mature in 2020. Following the payment of fees and associated costs of establishing this new four-year credit facility of approximately USD $692,248, USD $7,666,307 of funds were immediately available to us for working and growth capital. The credit facility contained two financial covenants requiring the Company to maintain a ratio of fair market of its inventory to employee liabilities of 70% and to have unencumbered liquid assets of greater than USD $1,000,000 measured monthly. In addition, the credit facility contained other customary affirmative and negative covenants.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2017

2013 Parnell Bonds

	31 December 2017 AUD$	31 December 2016 AUD$
CURRENT		
Face value of bonds	**4,300,000**	4,300,000
Bond redemptions	**(1,455,000)**	(1,455,000)
Interest expense - current year**	**288,691**	289,528
Interest expense - brought forward	**274,188**	277,553
Interest paid	**(288,692)**	(292,893)
	3,119,187	3,119,188

The 2013 Parnell Bond holders signed a deed of priority in November 2016 when the Group entered into a credit arrangement with SWK Holdings for a four-year USD $20,000,000 senior security credit facility. The deed gives the credit facility priority and does not allow for repayment of bonds prior to the repayment of the term facility.

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

15 Provision for Employee Benefits

	31 December 2017 AUD$	31 December 2016 AUD$
CURRENT		
Annual leave	**443,119**	486,782
Long service leave	**134,721**	136,792
Total current employee benefits	**577,840**	623,574
NON-CURRENT		
Long service leave	**126,924**	85,528

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2017

16 Ordinary shares

	31 December 2017 AUD$	31 December 2016 AUD$
Ordinary Class shares	**63,521,533**	63,522,251
Total	**63,521,533**	63,522,251

Movements in ordinary share capital

Date	Details	No of shares	Issue price AUD$	AUD$
31/12/15	**Balance**	**13,283,722**		**55,343,451**
Feb 16 - Oct 16	Lincoln Park equity line facility	855,914	2.68	2,468,150
Feb 16 - Oct 16	Lincoln Park equity issuance costs			(242,775)
Feb 16 - Oct 16	Tax effect relating to equity issuance costs			72,832
2/1/16	Employee Issuance 2015 RSU grants	131,407		-
2/1/16	Issue of Ladenburg shares	2,930,500	2.23	6,568,314
2/1/16	Ladenburg shares equity issuance costs			(982,459)
2/1/16	Tax effect relating to Ladenburg issuance costs			294,738
30/12/16	Employee share issuance	944,217		-
31/12/16	**Balance**	**18,145,760**		**63,522,251**
31/3/17	Adjustment to equity issue costs			6,436
	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**

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 January 11, 2016, the Company entered into a purchase agreement (the "Purchase Agreement"), and a registration rights agreement (the "Registration Rights Agreement") with Lincoln Park Capital Fund, LLC ("Lincoln Park").

Under the terms and subject to the conditions of the Purchase Agreement, the Company has the right to sell to and Lincoln Park is obligated to purchase up to $15,000,000 in amounts of ordinary shares of the Company, no par value ("Ordinary Shares") as described below, subject to certain limitations, from time to time, over the 36-month period commencing on the date that a registration statement, which the Company agreed to file with the Securities and Exchange Commission (the "SEC") pursuant to the Registration Rights Agreement, is declared effective by the SEC and a final prospectus in connection therewith is filed (the "Commencement Date"). The Company may direct Lincoln Park, at its sole discretion and subject to certain conditions, to purchase up to 35,000 shares of Ordinary Shares on any business day, increasing to up to 55,000 shares depending upon the closing sale price of the Ordinary Shares (such purchases, "Regular Purchases"). However, in no event shall a Regular Purchase be more than $500,000. The purchase price of Ordinary Shares related to the future funding will be based on the prevailing market prices of such shares at the time of sales. In addition, the Company may direct Lincoln Park to purchase additional amounts as accelerated purchases if on the date of a Regular Purchase the closing sale price of the Ordinary Shares is not below the threshold price as set forth in the Purchase Agreement.

16 Ordinary shares

As consideration for entering into the Purchase Agreement, the Company initially issued to Lincoln Park 47,746 Ordinary Shares and is required to issue up to 38,197 additional Ordinary Shares pro rata as the Company requires Lincoln Park to purchase the Company's shares under the Purchase Agreement over the term of the agreement. The net proceeds under the Purchase Agreement to the Company will depend on the frequency and prices at which the Company sells shares to Lincoln Park. The Company expects that any proceeds received by the Company from such sales to Lincoln Park under the Purchase Agreement will be used for general corporate purposes and working capital requirements. This registration statement was terminated on December 21, 2016.

On February 23, 2016, the Company entered into a Securities Purchase Agreement (the “Purchase Agreement”) with Lincoln Park Capital Fund, LLC (“Lincoln Park”). In recognition of Lincoln Park’s belief in our company’s business and the potential value, under the terms and subject to the conditions of the Purchase Agreement, the Company will issue and sell to Lincoln Park, and Lincoln Park will purchase from the Company, at the closing (a) 175,000 ordinary shares (the “Initial Shares”) at a price of $3.50 per share and (b) a Warrant to purchase up to an additional 150,000 ordinary shares (the “Warrant Shares”) for a purchase price of $5.00 per share (the “Warrant”). Lincoln Park represented to the Company, among other things, that it was an “accredited investor” (as such term is defined in Rule 501 (a) of Regulation D under the Securities Act of 1933, as amended (the “Securities Act”), and the Company is selling the Initial Shares and the Warrant Shares in reliance upon an exemption from registration contained in Section 4(2) under the Securities Act. The securities sold may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. The Purchase Agreement and the Warrant contain customary representations, warranties, agreements and conditions. The Company expects that the net proceeds received by the Company from such sales to Lincoln Park under the Purchase Agreement and the Warrant will be used for general corporate purposes and working capital requirements.

The representations, warranties and covenants contained in the aforementioned agreements were made only for purposes of such agreements and as of specific dates, were solely for the benefit of the parties to such agreements, and may be subject to limitations agreed upon by the contracting parties, including being qualified by confidential disclosures exchanged between the parties in connection with execution of the agreements.

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.

(a) Net 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 2017 AUD$	**12 months to 31 December 2016 AUD$**
Basic and diluted net loss per share		
Net Loss for the year	**(23,128,387)**	(21,691,443)

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2017

16 Ordinary shares

(a) Net loss per share

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

	12 months to 31 December 2017	12 months to 31 December 2016
Weighted average number of ordinary shares used in the basic and diluted net loss per share calculation	**18,143,430**	15,809,277

(b) Capital Management

	31 December 2017	31 December 2016
	AUD$	AUD$
Total Liabilities	**41,521,027**	39,514,928
Total Equity	**(11,316,859)**	8,063,698
Debt-to-Equity Ratio	**(3.67)**	4.9

17 Reserves

	12 months to 31 December 2017	12 months to 31 December 2016
	AUD$	AUD$
Foreign currency translation reserve		
Opening balance	**(3,942,161)**	(3,214,558)
Currency translation differences arising during the period	**3,913,834**	(727,603)
	(28,327)	(3,942,161)
Share-based compensation reserve		
Opening balance	**3,757,536**	1,708,388
Share-based compensation expense	**(165,286)**	2,049,148
	3,592,250	3,757,536

(a) Foreign currency translation reserve

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

18 Accumulated Losses

	12 months to 31 December 2017	12 months to 31 December 2016
	AUD$	AUD$
Accumulated losses at the beginning of the financial period	**(55,273,928)**	(33,582,485)
Loss for the period	**(23,128,387)**	(21,691,443)
Accumulated losses at end of the financial period	**(78,402,315)**	(55,273,928)

19 Capital and Leasing Commitments

(a) Operating Leases

	31 December 2017	31 December 2016
	AUD$	AUD$
Minimum lease payments under non-cancellable operating leases:		
- not later than one year	**1,054,620**	1,160,056
- between one year and five years	**1,626,665**	4,289,646
- later than five years	**-**	2,306,881
	2,681,285	7,756,583

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 March of 2018 the Group finalized a contract with its US office landlord to reduce the size of the leased office space (starting May 31) to eliminate unnecessary space under lease. This substantially reduced the future rent expense for the US office, with annualized payments reducing from $450,585 to $85,140. In addition, this transaction reduced the lease term remaining by five years.

20 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

20 Financial Risk Management

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
- 2013 Parnell bonds
- 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.

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 2017

20 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 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
	AUD$	AUD$	AUD$	AUD$	AUD$	AUD$	AUD$	AUD$
Borrowings and warrants (excluding finance leases)	**-**	-	**-**	-	**-**	-	**32,822,681**	30,815,195
Trade payables	**3,143,515**	6,574,475	**-**	-	**-**	-	**-**	-

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2017

20 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 2017	$	$	$	$	$
Trade receivables	**723,931**	**-**	**-**	**-**	**1,355**
Borrowing cost asset	**637,889**	**-**	**-**	**-**	**-**
Trade payables	**(2,126,507)**	**(256)**	**-**	**-**	**(20,926)**
Loan facility	**(29,693,494)**	**-**	**-**	**-**	**-**
31 December 2016					
Trade receivables	2,018,666	-	-	-	-
Borrowing cost asset	926,776	-	-	-	-
Trade payables	(2,918,538)	(256)	(1,427,072)	(4,598)	-
Loan facility	(27,639,580)	-	-	-	-

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 2017 (31 December 2016: 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.

20 Financial Risk Management

If the Australian dollar had strengthened and weakened against the following currencies by 10% (31 December 2016: 10%) then this would have had the following impact:

	31 December 2017		31 December 2016	
	+10%	**-10%**	**+10%**	**-10%**
USD				
Net results/equity impact	**1,733,421**	**(1,575,837)**	1,312,791	(2,036,346)
CAD				
Net results/equity impact	**(24)**	**22**	(24)	22
NZD				
Net results/equity impact	**(2,528)**	**2,298**	-	-
GBP				
Net results	**-**	**-**	(160)	145
CHF				
Net results	**-**	**-**	(77,809)	70,735

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 2016 Term Loan facility and 2013 Parnell Bonds are fixed rate facilities; as such there is no interest sensitivity on these facilities.

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 $690,050 as at December 31, 2017.

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.

20 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 2017 AUD$	31 December 2016 AUD$
Cash at bank		
AA-	**1,156,981**	572,979
A-	**1,221,969**	6,542,519
	2,378,950	7,115,498

20 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 2017		31 December 2016	
	Net Carrying Value	Net Fair value	Net Carrying Value	Net Fair value
	AUD$	AUD$	AUD$	AUD$
Financial liabilities				
Long term loan	**29,693,484**	**29,500,262**	27,639,580	31,232,725
2013 Parnell bonds	**3,119,187**	**3,280,949**	3,119,188	3,774,218
	32,812,671	**32,781,211**	30,758,768	35,006,943

21 Key Management Personnel Disclosures

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

	12 months to 31 December 2017	12 months to 31 December 2016
	AUD$	AUD$
Short-term employee benefits	**1,493,641**	2,082,476
Long-term benefits	**47,817**	22,692
Share-based payments	**442,803**	837,358
	1,984,261	2,942,526

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 25: Related Party Transactions.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2017

22 Remuneration of Auditors

	12 months to 31 December 2017 AUD$	12 months to 31 December 2016 AUD$
Remuneration of the auditor of the parent entity, PricewaterhouseCoopers Australia, for:		
- auditing or reviewing the financial report	**195,000**	270,000
- SEC Registration statements	**-**	425,000
- taxation services	**22,000**	45,000
Total remuneration of PricewaterhouseCoopers Australia	**217,000**	740,000

23 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 2017	Percentage Owned (%)* 31 December 2016
Subsidiaries:			
Parnell Technologies Pty Limited	Australia	**100**	100
Parnell Pharmaceuticals Pty Limited	Australia	**100**	100
Parnell Laboratories (Aust) 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
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 Group Pty Limited	Australia	**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.

24 Contingencies

In the opinion of management, the Group did not have any material contingencies at December 31, 2017 (December 31, 2016: None).

25 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 2017	12 months to 31 December 2016
	AUD$	AUD$
Contributions to superannuation funds on behalf of employees	**312,595**	345,243
Rental and outgoings amounts paid to a Company controlled by a director	**628,682**	572,778
Interest paid/payable to associated connected to related parties for the 2013 Parnell Bonds	**156,442**	156,442
Consultancy fees paid to a director	**176,619**	218,587

As of 31 December 2017, $2,886,923 of 2013 Parnell Bonds to associates were outstanding. The 2013 Parnell Bond holders signed a deed of priority in November 2016 when the Group entered into a credit arrangement with SWK Holdings for a four-year USD $20,000,000 senior security credit facility. The deed gives the credit facility priority and does not allow for repayment of bonds prior to the repayment of the term facility.

The Company did not issue any Restricted Stock Units during the year ended 2017, 2016 (13,386), 2015 (68,909). Additionally the Company did not issue any stock options during the year ended December 31, 2017, 2016 (31,949), 2015 (488,515). The Company also issued 13,386 Restricted Stock Units and 31,949 stock options to directors of the Company in the year ended December 31, 2016 (six months ended June 30, 2015: 68,909 and 488,515 respectively, year ended December 31, 2014: Nil).

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 21: 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 23.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2017

26 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 2017	12 months to 31 December 2016
	AUD$	AUD$
Net (loss) attributable to members	**(23,128,387)**	(21,691,443)
Cash flows excluded		
- Capitalized finance costs	**-**	(302,699)
- Non-cash interest income	**(679,485)**	-
- Non cash interest expense	**4,809,489**	-
- Bad debts expense	**(1,420)**	4,286
Non-cash flows in profit:		
- depreciation and amortization	**7,956,755**	2,622,197
- Stock compensation expense	**303,303**	2,049,118
- Other operating expenses	**987,471**	-
- net exchange differences	**3,149,322**	1,006,886
Changes in assets and liabilities:		
- (increase)/decrease in trade and other receivables	**4,419,338**	3,125,955
- (increase) in inventories	**1,362,302**	(195,965)
- decrease in other assets	**(860,615)**	114,400
- (decrease) in capitalized debt interest	**(288,692)**	(3,365)
- increase in trade and other payables	**(1,568,824)**	1,037,804
- increase in deferred revenue	**1,689,394**	-
- increase in employee benefits	**-**	117,312
Cashflow from operations	**(1,850,049)**	(12,115,514)

27 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.

27 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, 2016.

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, 2017	12 months ended December 31, 2016
Share price at grant date per ordinary share	-	\$2.26 - \$2.60
Risk free interest rate	-	1.82 - 1.85%
Expected term (in years)	-	10
Expected volatility	-	44% - 48%
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, 2017:

	Shares Issuable Under Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2016	1,258,409	4.44	8.7	-
Granted	-	-		-
Exercised	-	-	-	-
Expired or forfeited	(1,208,478)	4.44	-	-
Outstanding as of December 31, 2017	49,931	4.44	1	-
Options vested and expected to vest, as of December 31, 2017	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, 2017 and December 31, 2016. The Company did not receive cash proceeds from stock option exercises for the years ended December 31, 2017 and December 31, 2016.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2017

27 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, 2017:

	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, 2016	13,386	2.60	1.08	-
Granted	1,337,869	1.05	0.16	-
Exercised	(6,692)	2.60	1	-
Expired or forfeited	(698,542)	1.05	1	-
Outstanding as of December 31, 2017	646,021	1.05	0.16	

On December 30, 2016 the board approved a grant of 782,702 shares of the Company's stock. This grant resulted in an additional AUD$744,371 of stock compensation expense.

For the years ended December 31, 2017 and December 31, 2016, share-based compensation expense/(recovery) was ($217) thousand and $2.2 million.

28 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 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 2017 AUD$	**31 December 2016 AUD$**
Balance sheet		
Assets		
Current assets	**41,700,232**	43,381,572
Non-current assets	**6,497,901**	6,201,013
Total Assets	**48,198,133**	49,582,585
Liabilities		
Current liabilities	**5,673,581**	1,215,729
Non-current liabilities	**4,433,405**	4,433,406
Total Liabilities	**10,106,986**	5,649,135
Equity		
Issued capital	**63,521,533**	63,522,251
Accumulated losses	**(29,608,964)**	(23,480,465)
Reserves	**4,178,578**	4,341,664
Total Equity	**38,091,147**	44,383,450

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2017

28 Parent entity

	31 December 2017 AUD$	31 December 2016 AUD$
Statement of comprehensive loss		
Total (loss)/profit for the year	**(6,988,194)**	(1,044,303)
Other comprehensive income	**-**	-
Total comprehensive income/(loss)	**(6,988,194)**	(1,044,303)

29 Events Occurring After the Reporting Date

The Group subsequent to year end also entered into a commercial agreement with a third party which provides an upfront payment, which the Group will receive before 30 June 2018, followed by further payments if milestones are achieved.

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.

30 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
Level 4
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 2017 are in accordance with the *Corporations Act 2001* and:

    a. comply with 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;

2. In the directors' opinion, there are reasonable grounds to believe that the Company 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	Director ....
Brad McCarthy (Chief Executive Officer)	Alan Bell (Executive Chairman)

Dated 27 April 2018

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 2017 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 2017
- the consolidated statement of loss and comprehensive loss for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- 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 and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2017, including the Directors' Report, but does not include the financial report and our auditor's report thereon.

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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 identified above 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 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 *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.

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
27 April 2018