Parnell Pharmaceuticals Holdings Limited

ABN: 32 137 904 413

Annual Report

For the Year Ended 31 December 2022

Parnell Pharmaceuticals Holdings Limited
ABN: 32 137 904 413

Contents

For the Year Ended 31 December 2022

Directors' Report

31 December 2022

The directors present their report, together with the financial statements of the Group, being Parnell Pharmaceuticals Holdings Limited (the Company) and its controlled entities (The Group), for the financial year ended 31 December 2022.

1. General information

Information on directors

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

Dr. Alan Bell	Chairman (Appointed Executive Director 9th January 2018)
Brad McCarthy	Executive Director (Appointed CEO 9th January 2018)
Douglas Schillinger	Independent Director (Appointed 21st December 2020)
Eric Moore	Independent Director (Appointed 21st December 2020)
John Benear II	Independent Director (Appointed 21st December 2020)

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

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

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

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

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

Directors' Report

31 December 2022

1. General information

Information on directors

Douglas Schillinger. Mr Schillinger is a Managing Director of DW Management, having joined in 2005. He has over fifteen years of experience in management consulting and strategic due diligence. Prior to joining DWHP in 2005, Mr Schillinger worked for Bain & Company, a leading international strategic consulting firm, in their private equity group. While there he led strategic due diligence in a number of industries and functions including healthcare services, consumer products and industrial manufacturing. Prior to joining Bain & Company, Mr Schillinger worked with Accenture, where he led several large-scale IT implementations and reengineering projects for Fortune 500 clients. Mr Schillinger holds an MBA degree with distinction from Harvard Business School and an undergraduate degree from Cornell University. Mr Schillinger is currently a member of the Investment Committee of DWHP and is a director of Parnell, Aequor, Beauty Health, Care XM, PPL, Spectrum, and Vets Plus.

Eric Moore. Mr Moore is a Managing Director, having joined the DWHP Private Equity Fund in 2015. Mr Moore has over ten years of investing, transaction, and financing experience. Mr Moore commenced his career in investment banking with Nomura before joining as an Associate of DWHP Canada. Immediately prior to re-joining DWHP Private Equity Fund, Mr Moore worked in operations at sPower, a high growth renewable energy company. Mr Moore holds a Bachelor of Science in Finance from the University of Denver and a Masters in Finance from Pace University. Mr Moore is currently a member of the investment committee of DWHP and is a director of Parnell, Bio Agri Mix, PPL, SoClean, Spectrum, and Vets Plus.

John Benear II. Mr Benear is a Founder and Managing Director of DW Healthcare Partners. He practiced medical oncology from 1984 – 2002. He worked as President at Cancer Care Associates as it grew from six to 42 doctors. Cancer Care Associates joined the US Oncology (NASDAQ:USON) network in 1995. At US Oncology he was on the Executive Committee, served as one of the first Medical Directors, was Vice Chairman of the Policy Board, served on the Executive Committee of the Pharmacy and Therapeutics Committee, and was Chairman of several pharmaceutical company research liaison boards. He has also served on numerous American Society of Clinical Oncology boards, committees and panels, including the Strategic Planning Committee in 1996, the Clinical Practice Committee, and the Managed Care Committee. He chaired the Managed Care and Practice Improvement Symposium for three years. He has served as a trustee or board member for the Leukemia Society of America, the American Cancer Society, and the Development Board for the Park City Hospital. He graduated from Rice University with a BA in Psychology in 1975. He completed medical school at Oklahoma University in 1979 and finished oncology training in 1984.

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 six products for companion and production animals in 10 countries and augment our pharmaceutical products with our proprietary mySYNCH® software platform.

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

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

Our History

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

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

Directors' Report

31 December 2022

1. General information

Principal activities and significant changes in nature of activities

We have constructed a sterile manufacturing facility located in Sydney, Australia which has been inspected by the FDA, and other regulatory agencies enabling us to manufacture products for sale in Australia, New Zealand, Canada as well as other jurisdictions under mutual recognition procedures. We believe this new facility provides us with a low cost and reliable supply of our products and has approximately 15% available capacity above our current manufacturing demand which in turn provides significant contract manufacturing and pipeline expansion opportunities. In 2016 we were awarded our first contract manufacturing agreement, followed by additional agreements in 2017 and 2019 and 2020, which has resulted in this business segment growing and now contributing 39% of our total revenues in this financial year. We intend to leverage our manufacturing facility to continue to expand this contract manufacturing business segment.

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, Gonabreed, and mySYNCH, our digital application for use by dairy producers and veterinarians and the recent launch of Respirmycin, a ready-to-use injectable solution containing tulathromycin, a trusted antibiotic to treat and control bovine respiratory disease (BRD) in cattle. Since 2015, we have also established a small presence in the U.S. market in the companion animal segment with the launch of Glyde for dogs.

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

Our Business

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

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

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

We have constructed a sterile manufacturing facility located in Sydney, Australia which has been inspected by the FDA, and other regulatory agencies enabling us to manufacture products for sale in Australia, New Zealand, Canada as well as other jurisdictions under mutual recognition procedures. We believe this new facility provides us with a low cost and reliable supply of our products and has approximately 15% 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 added further agreements in 2017, 2019 and 2020. We are continuing to seek further contract manufacturing opportunities with various pharmaceutical companies thereby establishing our contract manufacturing business segment as a profitable contributor to our corporate operations.

Directors' Report

31 December 2022

1. General information

Principal activities and significant changes in nature of activities

Our disease modifying product, Zydax®, for the treatment of osteoarthritis, or OA, in dogs and horses, both stimulates the growth of new cartilage and inhibits cartilage breakdown. OA is a slowly progressive and often severely debilitating degenerative joint disease, or DJD. The most common treatments for OA are 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 and have led to improved quality of life for dogs and improved performance of sport horses. In addition to Zydax we also have a nutraceutical product, Glyde®, which is a combination of glycoaminoglycans, a building block for cartilage (derived from chondroitin sulfate and glucosamine) and a potent natural antiinflammatory, eicosatetraenoic acid (derived from New Zealand greenlipped mussels). Glyde is currently marketed in Australia where we also market Zydax. We launched Glyde in the U.S. in September 2015.

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

Our Strategy

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

Directors' Report

31 December 2022

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, 2022	December 31, 2021	v%
Revenues	35,430	34,343	3%
Cost of Goods Sold	(14,786)	(13,823)	(7%)
Gross Margin	20,644	20,520	1%
Selling and Marketing expenses	(7,106)	(6,379)	(11%)
Regulatory and R&D expenses	(1,056)	(662)	(60%)
Administration expenses	(5,776)	(5,045)	(14%)
EBITDAOI*	6,706	8,434	(20%)
Non-recurring items	(32)	(61)	48%
Depreciation and Amortisation expenses	(3,753)	(4,679)	20%
Finance costs	(12,067)	(7,008)	(72%)
Other income/(expenses)	3,432	1,896	81%
Income/loss before income tax	(5,714)	(1,418)	(303%)
Income tax (expense)/benefit	(22)	(1)	(2100%)
Income/loss for the year	(5,736)	(1,419)	(304%)
Other comprehensive loss for the year, net of tax	(7,572)	(6,046)	(25%)
Total comprehensive loss for the year	(13,308)	(7,465)	(78%)

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

Review of Operational Results

Total 2022 revenue performance was $35.4 million, an increase of $1.1 million (3%) over the prior year. Underlying operations delivered a positive EBITDAOI result of $6.7 million, which was down year-on-year of $1.7 million.

Revenue:

Total revenue was $35.4 million for the twelve months ended December 31, 2022, being $1.1 million (3%) up over the same period in 2021.

Our operating segments performed as follows:

- Production Animal sales of $17.2 million globally for 2022 represented an decrease of $1.1 million (6%) over the same period in 2021, comprised of; 7% decline in US Production; 7% growth in Australia and 44% growth in New Zealand Production and 36% decline year on year in Rest of World Production. The performance in our direct markets (USA, Australia and New Zealand) was following a challenging environment as we emerged from COVID, with changes made in the US management team in the second half of 2022 to bolster credentials of the US management team and supports our market positioning and value proposition.
- Companion Animal sales of $4.4 million for the year ended December 31, 2022 was $0.2 million (4%) down on the same period in 2021, with US Companion declining 4% and Rest of World Companion down 3% over the same period in 2022.
- Contract Manufacturing revenues for 2022 were $13.8 million, an increase of 21% over revenues of $11.4 million for the same period in 2021. 2022 comprised batch delivery revenues of $12.3 million, compared to $10.5 million in 2021, and technology transfer revenues of $1.5 million, compared to $0.9 million in 2021.

Directors' Report

31 December 2022

2. Operating results and review of operations for the year

Expenses:

- Cost of Sales for the year ended December 31, 2022 were $14.8 million, compared to $13.9 million for the comparable period in 2021. Costs such as freight and logistics and material testing costs increased during the year as a result of the COVID-19 pandemic, these were partially offset by some savings in travel in Administration expenses. Gross margin as a percentage of revenue, using a Cost of Goods Sold Product basis, was 83% in 2022 unchanged from 83% in 2021.

- Selling and Marketing expenses increased by $0.7 million, or 11%, to $7.1 million for the 2022 year compared to the same period in 2021 resulting primarily to a return in US Production Animal sale and marketing costs and travel and entertainment sales related activity following COVID lock downs in the US in 2021.

- Regulatory and R&D spending for the year was a $0.4 million, or 60% increase over the same period in 2021 due to increases in regulatory fees and costs relating to the launch of a new product, Respirmycin, a ready-to-use injectable solution containing tulathromycin, a trusted antibiotic to treat and control bovine respiratory disease (BRD) in cattle.

- Administration expenses increased $0.7 million, or 14%, to $5.8 million in 2022 compared to $5.0 million for the same period in 2021, primarily due to increased travel and associated costs following reduced costs in 2021 as a result of the COVID-19 pandemic.

- Finance costs of $12.1 million for the twelve months ended December 31, 2022 increased by $5.1 million over the same period in 2021, due to costs associated with the White Oak loan facility the DWHP Note Payable and loss on Embedded derivative.

- Other Income/(expense) for the twelve months ended December 31, 2022 was income of $3.4 million compared to $1.9 million expense for the same period in 20121. This improvement was due to foreign exchange movements between the Australian dollar and the U.S. dollar for the period.

- Nonrecurring items for the twelve months ended December 31, 2022 were an expense of $0.03 million, being $0.03 million less than for the same period in 2021. In both 2022 and 2021 this item was all related to legal costs associated with ex-employee claims.

- Net impairment losses on accounts receivables for the twelve months ended December 31, 2022 were $Nil, unchanged from the same period in 2021.

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, 2022, before non-recurring items, decreased by $1.7 million to $6.7 million compared to $8.4 million for the same period in 2021. Including non-recurring items it was a $6.7 million profit in 2022 compared to $8.4 million in 2021. This was driven by total revenue being 3% up on prior year offset by continued investment in growth for our sales and marketing presence in the US Production Animal segment and our Contract Manufacturing business.

- Net loss after tax for the period ended December 31, 2022 increased by $4.3 million to $5.7 million loss compared to a $1.4 million loss for the same period in 2021 predominantly driven by total revenue being 3% up on prior year whilst continuing to invest in growth for our sales and marketing presence in the US Production Animal segment and our Contract Manufacturing business

Directors' Report

31 December 2022

3. Other items

Dividends paid or recommended

	Year Ended December 31, 2022	Year Ended December 31, 2021
	$	$
Dividends	-	-

There are no dividends paid or recommended during the period (Year Ended December 31, 2021: $Nil). Since the end of the period the directors have not recommended the payment of a dividend.

Events after the reporting date

On 6 December 2022 the Group announced a backstopped rights offering to raise gross proceeds of approximately US$4.0 million, by issuing 53,333,333 shares at US$0.075 per share. The rights offering was backstopped by existing investor DW Healthcare Partners V, L.P. and DW Healthcare Affiliates V, L.P. (collectively, 'DW Healthcare Partners") with existing qualifying shareholders entitled to exercise their subscription rights to purchase their pro rate share of the US$4.0 million offering amount. The rights offering completed on 11 January 2023 issuing the full allocation of shares and raising the full US$4.0 million. Prior to the rights offering, DW Healthcare partners owned 14,699,894 Ordinary Shares, representing approximately 49.6% of outstanding Ordinary Shares. Following the completion of the rights offering, DW Healthcare partners owned 46,680,951 Ordinary Shares, representing approximately 56.3% of outstanding Ordinary Shares.

On 6 April 2023, a special resolution was passed at a General Meeting of the Company, which approved the selective share buy-back of 923,050 shares held by or on behalf of Mr Robert Joseph and Mrs Kate Joseph and was pursuant to a Settlement and Mutual Release agreement between dated 4 November 2022 between Mr Robert Joseph and Mrs Kate Joseph and the Company.

On 28 April 2023, the Group entered into an Amendment White Oak Senior Debt facility for the Group for the remainder of the debt facility term, expiring 21 December 2025. Amendments for the senior debt facility included updating the interest terms from LIBOR + 6.5% to SOFR + 7.0%, and a SOFR floor rate of 4.0%) and relieving White Oak of the remaining US$0.65m revolving facility commitment. At the same time, White Oak provided the Group a waiver for a breach of loan covenants for the fiscal quarter ending 31 December 2022. As a result of receiving the waiver, the balance of the White Oak debt as at 28 April 2023 has been reclassified to a non-current liability as it is not repayable within 12 months.

At the time of signing this Annual Report, the Group had drawn US$3.35 million of the US$4 million revolving facility (2021 Annual Report: US$1.85 million drawn). The remaining US$0.65m of undrawn revolving facility will be relieved by White Oak as per the Amendments the Group entered into an Amendment White Oak Senior Debt facility on 28 April 2023.

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

Future developments and results

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

Directors' Report
31 December 2022

3. Other items

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

	Directors' Meetings	
	Number eligible to attend	Number attended
Dr Alan Bell	4	4
Brad McCarthy	4	4
Douglas Schillinger	4	4
Eric Moore	4	4
John Benear II	4	4

Indemnification and insurance of officers and auditors

During the year ended 31 December 2022, insurance premiums were paid for directors and officers liability by the Group of AUD$154,000 (2021: $277,000) 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 wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Options

The Company adopted a new 2021 Share Option Plan (the “2021 Plan”) in August 2021 to allow for the issuance of up to 3,291,103 shares to officers and employees, and other individuals, including non-employee directors. The Company can issue share options, share awards, share units, performance shares, performance units, and other share-based awards to eligible individuals. The 2021 Plan is administered by the Company's board of directors or committee designated by the Board to administer the 2021 Plan. All awards are evidenced by a written agreement between the Company and the holder of the award. The board of directors or its designated committee, has the authority to construe or interpret the terms of the 2021 Plan and awards granted under the 2021 Plan.

Pursuant to the 2021 Plan, the board of directors approved the initial issuance of stock option during the year ended December 31, 2021.

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 4.35 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 Market. The fair value of the share options was estimated using the following assumptions:

	12 months ended December 31, 2022	**12 months ended December 31, 2021**
Share price at grant date per ordinary share	USD$0.40	USD$0.40
Risk free interest rate	1.32%	1.32%
Expected term (in years)	3.35	4.35
Expected volatility	35%	35%
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.

Directors' Report
31 December 2022

Options

The following table summarizes share option activity for the year ended December 31, 2022:

	Shares Issuable Under Options	Weighted-Average Exercise Price	Weighted-Average Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2021	2,303,772	USD$0.36	3.7	-
Granted	-	-	-	-
Exercised	-	-	-	-
Expired or forfeited	-	-	-	-
Outstanding as of December 31, 2022	2,303,772	USD$0.36	3.7	-
Options vested and expected to vest as of December 31, 2022	-	-		

The following table summarizes share option activity for the year ended December 31, 2021:

	Shares Issuable Under Options	Weighted-Average Exercise Price	Weighted-Average Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2020	-	-	-	-
Granted	2,303,772	USD$0.36	3.7	-
Exercised	-	-	-	-
Expired or forfeited	-	-	-	-
Outstanding as of December 31, 2021	2,303,772	USD$0.36	3.7	-
Options vested and expected to vest as of December 31, 2021	-	-		

Directors' Report

31 December 2022

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 2022 has been received and can be found on page 12 of the financial report.

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

Director:	Director: ....
Brad McCarthy (Chief Executive Officer)	Alan Bell (Executive Chairman)

Dated: 9 April 2023

Auditor's Independence Declaration

As lead auditor for the audit of Parnell Pharmaceuticals Holdings Limited for the year ended 31 December 2022, 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 Limited and the entities it controlled during the period.

K.L.Woombell-Perry

Kerryn Woombell-Perry
Partner
PricewaterhouseCoopers

Sydney
9 May 2023

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 200
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

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

Consolidated statement of profit or loss and comprehensive income

	Note	12 months to 31 December 2022 AUD$	12 months to 31 December 2021 AUD$
Revenue	3	**35,429,707**	34,342,812
Other income/(expense)	3	**3,431,742**	1,896,412
Cost of goods sold		**(15,795,924)**	(14,900,883)
Selling and marketing expenses		**(7,107,004)**	(6,378,911)
Regulatory and research and development expenses		**(1,055,606)**	(662,126)
Administration expenses		**(8,550,068)**	(8,707,349)
Finance costs	4	**(12,067,213)**	(7,008,864)
(Loss)/profit before income tax		**(5,714,366)**	(1,418,909)
Income tax expense	5	**(22,159)**	(684)
(Loss)/profit for the period		**(5,736,525)**	(1,419,593)
Other comprehensive (loss)/income, net of income tax			
Items that will be reclassified subsequently to profit or loss			
Foreign currency translation		**(7,571,923)**	(6,046,099)
Other comprehensive (loss)/income for the year, net of tax		**(7,571,923)**	(6,046,099)
Total comprehensive loss for the year		**(13,308,448)**	(7,465,692)

Net earnings/(loss) per share		AUD$	AUD$
Net earnings/(loss) attributable to common stockholders, basic and diluted	18(a)	(0.19)	(0.05)

The accompanying notes form part of these financial statements.

Consolidated balance sheet

	Note	31 December 2022 AUD$	31 December 2021 AUD$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	**1,833,759**	4,483,213
Trade and other receivables	9	**2,549,012**	2,216,308
Inventories	10	**3,898,412**	3,740,226
Other assets		**1,266,157**	1,233,912
TOTAL CURRENT ASSETS		**9,547,340**	11,673,659
NON-CURRENT ASSETS			
Trade and other receivables	9	**19,127**	17,859
Plant and equipment	11	**9,506,661**	9,698,174
Intangible assets	12	**18,845,468**	15,035,317
Right-of-use assets	13	**3,857,761**	3,682,582
TOTAL NON-CURRENT ASSETS		**32,229,017**	28,433,932
TOTAL ASSETS		**41,776,357**	40,107,591
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	14	**8,327,065**	9,791,467
Borrowings	15	**28,100,716**	230,638
Employee benefits	17	**1,319,303**	1,419,788
Lease liabilities	13	**627,823**	460,030
TOTAL CURRENT LIABILITIES		**38,374,907**	11,901,923
NON-CURRENT LIABILITIES			
Borrowings	15	**46,476,679**	58,504,537
Employee benefits	17	**537,792**	308,164
Lease liabilities	13	**4,383,227**	4,181,195
TOTAL NON-CURRENT LIABILITIES		**51,397,698**	62,993,896
TOTAL LIABILITIES		**89,772,605**	74,895,819
NET ASSETS/ (LIABILITIES)		**(47,996,248)**	(34,788,228)
EQUITY			
Ordinary shares	18	**68,010,674**	68,010,674
Share-based compensation reserve	19	**3,389,448**	3,289,020
Reserves	19	**(11,724,678)**	(4,152,755)
Accumulated losses	20	**(107,671,692)**	(101,935,167)
TOTAL EQUITY		**(47,996,248)**	(34,788,228)

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

	Ordinary Shares	Retained Earnings	Foreign Currency Translation Reserve	Option Reserve	Total
	AUD$	AUD$	AUD$	AUD$	AUD$
Balance at 1 January 2022	**68,010,674**	**(101,935,167)**	**(4,152,755)**	**3,289,020**	**(34,788,228)**
Loss for the period	**-**	**(5,736,525)**	**-**	**-**	**(5,736,525)**
Other comprehensive income for the period	**-**	**-**	**(7,571,923)**	**-**	**(7,571,923)**
Transactions with owners in their capacity as owners					
Share based payment transactions	**-**	**-**	**-**	**100,428**	**100,428**
Balance at 31 December 2022	**68,010,674**	**(107,671,692)**	**(11,724,678)**	**3,389,448**	**(47,996,248)**
Balance at 1 January 2021	63,515,902	(100,515,574)	1,893,344	3,251,515	(31,854,813)
Loss for the period	-	(1,419,593)	-	-	(1,419,593)
Other comprehensive income for the period	-	-	(6,046,099)	-	(6,046,099)
Transactions with owners in their capacity as owners					
Contribution of equity, net of transaction costs	4,494,772	-	-	-	4,494,772
Share based payment transactions	-	-	-	37,505	37,505
Balance at 31 December 2021	68,010,674	(101,935,167)	(4,152,755)	3,289,020	(34,788,228)

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

	Note	12 months to 31 December 2022 AUD$	12 months to 31 December 2021 AUD$
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers		**35,821,457**	35,722,820
Payments to suppliers and employees		**(31,439,198)**	(27,312,249)
Interest received		**165**	156
Finance costs		**(1,998,543)**	(2,957,492)
Income taxes paid		**(21,311)**	(655)
Net cash provided by operating activities	26	**2,362,570**	5,452,580
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment		**(905,180)**	(891,527)
Purchases of intangible assets		**(5,717,248)**	(3,273,729)
Net cash used in investing activities		**(6,622,428)**	(4,165,256)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from bank loans		**3,184,502**	1,378,170
Repayment of bank loans		**(236,162)**	(220,508)
Payment of borrowings costs		**(371,320)**	(559,863)
Payment of lease liabilities		**(575,082)**	(530,687)
Net cash provided by financing activities		**2,001,938**	67,112
Net (decrease)/increase in cash and cash equivalents held		**(2,257,920)**	1,354,436
Cash and cash equivalents at beginning of period		**4,483,213**	4,028,240
Effects of exchange rate changes on cash and cash equivalents		**(391,534)**	(899,463)
Cash and cash equivalents at end of financial year	8	**1,833,759**	4,483,213

The accompanying notes form part of these financial statements.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

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.F' and is a for-profit group.

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

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

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

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

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

This financial report covers the consolidated financial statements of the Group and were authorised for issue by the directors on 9 May 2023. The directors have the power to amend and reissue the financial statements.

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.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

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 2022, the Group experienced a loss from continuing operations of AUD ($5.7m) (2021: AUD loss ($1.4m) and operating cash inflows of AUD $2.4m (2021: AUD $5.5m).

The Group has focused on setting the business for future profitability and growth with this seen in the underlying EBITDAOI (excluding one-offs) for 2022 being AUD $6.7m (2021: AUD $8.4m).

The Group, at 31 December 2022, has a net liability position of AUD ($48.0m) (2021: AUD ($34.8m)) and a net current liability position of AUD ($28.8m) (2021: AUD ($0.2m). Included within current liabilities is the Group's White Oak senior debt facility to the value of $28.1 million. As a result of a breach in covenants as at 31 December 2022, which were waived subsequent to year end, the balance has been classified as a current liability.

On 6 December 2022 the Group announced a backstopped rights offering to raise gross proceeds of approximately US$4.0 million, by issuing 53,333,333 shares at US$0.075 per share. The rights offering was backstopped by existing investor DW Healthcare Partners V, L.P. and DW Healthcare Affiliates V, L.P. (collectively, 'DW Healthcare Partners") with existing qualifying shareholders entitled to exercise their subscription rights to purchase their pro rate share of the US$4.0 million offering amount. The rights offering completed on 11 January 2023 issuing the full allocation of shares and raising the full US$4.0 million. Prior to the rights offering, DW Healthcare partners owned 14,699,894 Ordinary Shares, representing approximately 49.6% of outstanding Ordinary Shares. Following the completion of the rights offering, DW Healthcare partners owned 46,680,951 Ordinary Shares, representing approximately 56.3% of outstanding Ordinary Shares. The US$4 million raised from the rights offering is to be used for working capital purposes and general corporate purposes, including animal health drug development and investment in capital equipment for manufacturing operations, the servicing of our debt obligations, and to otherwise provide operational flexibility.

The Directors and management have developed a strategy focussing on customer success, revenue growth, integration of technology, manufacturing capabilities and the delivery of new, innovative products to deliver revenue and profit growth over the next 12 months and beyond.

The Group has prepared projected cash flow information for 12 months from the expected signing of the financial statements, taking into consideration the estimation of the continued business impacts that may occur. These forecasts indicate that, taking account of reasonably possible downsides, the Group is expected to continue to operate, based on an assessment of forward earnings, existing cash levels and having the ongoing support of financiers.

Critical to the forecasts and the Group's ability to achieve these are key assumptions regarding the business, business model, any legal or regulatory restrictions, financing support, including:

- launching of a new product in early 2023 calendar year (Respirmycin) with a pipeline of other products to successfully follow in 2024;
- investing in and seeing the returns from a highly successful sales team;
- contract manufacturing revenue continuing to grow from existing contracts as well as the winning of new clients;
- increasing the utilisation of the Group's manufacturing facility;

The Group continues to meet its cost targets and manage cash flow uncertainties by monitoring the operating cash flow by each operating location and product.

2 Summary of Significant Accounting Policies

(b) Going Concern

As at December 31, 2022 both the term facility and the revolving facility have a maturity date of 21 December 2025, with interest terms of LIBOR + 6.5% (with a LIBOR floor of 1.25%). On 28 April 2023, the Group entered into an Amendment White Oak Senior Debt facility for the Group for the remainder of the debt facility term, expiring 21 December 2025. Amendments for the senior debt facility included updating the interest terms from LIBOR + 6.5% to SOFR + 7.0%, and a SOFR floor rate of 4.0%) and relieving White Oak of the remaining US$0.65m revolving facility commitment.

At the time of signing this Annual Report, the Group had drawn US$3.35 million of the US$4 million revolving facility (2021 Annual Report: US$1.85 million drawn). The remaining US$0.65m of undrawn revolving facility will be relieved by White Oak as per the Amendments the Group entered into an Amendment White Oak Senior Debt facility on 28 April 2023.

The Directors and management have a responsibility to prepare the financial statements in accordance with accounting standards, which requires entities to prepare financial statements on a going concern basis unless the directors intend to liquidate the entity, cease trading or have no realistic alternative but to do so. No adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or classification of liabilities that might be necessary should the Group not continue as a going concern.

With the secured DWHP and the Amended White Oak Agreements, in conjunction with the operational growth of the Company, the Directors and management believe that the Group has sufficient available cashflows for the coming 12 month period and expect to be in compliance with financial covenants for the Amended White Oak Agreement, and accordingly, have prepared the financial report on a going concern basis.

(c) Critical accounting estimates and judgments

Key estimates

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

Impairment of long life assets

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

Estimated useful life of long life assets

Refer to accounting policy note 2(p) for key estimates made in relation to useful lives.

2 Summary of Significant Accounting Policies

(c) Critical accounting estimates and judgments

Income taxes

The Group has not recognised deferred tax assets relating to carried forward tax losses as at December 31, 2022. However, utilization of the tax losses going forward will depend on the ability of the entity, to satisfy certain tests at the time the losses are recouped.

Lease accounting

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

Embedded derivatives

Refer to note 15 for key estimates in relation to embedded derivatives.

Key judgements

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

(d) Principles of Consolidation

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

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

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

All controlled entities have a December financial year end.

A list of controlled entities is contained in Note 24 to the financial statements.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the parent has control. Control is established when the parent is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity.

(e) Operating segments

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

2 Summary of Significant Accounting Policies

(f) Income Tax

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

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

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

Deferred tax is not provided for the following:

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

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

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

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

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

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

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

2 Summary of Significant Accounting Policies

(g) Revenue and other income

Revenue from contracts with customers

The core principle of AASB 15 is that revenue is recognised on a basis that reflects the transfer of promised goods or services to customers at an amount that reflects the consideration the Group expects to receive in exchange for those goods or services. Revenue is recognised by applying a five-step model as follows:

1. Identify the contract with the customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognise revenue as and when control of the performance obligations is transferred

Revenue on the sale of goods and services is recognised when a contractual promise to a customer (performance obligation) has been fulfilled by transferring control over the promised good to the customer, substantially all of which is at the point in time of receipt of the products by the customer and customer has accepted the product.

The amount of revenue to be recognised is based on the consideration the group expects to receive in exchange for its goods and services and that the contract has commercial substance and consideration is probable for collection. If a contract contains more than one performance obligation, the consideration is allocated based on the standalone selling price of each performance obligation.

Specific revenue streams

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

- Sale of Goods

- Services Revenue

Government tax credit

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

Interest revenue

Interest is recognised using the effective interest method.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

2 Summary of Significant Accounting Policies

(h) Goods and Services Tax (GST)

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

Receivables and payable are stated inclusive of GST.

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

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

(i) Cash and cash equivalents

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

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

(j) Leases

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

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

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

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

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

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

Exceptions to lease accounting

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

2 Summary of Significant Accounting Policies

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

(l) Inventories

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

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

(m) Property, Plant and Equipment

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

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

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

Depreciation

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

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

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

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

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

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

2 Summary of Significant Accounting Policies

(m) Property, Plant and Equipment

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

Capital works in progress of AUD$902,145 relates to enhancements to the manufacturing facility (December 31, 2021: $968,518).

(n) Financial instruments

Fair value measurement

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

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

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Financial assets

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

Classification

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

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

2 Summary of Significant Accounting Policies

(n) Financial instruments

Financial assets

Amortised cost

Assets measured at amortised cost are financial assets where:

- the business model is to hold assets to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows are solely payments of principal and interest on the principal amount outstanding.

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

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

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

Impairment of financial assets

Impairment of financial assets is recognised on an expected credit loss (ECL) basis for the following assets:

- financial assets measured at amortised cost

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

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

The Group uses the presumption that a financial asset is in default when:

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

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

Trade receivables and contract assets

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

2 Summary of Significant Accounting Policies

(n) Financial instruments

Financial assets

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

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

Other financial assets measured at amortised cost

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

Financial liabilities

The Group classifies financial liabilities into either:
- liabilities measured at fair value through profit or loss; or
- other financial liabilities.

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

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

(o) Impairment of non-financial assets

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

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

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

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

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

2 Summary of Significant Accounting Policies

(p) Intangible Assets

Research and development

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

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

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

The expenditure capitalized comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which is estimated at; 10 years for product registrations, 5 years for digital technology projects, and 20 years for manufacturing facility projects.

IT development and software

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

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

(q) Trade and other payables

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

(r) Provisions

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

2 Summary of Significant Accounting Policies

(r) Provisions

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

(s) Employee benefits

(i) Short-term obligations

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

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

(ii) Other long-term employee benefit obligations

The liabilities for long service leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

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

(iii) Profit-sharing and bonus plans

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

(iv) Share-based payments

The Group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The amount to be expensed is determined by reference to the fair value of the options or shares granted, this expense takes in account any market performance conditions and the impact of any non-vesting conditions but ignores the effect of any service and non-market performance vesting conditions.

2 Summary of Significant Accounting Policies

(s) Employee benefits

Non-market vesting conditions are taken into account when considering the number of options expected to vest. At the end of each reporting period, the Group revises its estimate of the number of options which are expected to vest based on the non-market vesting conditions. Revisions to the prior period estimate are recognised in profit or loss and equity.

(t) Borrowings

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

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

For compound debt instrument with an embedded conversion to share option (where the conversion option results in no exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments), a financial liability relating to the cash settlement of the debt host is recognised and carried at amortised cost using the effective interest rate method. An embedded derivative liability relating to the conversion option is also separately recognised and measured at fair value. Under AASB 9, the initial carrying amount of the debt host is the residual amount after separating the embedded derivative. The total fair value of the embedded derivative will be deducted from the fair value of the instrument as a whole. The debt host is subsequently measured at amortised cost using the effective interest rate method until extinguished on conversion or maturity of the bonds and the embedded derivative liability is subsequently measured at fair value with any gains or loss recognised through the profit and loss.

Embedded derivatives are valued using option pricing techniques, including the Monte Carlo model. Given that, at the time of performing valuations, the Group's shares were not listed on a major exchange, the resulting valuations are classified as level 3 (refer to note 2(n) Fair Value Measurements) and therefore to be considered as a critical estimate/judgement in note 2(c).

Where there is a modification of loan terms, AASB 9 requires that debt instruments with substantially different terms need to be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. A debt instrument is substantially modified if the net present value of the cash flows under the new terms discounted at the original effective interest rate is at least 10% different from the discounted present value of the remaining cash flows of the original debt instruments. The discounted present value of the remaining cash flows of the original debt instrument used in the 10% test must also be determined using the original effective interest rate so that there is a 'like for like' comparison.

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

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

(u) Capitalised borrowing costs

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

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

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

2 Summary of Significant Accounting Policies

(v) Finance costs

Finance costs are expensed in the period in which they are incurred.

(w) Contributed equity

Ordinary shares are classified as equity.

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

(x) Dividends

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

(y) Net earnings/(loss) per share

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

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

(ii) Diluted net earnings/loss per share
Diluted net loss per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

For periods in which the Company has reported net earnings/losses, diluted net income/loss per share attributable to common shareholders is the same as basic net earnings/loss per share attributable to common stockholders, since their impact would be anti-dilutive to the calculation of net earnings/loss per share. Diluted net income/loss per share attributable to common stockholders is the same as basic net earnings/loss per share attributable to common stockholders for the years ended December 31, 2022 and December 31, 2021 respectively.

Notes to the Consolidated Financial Statements
For the Fiscal Period Ended 31 December 2022

2 Summary of Significant Accounting Policies

(z) Foreign currency transactions and balances

Functional and presentation currency

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

Transaction and balances

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

At the end of the reporting period:

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

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

Group companies

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

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

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

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

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 annual reporting period commencing 1 January 2022:
• AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments [AASB 1, AASB 3, AASB 9, AASB 116, AASB 137 & AASB 141].

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(ab) New Accounting Standards and Interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

3 Revenue and Other Income

	12 months to 31 December 2022 AUD$	12 months to 31 December 2021 AUD$
Sales revenue		
Sale of goods	**33,925,925**	33,343,758
Services revenue	**1,503,782**	999,054
	35,429,707	34,342,812

Other Income/(Expense)		
Foreign exchange gain/(loss)	**3,859,149**	2,073,450
Share based compensation expense	**(427,573)**	(177,194)
Other income	**166**	156
	3,431,742	1,896,412

4 Expenses

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

	Note	12 months to 31 December 2022 AUD$	12 months to 31 December 2021 AUD$
Interest expense		**8,812,988**	7,922,758
Embedded derivative loss/(gain)		**2,674,310**	(1,603,705)
Borrowing costs		**1,147,465**	1,021,034
Amounts capitalised	(b)	**(567,550)**	(331,223)
Finance costs expensed		**12,067,213**	7,008,864
Depreciation		**1,819,027**	1,847,181
Amortisation		**1,938,864**	2,831,687
Employee benefits expense		**13,717,679**	12,371,286
Rental expense relating to short term/low value leases		**185,134**	177,393
Defined contribution superannuation expense		**781,410**	675,813
Net impairment losses on accounts receivables		**3,814**	84,782

(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, 2022, in this case 9.6% (year ended December 31, 2021: 8.25%).

Notes to the Consolidated Financial Statements
For the Fiscal Period Ended 31 December 2022

5 Income Tax Expense

(a) The major components of tax expense comprise:

	12 months to 31 December 2022 AUD$	12 months to 31 December 2021 AUD$
Current tax expense	**22,159**	684
Income tax expense	**22,159**	684

(b) Reconciliation of income tax to accounting profit:

	12 months to 31 December 2022 AUD$	12 months to 31 December 2021 AUD$
Loss before income tax	**(5,714,366)**	(1,418,909)
At 30% tax rate	**(1,714,310)**	(425,673)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
- Expenses/(income) not deductible/(assessable) for tax purposes	**802,293**	(481,111)
- Difference in overseas tax rates	**263,633**	453,990
- Tax losses unrecognised during the year	**670,543**	2,575,155
- Prior year (under)/over provision	**-**	(2,121,677)
Income tax expense	**22,159**	684

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

5 Income Tax Expense

	12 months to 31 December 2022 AUD$	12 months to 31 December 2021 AUD$
Unrecorded tax losses		
Potential tax benefit @ 30% for unused tax losses for which no deferred tax asset has been recognised - available for use in Australia	**1,557,063**	-
Potential tax benefit @ 21% for unused tax losses for which no deferred tax asset has been recognised - available for use in USA	**17,099,520**	15,060,890
	18,656,583	15,060,890
Total tax losses		
Potential tax benefit @ 30% for total Australian tax losses carried forward	**12,529,254**	10,216,446
Potential tax benefit @ 21% for total USA tax losses carried forward	**17,099,520**	15,769,746
	29,628,774	25,986,192
Total unused tax losses	**123,190,463**	109,148,847

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

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

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

6 Tax

	Opening Balance AUD$	Charged to Income AUD$	Exchange Differences AUD$	Unrecognized AUD$	Closing Balance AUD$
Deferred tax assets					
Provisions	106,349	126,306	-	-	232,655
Accruals	115,828	665,783	-	-	781,611
Lease liabilities	1,551,995	(166,087)	-	-	1,385,908
Assessed losses	-	3,773,790	-	-	3,773,790
Balance at 31 December 2021	1,774,172	4,399,792	-	-	6,173,964
Provisions	**232,655**	**307,263**	**-**	**-**	**539,918**
Accruals	**781,611**	**(164,871)**	**-**	**-**	**616,740**
Lease liabilities	**1,385,908**	**45,422**	**-**	**-**	**1,431,330**
Assessed losses	**3,773,790**	**755,745**	**-**	**-**	**4,529,535**
Balance at 31 December 2022	**6,173,964**	**943,559**	**-**	**-**	**7,117,523**

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

6 Tax

	Opening Balance AUD$	Charged to Income AUD$	Exchange Differences AUD$	Unrecognized AUD$	Closing Balance AUD$
Deferred tax liability					
Intangible assets	442,558	2,534,220	-	-	2,976,778
Unrealised foreign exchange	(1,642,649)	2,196,811	-	-	554,162
Right of use asset	1,316,364	(211,589)	-	-	1,104,775
Borrowing cost asset	1,657,899	(119,650)	-	-	1,538,249
Balance at 31 December 2021	1,774,172	4,399,792	-	-	6,173,964
Intangible assets	**2,976,778**	**459,500**	**-**	**-**	**3,436,278**
Unrealised foreign exchange	**554,162**	**638,948**	**-**	**-**	**1,193,110**
Right of use asset	**1,104,775**	**52,554**	**-**	**-**	**1,157,329**
Borrowing cost asset	**1,538,249**	**(207,443)**	**-**	**-**	**1,330,806**
Balance at 31 December 2022	**6,173,964**	**943,559**	**-**	**-**	**7,117,523**

During 2022, management evaluated the evidence bearing upon the realizability of its deferred tax assets, which primarily consist of net loss carry forward losses. 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 costs incurred with the development of an FDA approved manufacturing facility and other tax planning strategies.

Based on the analysis management determined that the Group will not utilize the tax benefit of $18,656,582 as of December 31, 2022 ($15,060,890 as of December 31, 2021) and accordingly did not record these amounts as a deferred tax asset at December 31, 2022 or December 31, 2021. This element of unrecognised future tax benefits will be assessed by management going forward and maybe recorded at a point in which management believes they will be utilised.

7 Segment Information

Description of segments

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

Companion Animal

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

Production Animal - U.S.

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

7 Segment Information

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.

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 2022

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 2022						
Revenues						
Products	4,356,306	14,307,200	2,926,515	13,839,686	-	35,429,707
Total Revenues	**4,356,306**	**14,307,200**	**2,926,515**	**13,839,686**	**-**	**35,429,707**
Cost of Sales						
Products	(1,078,973)	(2,069,294)	(789,702)	(2,881,282)	-	(6,819,251)
Facility costs	-	-	-	(7,967,113)	-	(7,967,113)
Total Costs of Sales	(1,078,973)	(2,069,294)	(789,702)	(10,848,395)	-	(14,786,364)
Gross Margin	**3,277,333**	**12,237,906**	**2,136,813**	**2,991,291**	**-**	**20,643,343**
Segment Costs	(2,112,824)	(4,692,346)	(297,079)	-	**(6,835,586)**	(13,937,835)
Adjusted EBITDAOI	**1,164,509**	**7,545,559**	**1,839,735**	**2,991,291**	**(6,835,586)**	**6,705,508**

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

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 2021						
Revenues						
Products	4,543,632	15,334,579	3,011,061	11,453,540	-	34,342,812
Total revenues	**4,543,632**	**15,334,579**	**3,011,061**	**11,453,540**	**-**	**34,342,812**
Cost of sales						
Products	(1,146,359)	(1,931,179)	(911,164)	(2,275,933)	-	(6,264,635)
Facility costs	-	-	-	(7,557,872)	-	(7,557,872)
Total Cost of Sales	(1,146,359)	(1,931,179)	(911,164)	(9,833,805)	-	(13,822,507)
Gross Margin	**3,397,273**	**13,403,400**	**2,099,897**	**1,619,735**	**-**	**20,520,305**
Segment Costs	(1,976,495)	(4,113,475)	(288,346)	-	(5,708,253)	(12,086,569)
Adjusted EBITDAOI	**1,420,778**	**9,289,925**	**1,811,551**	**1,619,734**	**(5,708,253)**	**8,433,735**

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

7 Segment Information

(b) Reconciliations

Cost of sales reconciliation

	12 months to 31 December 2022 AUD$	12 months to 31 December 2021 AUD$
Total segment cost of sales	**(14,781,521)**	(13,822,507)
Depreciation and amortization expense	**(1,014,403)**	(1,078,376)
Total cost of sales	**(15,795,924)**	(14,900,883)

Reconciliation of Adjusted EBITDAOI result to loss before income tax

	12 months to 31 December 2022 AUD$	12 months to 31 December 2021 AUD$
Adjusted EBITDAOI	**6,705,596**	8,433,735
Non-recurring items	**(31,802)**	(61,322)
Other income/(expense) - net	**3,431,742**	1,896,410
Depreciation	**(1,817,801)**	(1,847,181)
Amortization	**(1,934,888)**	(2,831,687)
Finance costs	**(12,067,213)**	(7,008,864)
Profit/(loss) before income tax	**(5,714,366)**	(1,418,909)

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 2022

7 Segment Information

(b) Reconciliations

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

	12 months to 31 December 2022 AUD$	12 months to 31 December 2021 AUD$
Segment and unallocated costs	**(13,942,589)**	(12,086,570)
Depreciation and amortization expense	**(2,738,286)**	(3,600,494)
Non-recurring items	**(31,803)**	(61,322)
Operating costs as presented in the statement of comprehensive profit or loss	**(16,712,678)**	(15,748,386)
Selling and marketing expenses	**(7,109,697)**	(6,378,911)
Regulatory expenses	**(1,055,606)**	(662,126)
Administration expenses	**(8,547,375)**	(8,707,349)
Operating costs as presented in statement of comprehensive profit or loss	**(16,712,678)**	(15,748,386)

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

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, 2022 in Australia totalling $4,245,464 (year ended December 31, 2021: $4,209,203) revenues from external customers in the USA totalling $29,856,524 (year ended December 31, 2021: $28,615,070), revenues from external customers in New Zealand totalling $631,915 (year ended December 31, 2021: $440,041) and the total revenues from external customers in other countries totalling $695,804 (year ended December 31, 2021: $1,078,498). Segment revenues are based on the country in which the customer is based.

	No of customers 31 December 2022	No of customers 31 December 2021	Total revenues 31 December 2022 AUD$	Total revenues 31 December 2021 AUD$
Major customers				
Production Animal - US	2	2	13,769,029	15,253,938
Manufacturing Operations	1	1	12,335,904	10,454,485

8 Cash and cash equivalents

	31 December 2022 AUD$	31 December 2021 AUD$
Cash on hand	**1,119**	1,092
Cash at bank	**1,832,640**	4,482,121
	1,833,759	4,483,213

(a) Risk exposure

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

9 Trade and other receivables

	31 December 2022 AUD$	31 December 2021 AUD$
CURRENT		
Trade receivables	**2,500,942**	2,208,162
Other receivables	**48,070**	8,146
	2,549,012	2,216,308

	31 December 2022 AUD$	31 December 2021 AUD$
NON-CURRENT		
Other receivables	**19,127**	17,859
Total non-current	**19,127**	17,859

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

(a) Amounts recognised in profit or loss

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

	Year ended 31 December 2022 AUD$	Year ended 31 December 2021 AUD$
Bad debts written off/(recovered)	**3,814**	84,782
Provision for doubtful debts	**-**	-

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

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 2022 AUD$	31 December 2021 AUD$
Australia	**280,993**	323,983
United States of America	**2,199,145**	1,114,244
	2,480,138	1,438,227

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 2022				
Trade and term receivables	**1,097,146**	**533,873**	**74,083**	**794,781**
31 December 2021				
Trade and term receivables	707,764	267,533	281,089	194,471

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 2022

9 Trade and other receivables

(b) Impairment of receivables

The Group applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance provision as at 31 December 2022 is determined as follows, the expected credit losses incorporate forward looking information.

31 December 2022	Current	< 30 days overdue	< 90 days overdue	> 90 days overdue	Total
Expected loss rate (%)	-	-	-	-	-
Gross carrying amount ($)	-	-	-	-	-
ECL provision	-	-	-	-	-

31 December 2021	Current	< 30 days overdue	< 90 days overdue	> 90 days overdue	Total
Expected loss rate (%)	-	-	-	-	-
Gross carrying amount ($)	-	-	-	-	-
ECL provision	-	-	-	-	-

10 Inventories

	31 December 2022 AUD$	31 December 2021 AUD$
CURRENT		
Raw materials and consumables	**2,115,869**	2,127,045
Work in progress	**653,928**	599,904
Finished goods	**1,128,615**	1,013,277
	3,898,412	3,740,226

Write downs of inventories to net realizable value during the year were $Nil (year ended December 31, 2021: $Nil).

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

11 Plant and equipment

	31 December 2022 AUD$	31 December 2021 AUD$
Capital works in progress		
At cost	**902,145**	968,518
Plant and equipment		
At cost	**18,629,739**	17,816,084
Accumulated depreciation	**(10,201,420)**	(9,199,142)
Total plant and equipment	**8,428,319**	8,616,942
Leased plant and equipment		
Capitalised leased assets	**122,254**	122,254
Accumulated depreciation	**(122,254)**	(122,254)
Total leased plant and equipment	**-**	-
Office equipment		
At cost	**580,355**	436,791
Accumulated depreciation	**(404,158)**	(324,077)
Total office equipment	**176,197**	112,714
Total plant and equipment	**9,506,661**	9,698,174

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

11 Plant and equipment

(a) Movements in carrying amounts of plant and equipment

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

Consolidated	Capital Works in Progress AUD$	Plant and Equipment AUD$	Office Equipment AUD$	Total AUD$
Year ended 31 December 2022				
Balance at the beginning of year	**968,518**	**8,616,942**	**112,714**	**9,698,174**
Additions	**868,646**	**-**	**15,106**	**883,752**
Transfers	**(935,019)**	**825,780**	**109,239**	**-**
Foreign exchange movements	**-**	**-**	**5,870**	**5,870**
Depreciation expense	**-**	**(1,014,403)**	**(66,732)**	**(1,081,135)**
Balance at the end of the year	**902,145**	**8,428,319**	**176,197**	**9,506,661**

Consolidated	Capital Works in Progress AUD$	Plant and Equipment AUD$	Office Equipment AUD$	Total AUD$
Year ended 31 December 2021				
Balance at the beginning of year	588,304	9,271,148	89,207	9,948,659
Additions	887,605	-	(5,705)	881,900
Transfers	(507,391)	424,169	83,222	-
Depreciation expense	-	(1,078,375)	(56,548)	(1,134,923)
Foreign exchange movements	-	-	2,538	2,538
Balance at the end of the year	968,518	8,616,942	112,714	9,698,174

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

12 Intangible Assets

	31 December 2022 AUD$	31 December 2021 AUD$
Development costs		
Cost	**49,982,908**	42,981,607
Grants	**(10,507,789)**	(10,507,789)
Accumulated amortisation	**(20,655,654)**	(17,438,501)
Total development costs	**18,819,465**	15,035,317
Cost	**234,932**	204,953
Accumulated amortisation	**(208,929)**	(204,953)
Total computer software	**26,003**	-
Total Intangibles	**18,845,468**	15,035,317

(a) Movements in carrying amounts of intangibles

Consolidated	Development costs AUD$	Computer software AUD$	Total AUD$
Year ended 31 December 2022			
Balance at the beginning of the year	**15,035,317**	**-**	**15,035,317**
Additions	**6,454,328**	**29,980**	**6,484,308**
Amortisation	**(1,934,888)**	**(3,976)**	**(1,938,864)**
Foreign exchange movements	**(735,292)**	**(1)**	**(735,293)**
Closing value at 31 December 2022	**18,819,465**	**26,003**	**18,845,468**
Year ended 31 December 2021			
Balance at the beginning of the year	14,424,968	-	14,424,968
Additions	3,959,161	-	3,959,161
Amortisation	(2,831,687)	-	(2,831,687)
Foreign exchange movements	(517,125)	-	(517,125)
Closing value at 31 December 2021	15,035,317	-	15,035,317

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

13 Leases

The Group as a lessee

The Group has leases over certain assets, including land and buildings.

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

Terms and conditions of leases

The Group leases various offices, warehouses and equipment under non cancellable operating leases expiring within 6 months to 3 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of these leases are renegotiated. In May of 2022 the Group signed an extension to the lease for the US Office in Overland Park, Kansas. The lease terminates in April 2027.

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

Right-of-use assets

	Property
	AUD$
Year ended 31 December 2022	
Balance at start of year	**3,682,582**
Additions/(disposals)	**909,303**
Depreciation expense	**(737,892)**
Foreign exchange movements	**3,768**
Balance at end of year	**3,857,761**

	Land
Year ended 31 December 2021	
Balance at start of year	4,387,879
Depreciation expense	(712,258)
Foreign exchange movements	6,961
Balance at end of year	3,682,582

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

13 Leases

Lease liabilities

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

	< 1 year AUD$	1 - 5 years AUD$	> 5 years AUD$	Lease liabilities included in this Consolidated Balance Sheet AUD$
2022				
Lease liabilities	**627,823**	**3,816,321**	**566,905**	**5,011,050**
2021				
Lease liabilities	460,030	2,612,010	1,569,185	4,641,225

Extension options

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

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

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

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

Consolidated statement of profit or loss and comprehensive income

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

	2022 AUD$	2021 AUD$
Interest expense on lease liabilities	**650,415**	639,929
Depreciation of right-of-use assets	**737,892**	712,258
	1,388,307	1,352,187

Consolidated statement of cash flows

	2022 AUD$	2021 AUD$
Total cash outflow for leases	**1,203,775**	1,145,499

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

14 Trade and other payables

	31 December 2022 AUD$	31 December 2021 AUD$
CURRENT		
Trade payables	**4,734,925**	4,575,130
Accrued expense	**2,310,906**	2,996,625
Other payables	**1,281,234**	2,219,712
Total current trade and other payables	**8,327,065**	9,791,467

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

(a) Risk exposure

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

15 Borrowings

	31 December 2022 AUD$	31 December 2021 AUD$
CURRENT		
Secured liabilities:		
Loan facility	**28,088,561**	220,507
Lease liability secured	**12,155**	10,131
Total current borrowings	**28,100,716**	230,638

As at December 31, 2022, the Company had current borrowings related to a term-loan of $28,088,561 (December 31, 2021: $220,507). The Company had lease liabilities that are secured by the related leased assets of $12,155 (December 31, 2021: $10,131). As at April 28, 2023, the Company amended terms of its White Oak Senior Debt Facility, and a result of the amendment, the balance of the White Oak debt as at 28 April 2023 has been reclassified to a Non-Current liability, as it is not repayable within 12 months.

	31 December 2022 AUD$	31 December 2021 AUD$
NON-CURRENT		
Secured liabilities:		
Loans - secured	**-**	22,987,872
DWHP Note Payable - debt host	**51,089,826**	43,494,595
DWHP Note Payable - embedded derivative	**(177,123)**	(2,851,433)
	50,912,703	63,631,034
Less: borrowing costs attributable to loan facility and note payable	**(4,436,024)**	(5,127,497)
Total non-current borrowings	**46,476,679**	58,503,537

15 Borrowings

2020 White Oak Loan Facility and DWHP Note Payable

On December 21, 2020, in return for a 50.01% controlling stake in the Company, DWHP provided a US$30,553,799, including transaction expenses, Convertible Note combined with a third party senior debt placement to pay out the entire cash component of Marathon Debt, reduce overall indebtedness of the Company including repayment of loans and other monies owed to Management Shareholders, and provide working capital for the Company. As partial consideration for its Royalty Rights under the Marathon Royalty Agreement, Marathon agreed to accept a 5% shareholding in the Company post-closing.

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

On the same day, White Oak Healthcare Finance, LLC (“White Oak”) provided the third party senior debt facility. White Oak provided the Group with the following senior secured loan facilities, (A) a US$16 million term facility and (B) a US$4 million revolving facility on the terms and conditions set out in the White Oak Credit Agreement, including the grant of a lien on all assets of the applicable Parnell Group Members and satisfaction of the other conditions precedent to funding under the White Oak Credit Agreement. As at December 31, 2022 both the term facility and the revolving facility have a maturity date of 21 December 2025, with interest terms of LIBOR + 6.5% (with a LIBOR floor of 1.25%). On 28 April 2023, the Group entered into an Amendment White Oak Senior Debt facility for the Group for the remainder of the debt facility term, expiring 21 December 2025. Amendments for the senior debt facility included updating the interest terms from LIBOR + 6.5% to SOFR + 7.0%, and a SOFR floor rate of 4.0%) and relieving White Oak of the remaining US$0.65m revolving facility commitment.

The proceeds from the White Oak Debt were made available to the relevant Parnell Group members (as borrowers) on the Convertible Note Closing Date concurrent with the issue of the Convertible Note. The proceeds from the Principal Amount and the White Oak Debt were used to:

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

On January 28, 2021, the DWHP Tender Offer closed and resulted in them acquiring 6,241,664 ordinary shares for a consideration of US$0.40/share, equating to a total consideration of US$2,496,665.60.

As per the terms of the Convertible Note, DWHP was to receive total equity in Company equating to 50.01%. As 6,241,664 shares were acquired on market, on January 28, 2020 the Company issued an additional 8,571,267 ordinary shares at a price of US$0.40/share to DWHP to achieve the required equity percentage of 50.01%. This resulted in US$3,428,507 (AU$4,494,772) of the DWHP Convertible Note converting into equity such that the new Paid-up Share Capital Amount will be AU$68,010,674 with total shares outstanding of 29,619,938 and the remaining value of the Convertible Note will be US$27,125,292.

Following the conversion of the Note Payable on January 28, 2020, the Note Payable has no further conversion options.

At the time of signing this Annual Report, the Group had drawn US$3.35 million of the US$4 million revolving facility (2021 Annual Report: US$1.85 million drawn). The remaining US$0.65m of undrawn revolving facility will be relieved by White Oak as per the Amendments the Group entered into an Amendment White Oak Senior Debt facility on 28 April 2023.

Notes to the Consolidated Financial Statements
For the Fiscal Period Ended 31 December 2022

15 Borrowings

DWHP Note Payable

	31 December 2022 AUD$	31 December 2021 AUD$
Beginning of the year	**40,643,162**	39,800,377
Conversion of stock	**-**	(4,494,772)
Interest during the period	**5,099,394**	4,268,151
Revaluation of embedded derivative	**2,674,310**	(1,603,705)
Foreign exchange movement	**2,495,837**	2,673,111
	50,912,703	40,643,162

** Interest expense is calculated by applying the effective interest rate of 12% for the DWHP Note Payable.

16 Gearing Ratio

	31 December 2022 AUD$	31 December 2021 AUD$
Total indebtedness and derivatives	**79,013,419**	63,861,672
Less: Cash and cash equivalents	**(1,833,760)**	(4,483,213)
Net debt	**77,179,660**	59,378,459
Total equity	**(47,996,248)**	(34,788,228)
Total Capital	**29,183,412**	24,591,231
Gearing Ratio	**(161%)**	(171%)

17 Provision for Employee Benefits

	31 December 2022 AUD$	31 December 2021 AUD$
CURRENT		
Annual leave	**923,141**	1,036,604
Long service leave	**396,162**	383,184
Total current employee benefits	**1,319,303**	1,419,788
NON-CURRENT		
Long service leave	**537,792**	308,164

Notes to the Consolidated Financial Statements
For the Fiscal Period Ended 31 December 2022

18 Ordinary shares

	31 December 2022 AUD$	31 December 2021 AUD$
Ordinary Class shares	**68,010,674**	68,010,674
Total	**68,010,674**	68,010,674

Movements in ordinary share capital

Date	Details	No of shares	Issue price AUD$	AUD$
31/12/16	**Balance**	**18,145,760**		**63,522,251**
31/3/17	Adjustment to equity issue costs			6,436
30/6/17	Cancellation of Employee share issuance	(108,405)		
31/8/17	Employee share issuance	667		-
30/9/17	Employee share issuance	300		-
30/9/17	Shares bought back	(10,288)		(7,154)
31/12/17	**Balance**	**18,028,034**		**63,521,533**
31/10/18	Return of shares	(4,420)		(5,631)
31/12/2018	**Balance**	**18,023,614**		**63,515,902**
31/12/2019	Nil movement	-		-
31/12/2019	**Balance**	**18,023,614**		**63,515,902**
30/9/2020	Employee share issuance	1,972,623	-	-
21/12/2020	Marathon share issuance	1,052,434	-	**-**
31/12/2020	**Balance**	**21,048,671**		**63,515,902**
28/1/2021	DWHP share issuance	8,571,267	-	4,494,772
31/12/2021	**Balance**	**29,619,938**		**68,010,674**
31/12/2021	Nil movement	**-**		**-**
31/12/2022	**Balance**	**29,619,938**		**68,010,674**

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

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

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

On September 30, 2020, the company issued 1,972,623 ordinary shares to Executive Directors as the final issuance from the Parnell Pharmaceuticals Holdings Ltd 2014 Omnibus Equity Incentive Plan.

On December 21, 2020, the company issued 1,052,434 ordinary shares to Marathon Healthcare Finance Fund, L.P as part of the final payout of the 2018 Term Loan facility.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

18 Ordinary shares

On January 28, 2021 the company issued 8,571,267 ordinary shares to DWHP to achieve the required equity percentage of 50.01% as per the terms of the Convertible Note.

Ordinary shares of the Company have no par value.

(a) Net earnings/(loss) per share

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

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

	12 months to 31 December 2022 AUD$	12 months to 31 December 2021 AUD$
Basic and diluted net loss per share		
Net (Loss)/Profit for the year	**(5,736,525)**	(1,419,593)

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

	12 months to 31 December 2022	12 months to 31 December 2021
Weighted average number of ordinary shares used in the basic and diluted net loss per share calculation	**29,619,938**	28,962,416

(b) Capital Management

	31 December 2022 AUD$	31 December 2021 AUD$
Total Liabilities	**89,772,605**	74,895,819
Total Equity	**(47,996,248)**	(34,788,228)
Debt-to-Equity Ratio	**(1.87)**	(2.15)

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

19 Reserves

	12 months to 31 December 2022 AUD$	12 months to 31 December 2021 AUD$
Foreign currency translation reserve		
Opening balance	**(4,152,755)**	1,893,344
Currency translation differences arising during the period	**(7,571,923)**	(6,046,099)
	(11,724,678)	(4,152,755)
Share-based compensation reserve		
Opening balance	**3,289,020**	3,251,515
Share-based compensation expense	**100,428**	37,505
	3,389,448	3,289,020

(a) Foreign currency translation reserve

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

20 Accumulated Losses

	12 months to 31 December 2022 AUD$	12 months to 31 December 2021 AUD$
Accumulated losses at the beginning of the financial period	**(101,935,167)**	(100,515,574)
(Loss)/profit for the period	**(5,736,525)**	(1,419,593)
Accumulated losses at end of the financial period	**(107,671,692)**	(101,935,167)

21 Financial Risk Management

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

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

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

The Group does not speculate in financial instruments.

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

Specific risks

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

Financial instruments used

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

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

Objectives, policies and processes

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

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

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

Credit risk

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

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

21 Financial Risk Management

Liquidity risk

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

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The Group maintains cash 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 2022

21 Financial Risk Management

Liquidity risk

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

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

	Not later than 1 month		1 to 3 months		3 months to 1 year		1 to 5 years	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021	31 December 2022	31 December 2021	31 December 2022	31 December 2021
	AUD$	AUD$	AUD$	AUD$	AUD$	AUD$	AUD$	AUD$
Trade payables	**4,734,925**	4,575,130	**-**	-	**-**	-	**-**	-

21 Financial Risk Management

Market risk

(i) Foreign currency sensitivity

Most of the Group's purchased 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 2022	**$**	**$**	**$**	**$**	**$**
Trade receivables	**2,199,146**	**-**	**-**	**-**	**19,745**
Borrowing cost asset	**1,262,596**	**-**	**-**	**-**	**-**
Trade payables	**(1,871,625)**	**-**	**-**	**-**	**(703)**
Loan facility	**(28,088,561)**	**-**	**-**	**-**	**-**
DWHP Note Payable - debt host	**(51,089,826)**	**-**	**-**	**-**	**-**
DWHP Note Payable - embedded derivative	**177,123**	**-**	**-**	**-**	**-**
31 December 2021					
Trade receivables	1,114,244	-	-	-	12,631
Borrowing cost asset	1,192,634	-	-	-	-
Trade payables	(1,362,415)	-	-	-	(1,704)
Loan facility	(23,208,379)	-	-	-	-
DWHP Note Payable - debt host	(43,495,595)	-	-	-	-
DWHP Note Payable - embedded derivative	2,851,433	-	-	-	-

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 2022 (31 December 2021: 10%). This percentages has been determined based on the average market volatility in exchange rates in the previous 12 months.

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

21 Financial Risk Management

If the Australian dollar had strengthened and weakened against the following currencies by 10% (31 December 2021: 10%) then this would have had the following impact:

	31 December 2022		31 December 2021	
	+10%	**-10%**	**+10%**	**-10%**
USD				
Net results/equity impact	**7,037,377**	**(7,741,115)**	5,718,916	(6,290,808)
NZD				
Net results/equity impact	**(1,731)**	**1,904**	(993)	1,093

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 2020 White Oak senior debt facility is a variable rate facility. If the rate increases or decreases by +3%/-3%, then this would have the following impact:

	31 December 2022		31 December 2021	
	+3.00%	**-3.00%**	**+3.00%**	**-3.00%**
USD				
Net interest expense impact	**(842,657)**	**842,657**	(696,251)	696,251

The 2020 Note Payable has a fixed interest rate, and as such there is no interest sensitivity on this Note Payable.

Credit risk

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

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

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

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

The five largest trade receivables balance total $1,599,561 as at 31 December 2022 (31 December 2021: $1,551,208).

The Board receives monthly reports summarising the turnover, trade receivables balance refer to Note 7.

Notes to the Consolidated Financial Statements
For the Fiscal Period Ended 31 December 2022

21 Financial Risk Management

Credit risk

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

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

Credit quality

	31 December 2022 AUD$	31 December 2021 AUD$
Cash at bank - Fitch Ratings		
BBB+	**1,349,284**	480,469
A	**188,412**	3,775,181
A+	**296,063**	227,163
	1,833,759	4,482,813

Fair value estimation

Unless otherwise stated, the carrying amounts of financial assets and liabilities of the Group approximate their fair value.

The Group measures and recognises in the Consolidated statement of financial position on a recurring basis certain assets and liabilities at fair value in accordance with AASB13 Fair Value Measurement. The fair value must be estimated for recognition and measurement in accordance with the following hierarchy.

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of cash and cash equivalents, trade and other receivables, trade and other payables and borrowings approximate their carrying amounts due to their short-term nature and the impact of discounting not being significant.

The Group measures and recognises an embedded derivative associated with the convertible note at fair value on a recurring basis.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

21 Financial Risk Management

The Group's financial assets and financial liabilities at fair value are as follows:

	31 December 2022		31 December 2021	
	Net Carrying Value	Net Fair value	Net Carrying Value	Net Fair value
	AUD$	AUD$	AUD$	AUD$
Financial liabilities				
Long term loan (level 2)	**28,088,561**	**30,405,867**	23,208,379	25,123,071
Embedded derivative financial instruments (level 3)	**(177,123)**	**(177,123)**	(2,851,433)	(2,851,433)
	27,911,438	**30,228,744**	20,356,946	22,271,638

22 Key Management Personnel Disclosures

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

	12 months to 31 December 2022	12 months to 31 December 2021
	AUD$	AUD$
Short-term employee benefits	**992,876**	952,125
Long-term benefits	**14,770**	10,577
Share-based payments	**100,422**	37,505
	1,108,068	1,000,207

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 Executive Chairman.

Other key management personnel transactions

For details of other transactions with key management personnel, refer to Note 25: Related Party Transactions.

23 Remuneration of Auditors

	12 months to 31 December 2022	12 months to 31 December 2021
	AUD$	AUD$
Remuneration of the auditor of the parent entity, PricewaterhouseCoopers Australia, for:		
- auditing or reviewing the financial report	**225,800**	182,500
- taxation services	**43,050**	25,500
Total remuneration of PricewaterhouseCoopers Australia	**268,850**	208,000

Notes to the Consolidated Financial Statements
For the Fiscal Period Ended 31 December 2022

24 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 2022	Percentage Owned (%)* 31 December 2021
Subsidiaries:			
Parnell Technologies Pty Limited	Australia	**100**	100
Parnell Pharmaceuticals Pty Limited	Australia	**100**	100
Parnell, Inc.	United States of America	**100**	100
Parnell Technologies NZ Pty Limited	Australia	**100**	100
Parnell Technologies (UK) Limited	United Kingdom	**100**	100
Australian Pharma Services Pty Limited	Australia	**100**	100
Parnell Manufacturing Pty Limited	Australia	**100**	100
Parnell Corporate Services Pty Limited	Australia	**100**	100
Parnell Australia Pty Limited	Australia	**100**	100
Parnell North America Pty Limited	Australia	**100**	100
Parnell Europe Pty Limited	Australia	**100**	100
Parnell NZ Co Limited	New Zealand	**100**	100
Parnell Corporate Services U.S., Inc.	United States of America	**100**	100
Parnell U.S. 1, Inc.	United States of America	**100**	100
Veterinary Investigative Services, Inc.	United States of America	**100**	100

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

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 2022 AUD$	12 months to 31 December 2021 AUD$
Contributions to superannuation funds on behalf of employees	**781,410**	675,813
Rental and outgoings amounts paid to a Company controlled by a director	**716,755**	737,579

The Company did not issue any Restricted Stock Units during the year ended December 31, 2022 (2021 (Nil)). Refer to Note 27 for stock options issued during the year ended December 31, 2022 (2021 Nil).

On September 30, 2020, the Company issued 1,972,623 ordinary shares to Executive Directors as the final issuance from the Parnell Pharmaceuticals Holdings Ltd 2014 Omnibus Equity Incentive Plan.

25 Related Parties

(a) 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 22: 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 Limited and those entities disclosed in note 24.

(b) Borrowings from Shareholders

The group is controlled by DW Healthcare Partners V.L.P. (“DWHP”) with an 50.01% ownership interest at 31 December 2021 (50.01% as at 31 December 2020).

On December 21, 2020, in return for a 50.01% controlling stake in the Company, DWHP provided a US$30,553,799, including transaction expenses, Convertible Note combined with a third party senior debt placement to pay out the entire cash component of Marathon Debt, reduce overall indebtedness of the Company including repayment of loans and other monies owed to Management Shareholders, and provide working capital for the Company. As partial consideration for its Royalty Rights under the Marathon Royalty Agreement, Marathon agreed to accept a 5% shareholding in the Company post-closing.

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

On January 28, 2021, the DWHP Tender Offer closed and resulted in them acquiring 6,241,664 ordinary shares for a consideration of US$0.40/share, equating to a total consideration of US$2,496,665.60.

As per the terms of the Convertible Note, DWHP was to receive total equity in Company equating to 50.01%. As 6,241,664 shares were acquired on market, on January 28, 2020 the Company issued an additional 8,571,267 ordinary shares at a price of US$0.40/share to DWHP to achieve the required equity percentage of 50.01%. This resulted in US$3,428,507 (AUD$4,494,772) of the DWHP Convertible Note converting into equity such that the new Paid-up Share Capital Amount will be AUD$68,010,674 with total shares outstanding of 29,619,938 and the remaining value of the DWHP Note Payable now US$29,490,678 (AUD$40,643,162) comprising debt host of US$31,559,678 (AUD$43,494,595) and embedded derivative of US$2,069,000 (AUD$2,851,433).

Following the conversion of the Note Payable on January 28, 2020, the Note Payable has no further conversion options.

25 Related Parties

(b) Borrowings from Shareholders

	31 December 2022 AUD$	31 December 2021 AUD$
DWHP Note Payable		
Beginning of the year	**40,643,162**	39,800,377
Conversion of stock	**-**	(4,494,772)
Interest during the period	**5,099,394**	4,268,151
Revaluation of embedded derivative	**2,674,310**	(1,603,705)
Foreign exchange movement	**2,495,837**	2,673,111
	50,912,703	40,643,162

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

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 2022	12 months to 31 December 2021
	AUD$	AUD$
Net (loss)/profit attributable to members	**(5,736,525)**	(1,419,592)
Non-cash flows in profit:		
- Non-cash interest expense	**9,919,749**	4,152,388
- Bad debts expense	**-**	84,782
- depreciation and amortization	**3,757,891**	5,367,628
- Stock compensation expense	**427,573**	787,123
- Other operating expenses	**-**	1,423,464
- net exchange differences	**(4,146,456)**	(2,702,989)
Changes in assets and liabilities:		
- (increase)/decrease in trade and other receivables	**(333,972)**	659,564
- (increase)/decrease in inventories	**(158,186)**	59,982
- (increase)/decrease in other assets	**(32,245)**	(2,434,467)
- increase/(decrease) in trade and other payables	**(1,464,402)**	(525,303)
- increase/(decrease) in employee benefits	**129,143**	-
Net cash used in operating activities	**2,362,570**	5,452,580

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

26 Cash Flow Information

(a) Changes in liabilities arising from financing activities

			Non-cash changes			
	2021	Cash flows	Foreign exchange movement	Fair value changes	Other non-cash movement	2022
	$	$	$	$	$	$
Long term borrowings	**23,208,379**	**2,948,340**	**1,647,709**	**-**	**284,133**	**28,088,561**
Note payable - debt host	**43,494,595**	**-**	**1,845,053**	**-**	**5,750,178**	**51,089,826**
Note payable - embedded derivative	**(2,851,433)**	**-**	**-**	**2,674,310**	**-**	**(177,123)**
Deferred lease liability	**4,641,227**	**(553,360)**	**5,096**	**-**	**918,087**	**5,011,050**
Lease liabilities	**10,131**	**(21,722)**	**-**	**-**	**23,746**	**12,155**
Total liabilities from financing activities	**68,502,899**	**2,373,258**	**3,497,858**	**2,674,310**	**6,976,144**	**84,024,469**

			Non-cash changes			
	2020	Cash flows	Foreign exchange movement	Fair value changes	Other non-cash movement	2021
	$	$	$	$	$	$
Long term borrowings	20,773,825	1,157,662	1,276,892	-	-	23,208,379
Note payable - debt host	41,048,104	-	2,216,092	-	230,399	43,494,595
Note payable - embedded derivative	(1,247,728)	-	-	(1,603,705)	-	(2,851,433)
Deferred lease liability	5,131,300	(505,569)	15,496	-	-	4,641,227
Lease liabilities	11,502	(25,117)	-	-	23,746	10,131
Total liabilities from financing activities	65,717,003	626,976	3,508,480	(1,603,705)	254,145	68,502,899

(b) Net debt

	2022	2021
	$	$
Cash and cash equivalents	**1,833,759**	4,483,213
Borrowings-repayable after one year	**(51,089,826)**	(66,483,467)
Net debt	**(49,256,067)**	(62,000,254)
Cash and liquid investments	**1,833,759**	4,483,213
Gross fixed debt	**(79,178,387)**	(66,483,467)
Net debt	**(77,344,628)**	(62,000,254)

27 Share-based Payments

The Company adopted a new 2021 Share Option Plan (the “2021 Plan”) in August 2021 to allow for the issuance of up to 3,291,103 shares to officers and employees, and other individuals, including non-employee directors. The Company can issue share options, share awards, share units, performance shares, performance units, and other share-based awards to eligible individuals. The 2021 Plan is administered by the Company's board of directors or committee designated by the Board to administer the 2021 Plan. All awards are evidenced by a written agreement between the Company and the holder of the award. The board of directors or its designated committee, has the authority to construe or interpret the terms of the 2021 Plan and awards granted under the 2021 Plan.

Pursuant to the 2021 Plan, the board of directors approved the initial issuance of stock option during the year ended December 31, 2021.

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 4.35 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 Market. The fair value of the share options was estimated using the following assumptions:

	12 months ended December 31, 2022	12 months ended December 31, 2021
Share price at grant date per ordinary share	USD$0.40	USD$0.40
Risk free interest rate	1.32%	1.32%
Expected term (in years)	3.35	4.35
Expected volatility	35%	35%
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, 2022:

	Shares Issuable Under Options	Weighted-Average Exercise Price	Weighted-Average Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2021	2,303,772	USD$0.36	3.7	-
Granted	-	-	-	-
Exercised	-	-	-	-
Expired or forfeited	-	-	-	-
Outstanding as of December 31, 2022	2,303,772	USD$0.36	3.7	-
Options vested and expected to vest, as of December 31, 2022	-	-		

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

27 Share-based Payments

The following table summarizes share option activity for the year ended December 31, 2021:

	Shares Issuable Under Options	Weighted-Average Exercise Price	Weighted-Average Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2020	-	-	-	-
Granted	2,303,772	USD$0.36	3.7	-
Exercised	-	-	-	-
Expired or forfeited	-	-	-	-
Outstanding as of December 31, 2021	2,303,772	USD$0.36	3.7	-
Outstanding vested and expected to vest as of December 31, 2021	-	-		

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.

28 Parent entity

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

The financial information for the parent entity, Parnell Pharmaceuticals Holdings Limited 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 Limited 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.

Notes to the Consolidated Financial Statements

For the Fiscal Period Ended 31 December 2022

28 Parent entity

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

	31 December 2022 AUD$	31 December 2021 AUD$
Balance sheet		
Assets		
Current assets	**73,811,398**	75,666,227
Non-current assets	**6,940,513**	6,372,963
Total Assets	**80,751,911**	82,039,190
Liabilities		
Current liabilities	**14,268,962**	11,105,522
Non-current liabilities	**50,891,613**	40,623,072
Total Liabilities	**65,160,575**	51,728,594
Equity		
Issued capital	**68,016,305**	68,016,305
Accumulated losses	**(56,260,610)**	(41,541,351)
Reserves	**3,835,642**	3,835,642
Total Equity	**15,591,337**	30,310,596
Statement of comprehensive loss		
Total (loss)/profit for the year	**(14,719,259)**	(8,626,882)
Other comprehensive income	**-**	-
Total comprehensive income/(loss)	**(14,719,259)**	(8,626,882)

29 Events Occurring After the Reporting Date

On 6 December 2022 the Group announced a backstopped rights offering to raise gross proceeds of approximately US$4.0 million, by issuing 53,333,333 shares at US$0.075 per share. The rights offering was backstopped by existing investor DW Healthcare Partners V, L.P. and DW Healthcare Affiliates V, L.P. (collectively, 'DW Healthcare Partners") with existing qualifying shareholders entitled to exercise their subscription rights to purchase their pro rate share of the US$4.0 million offering amount. The rights offering completed on 11 January 2023 issuing the full allocation of shares and raising the full US$4.0 million. Prior to the rights offering, DW Healthcare partners owned 14,699,894 Ordinary Shares, representing approximately 49.6% of outstanding Ordinary Shares. Following the completion of the rights offering, DW Healthcare partners owned 46,680,951 Ordinary Shares, representing approximately 56.3% of outstanding Ordinary Shares.

On 6 April 2023, a special resolution was passed at a General Meeting of the Company, which approved the selective share buy-back of 923,050 shares held by or on behalf of Mr Robert Joseph and Mrs Kate Joseph and was pursuant to a Settlement and Mutual Release agreement between dated 4 November 2022 between Mr Robert Joseph and Mrs Kate Joseph and the Company.

On 28 April 2023, the Group entered into an Amendment White Oak Senior Debt facility for the Group for the remainder of the debt facility term, expiring 21 December 2025. Amendments for the senior debt facility included updating the interest terms from LIBOR + 6.5% to SOFR + 7.0%, and a SOFR floor rate of 4.0%) and relieving White Oak of the remaining US$0.65m revolving facility commitment. At the same time, White Oak provided the Group a waiver for a breach of loan covenants for the fiscal quarter ending 31 December 2022. As a result of receiving the waiver, the balance of the White Oak debt as at 28 April 2023 has been classified to a non-current liability as it is not repayable within 12 months.

At the time of signing this Annual Report, the Group had drawn US$3.35 million of the US$4 million revolving facility (2021 Annual Report: US$1.85 million drawn). The remaining US$0.65m of undrawn revolving facility will be relieved by White Oak as per the Amendments the Group entered into an Amendment White Oak Senior Debt facility on 28 April 2023.

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
Suite 600 Overland Park KS 66211

Directors' Declaration

The directors of the Group declare that:

1. the financial statements and notes for the year ended 31 December 2022 are in accordance with the *Corporations Act 2001* and:

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

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

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

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

Director	Director ....
Brad McCarthy (Chief Executive Officer)	Alan Bell (Executive Chairman)

Dated 9 May 2023

Independent auditor's report

To the members of Parnell Pharmaceuticals Holdings Limited

Our opinion

In our opinion:

The accompanying financial report of Parnell Pharmaceuticals Holdings Limited (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 2022 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 2022
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 December 2022, but does not include the financial report and our auditor's report thereon.

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

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999
Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999

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

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

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

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

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

K.L. Woombell-Perry

Kerryn Woombell-Perry
Partner

Sydney
9 May 2023