

PRENOLICA LIMITED

ACN 002 592 396

INTERIM FINANCIAL REPORT for the half year ended 30 June 2017

This Interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2016 and any public announcements made by Prenolica Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Prenolika Limited

ACN 002 592 396

Interim financial report for the half year ended 30 June 2017

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Prenolika Limited
Corporate directory
Directors

Dr. Vagif Soultanov
Executive Chairman

Mr. Alexander Kurganov
Executive Director

Dr. Ian Nisbet
Independent Non-Executive Director

Secretary
Mr. Justyn Stedwell

Chief Executive Officer
Dr. Darren Schliebs

Principal registered office in Australia

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Auditor

William Buck
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Solicitors

Quinert Rodda & Associates
Suite 1, Level 6-50 Queen Street
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Ph: +613 8692 9030

Bankers

National Australia Bank
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Melbourne, Victoria,
Australia 3000

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www.prenolika.com

Prenolika Limited
Directors' report
30 June 2017

The Company has changed its financial year-end date from 30 June to 31 December effective from the period ended 31 December 2016. Previously, the Company's financial year commenced on 1 July and ended 30 June. The change has been made in order to synchronise the Company's financial reporting with that of its operating subsidiaries in Russia. The change in financial reporting period will simplify financial reporting processes for the Company and facilitate the delivery of consistent reporting to shareholders and other stakeholders. Each further financial year will be for a full 12 month period ending 31 December.

Your Directors present their report on the consolidated entity consisting of Prenolika Limited and the entities it controlled at the end of, or during, the six months ended 30 June 2017.

Directors

The following persons held office as Directors of Prenolika Limited during the financial year:

Dr. Vagif Soultanov, Executive Chairman
Mr. Alexander Kurganov, Executive Director
Dr. Ian Nisbet, Independent Non-Executive Director

Principal activities

The principal activity of Prenolika Limited is the commercialization and sale of its flagship products Bioeffectives® along with the extension of the consolidated entity's patent portfolio on the basis of ongoing research surrounding the methods of extraction and application of Bioeffectives® and their by-products.

Review of operations

During the period the consolidated entity made a profit from ordinary activities of \$214,726 (6 months ended 30 June 2016: loss \$3,270,999). During the period, the Company continued to develop and commercialize its manufactured product range together with further initiatives with its research and development activities.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during or since the end of the half year reporting period other than what is listed below.

The Russian subsidiaries of Prenolika Limited have been continuing a process of restructuring over the past four years. The restructure now has the Russian operations of Prenolika Limited well positioned for the future with a more practical and less complex structure. The Russian holding company, Solagran Son LLC, which was created during the 30 June 2016 year, has changed its name to Solagran LLC and owns all of the companies within the Russian group.

During the 30 June 2017 reporting period, the following restructures occurred:

- BIK LLC liquidation has been finalized and on 31 May 2017, the company was removed from the Register of Entities.

Events since the end of the financial year

No other matter or circumstance has arisen since 30 June 2017 that has significantly affected the group's operations, results or state of affairs, or may do so in future years.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is attached to this Directors' Report.

This report is made in accordance with a resolution of Directors.



Dr. Vagif Soultanov
Executive Director

Dated this **24th day of October 2017**

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

I declare that, to the best of my knowledge and belief during the half-year ended 30 June 2017 there have been:

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

William Buck

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

N.S. Benbow

N. S. Benbow
Director

Dated this *24th* day of *October*, 2017

**CHARTERED ACCOUNTANTS
& ADVISORS**

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Prenolika Limited
Consolidated profit or loss and other comprehensive income
For the half year ended 30 June 2017

	Notes	Consolidated entity	
		6 months ended 30 Jun 2017	6 months ended 30 Jun 2016
		\$	\$
Revenue			
Sale of goods		2,692,266	1,047,951
Cost of sales			
Changes in inventory		152,066	208,235
Raw materials and consumables used		(1,042,446)	(385,792)
		1,801,886	870,394
Other income		201,080	2,925,678
Total revenue less cost of sales		2,002,966	3,796,072
Corporate administration expenses		(516,886)	(365,287)
Employee expenses		(555,831)	(276,229)
Profit for the half year before research and development, IP, impairment, depreciation and finance expenses		930,249	3,154,556
Research and development expenses		(222,757)	(3,235,664)
IP maintenance expenses		(66,161)	(125,535)
Impairment expenses		(152,773)	(195,773)
Depreciation expenses		(153,503)	(148,253)
Finance expenses		(7,368)	(10,490)
Corporate reconstruction expenses		-	(2,665,250)
Other expenses		(67,245)	(44,590)
Profit (Loss) from ordinary activities before income tax expense		260,442	(3,270,999)
Income tax expense		(45,716)	-
Profit (Loss) from ordinary activities after income tax expense		214,726	(3,270,999)
Other comprehensive income			
Foreign currency translation differences		(74,890)	402,953
Total comprehensive income for the period		139,836	(2,868,046)
		Cents	Cents
Profit (Loss) per share attributable to the ordinary equity holders of the company:			
Basic and diluted profit (loss) per share	2	0.23	(0.92)

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

Prenolika Limited
Consolidated statement of financial position
As at 30 June 2017

	Consolidated entity	
Notes	30 Jun 2017	31 Dec 2016
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	176,308	256,741
Trade and other receivables	969,113	831,998
Inventories	882,476	760,720
Other current assets	-	42,800
Total current assets	2,027,897	1,892,259
Non-current assets		
Financial assets	36,769	37,008
Property, plant and equipment	3,932,308	3,965,408
Other non-current assets	18,883	13,973
Total non-current assets	3,987,960	4,016,389
Total assets	6,015,857	5,908,648
LIABILITIES		
Current liabilities		
Trade and other payables	1,716,200	1,906,116
Provisions	137,272	123,418
Deferred revenue	23,301	78,800
Total current liabilities	1,876,773	2,108,334
Non-current liabilities		
Borrowings	1,502,308	1,326,320
Provisions	2,562	616
Total non-current liabilities	1,504,870	1,326,936
Total liabilities	3,381,643	3,435,270
Net assets	2,634,214	2,473,378
EQUITY		
Share capital	103,363,880	103,363,880
Reserves	(806,464)	(752,574)
Accumulated losses	(99,923,202)	(100,137,928)
Total equity	2,634,214	2,473,378

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

Prenolca Limited

**Consolidated statement of changes in equity
For the half year ended 30 June 2017**

	Contributed Equity \$	Share-Based Payment Reserve \$	Foreign Currency Translation Reserve \$	Acquisition of NCI Reserve \$	Accumulated Losses \$	Total \$
Consolidated entity						
Balance at 1 January 2016	79,393,130	3,313,866	(1,672,709)	(877,460)	(98,558,259.00)	(18,401,432)
Loss for the six months	-	-	-	-	(3,270,999)	(3,270,999)
Exchange differences on translating foreign operations	-	-	402,953	-	-	402,953
Total comprehensive loss for six months	-	-	402,953	-	(3,270,999)	(2,868,046)
Transactions with owners in their capacity as owners:						
Share based payments	5,534,250	33,757	-	-	-	5,568,007
Shares issued on exercise of convertible notes	18,436,500	-	-	-	-	18,436,500
Transfer of lapsed options from share-based payment reserve	-	(3,123,624)	-	-	3,123,624	-
Transfer of Acquisition of NCI Reserve to accumulated losses	-	-	-	877,460	(877,460)	-
Balance at 30 June 2016	103,363,880	223,999	(1,269,756)	-	(99,583,094)	2,735,029
Balance at 01 July 2016	103,363,880	223,999	(1,269,756)	-	(99,583,094)	2,735,029
Loss for the six months	-	-	-	-	(554,834)	(554,834)
Exchange differences on translating foreign operations	-	-	272,183	-	-	272,183
Total comprehensive loss for the six months	-	-	272,183	-	(554,834)	(282,651)
Transactions with owners in their capacity as owners:						
Share based payments	-	21,000	-	-	-	21,000
Balance at 31 December 2016	103,363,880	244,999	(997,573)	-	(100,137,928)	2,473,378
Balance at 01 January 2017	103,363,880	244,999	(997,573)	-	(100,137,928)	2,473,378
Profit for six months	-	-	(74,890)	-	214,726	214,726
Exchange differences on translating foreign operations	-	-	-	-	-	-
Total comprehensive profit (loss) for the six months	-	-	(74,890)	-	214,726	139,836
Transactions with owners in their capacity as owners						
Share based payments	-	21,000	-	-	-	21,000
Balance at 30 June 2017	103,363,880	265,999	(1,072,463)	-	(99,923,202)	2,634,214

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

Prenolika Limited
Consolidated statement of cash flows
For the half year ended 30 June 2017

	Notes	Consolidated entity	
		30 June 2017	30 June 2016
		\$	\$
Cash flows from operating activities			
Receipts from customers		3,000,146	779,025
Payments to suppliers and employees		(2,941,251)	(1,465,258)
Interest received		1,126	5,349
Finance costs		(5,324)	(10,490)
Research and development rebates received		-	301,426
Net cash inflow/(outflow) from operating activities		54,697	(389,948)
Cash flows from investing activities			
Payments for plant and equipment		(244,957)	(286,987)
Payments for intangibles		(66,161)	(125,535)
Net cash (outflow) from investing activities		(311,118)	(412,522)
Cash flows from financing activities			
Receipts from borrowings and convertible notes		-	800,000
Repayments of borrowings		-	(609,333)
Proceeds from loans received from related parties		175,988	4,985
Net cash inflow from financing activities		175,988	195,652
Net (decrease) increase in cash and cash equivalents		(80,433)	(606,818)
Cash and cash equivalents at the beginning of the period		256,741	869,398
Effects of exchange rate changes on cash and cash equivalents		-	-
Cash and cash equivalents at end of the period		176,308	262,580

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

1 Summary of significant accounting policies

(a) Basis of preparation

The condensed consolidated interim report for the half-year reporting period ended 30 June 2017 has been prepared in accordance with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated interim report does not include all the notes of the type normally included in an annual report. Accordingly, this report is to be read in conjunction with the annual report for the period ended 31 December 2016 and any public announcements made by Prenolika Limited management during the interim reporting period in accordance with the continuous disclosure requirement of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Compliance with IFRS

The consolidated interim financial statements of the Prenolika Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(b) Going concern

During the six months ended 30 June 2017, the consolidated entity received profit after income tax of \$214,726 (31 December 2016: loss \$554,834) as the entity continued to further invest in new product development, capital outlay and corporate initiatives.

As at that date the consolidated entity's total current assets exceeded total current liabilities by \$151,124 (31 December 2016: total current liabilities exceeded total current assets by: \$216,075), net assets as at that date \$2,634,214 (31 December 2016: \$2,473,378) with available cash of \$176,308 (30 June 2016: \$256,741). The net cash inflow from operating activities was \$54,697 (31 December 2016: outflow \$86,699).

The financial report has been prepared on a going concern basis on the assumption that sufficient funding will be available to enable the consolidated entity to continue to pay its debts as and when they fall due. In determining the appropriateness of the going concern basis, the following matters were considered:

- The consolidated entity is still working on establishing sales through new products and executing revenue-generating contracts. Currently it is focusing on maximising revenue from existing research and products, through improved marketing, increased customer access, new product registrations in new territories and new product development. Prenolika has both long-term and new customers growing revenues. Sales have increased YTD and this is expected to continue with ongoing supply contracts with Unilever, OTC Pharm, Nuvanta, VILAVI and others. New sizable contracts are also currently under negotiation.
- The consolidated entity has the ongoing support of its major shareholders and its Executive Chairman. The major shareholders and Executive Chairman have confirmed that they will support the ongoing operations of the consolidated entity for at least 12 months from the date of this report whether it be through contributions of additional working capital or the deferral of existing amounts owing. As at 30 June 2017, amounts totalling \$1,502,308 were owing to either the Executive Chairman or parties controlled by him. This loan is disclosed in the Balance Sheet as non-current borrowings.
- The remaining Directors have also represented that they intend to and have the ability to defer payment of amounts owed to them for services rendered to the consolidated entity for a period of at least 12 months from the date of this report if such payments would jeopardise the working capital position of the company.
- The Directors are in the process of preparing a seed capital raising and the Company plans to re-list during 2017 and raise additional capital via its prospectus as part of this process. The Directors have a history of successfully raising capital and are confident this will result in an injection of cash.
- Control of cost and cash outflows.

Accordingly, it is for the above reasons that the Directors believe the consolidated entity is a going concern and have therefore prepared the financial report on this basis.

In the event that the above initiatives do not eventuate there is uncertainty as to whether the consolidated entity will be able to continue as a going concern, and therefore realise its assets and extinguish its liabilities in the normal course of business and for the amounts stated in the financial statements. In the event the consolidated entity is unable to continue as a going concern, the financial report does not include adjustments that may be required.

(c) New accounting standards and interpretations

(i) New and amended standards adopted by the consolidated entity

A number of new or amended standards became applicable for the current reporting period, however, these standards did not materially impact these financial statements.

(ii) Impact of standards issued but not yet applied by the consolidated entity

Management has considered the impact of new accounting standards and interpretations issued but not yet applied by the entity as compared to those of the previous financial year which are relevant to the consolidated entity's business as follows:

- Management has considered the recognition and measurement requirements of AASB 15 Revenue from contracts with customers (AASB 15) in conjunction with the existing contracts between the entity and its customers. Based on this assessment, management concluded that there would have been no difference to the recognition and measurement of revenue had AASB 15 been adopted and applied during the reporting period, as compared to the current accounting policy on revenue.
- Management has considered the recognition and measurement requirements of AASB 16 Leases (AASB 16) in conjunction with the existing operating lease agreements between the entity and its suppliers. Based on this assessment, management concluded that there would have been material impact to the financial statements had AASB 16 been adopted and applied during the period, as compared to the current accounting policy for operating leases. However, as of the date of this report, management has not quantified the impact.

2 Earnings per share

	6 months ended 30 June 2017 Cents	6 months ended 30 June 2016 Cents
Profit (loss) per share attributable to the ordinary equity holders of the company:		
Basic and diluted loss per share	0.23	*(0.92)
	30 Jun 2017 Number	30 June 2016 Number*
Weighted average number of ordinary shares used as the denominator in calculating loss per share	95,210,356	387,582,713

*Due to the share consolidation of 12:1 shares that occurred in August 2016, the prior year weighted average number of shares has also been consolidated 12:1 for comparative purposes (weighted average number of shares pre consolidation 387,582,713) which has resulted in a loss per share of 11.04c (pre consolidation loss per share 0.92)

There is currently a share based payment reserve which is used to record the fair value of shares that will be granted to key management personnel upon the entity re-listing on the Australian Stock Exchange. As the issue of shares is contingent upon the entity re-listing and due to their anti-dilutive nature, these have not been included within the calculation of diluted loss per share.

There have been no other conversions to, call of, or subscriptions for ordinary shares, or issues of potential ordinary shares since the reporting date and before the completion of this interim financial report.

3 Segment information

(a) Description of segments and principal activities

(1) Bioeffective[®] Production and Sales - Australia

Bioeffective[®] Production and Sales in Australia represents the sale of all finished goods produced by our contract manufacturers using Bioeffective[®] materials derived from Russia. The range currently includes Bioeffective[®] A sold in encapsulated form under the trade name Taiga[®], Bioeffective[®] I sold in drink concentrate form under the trade name of Siberian Red[®], Bioeffective[®] A gel and other Bioeffective[®] derivatives predominantly for cosmetic use.

(2) Bioeffective[®] Production and Sales - Russia

The Russian division produces finished goods - Pharmaceutical and Biologically Active Natural Analogues (BANA) products and also produces and sells raw materials for manufacture of cosmetics, oral hygiene products, biologically active additives to food, products for agriculture and animal husbandry.

(b) Segment revenue

Revenues of \$706,463 were derived from a single external customer, Unilever. These revenues were attributed to the Russian segment and comprise 32.5% of total Russian segment sales revenue. As at 30 June 2017 the debtor balance of this customer was \$237,894. There were no other material credit risk exposures.

(c) Segment results

The segment information for the reportable segments for the six months ended 30 June 2017 is as follows:

Consolidated entity 30 June 2017	Australia \$	Russia \$	Adjustments* \$	Total \$
Segment revenue from external customers	520,514	2,171,752	-	2,692,266
EBITDA	(4,783)	490,712	-	485,929
Interest revenue	1,126	-	-	1,126
Depreciation and amortization	(91,115)	(134,068)	-	(225,183)
Finance expenses	(3,726)	(3,642)	-	(7,368)
Unrealized foreign exchange gain/(loss)	0	(21,559)	-	(21,559)
Segment profit/(loss) before income tax	(24,522)	284,964	-	260,442
<i>Segment assets and liabilities</i>				
Total segment assets	14,874,788	5,223,522	(14,082,453)	6,015,857
Total segment liabilities	(11,597,709)	(5,866,387)	14,082,453	(3,381,643)

* Loans and investments in subsidiaries.

4 Contingent liabilities and contingent assets and deconsolidation activities

During the period the group continued to finalize its corporate restructuring activities in the Russian Federation, in which the following occurred:

Voluntary liquidation of BIC LLC was completed and the company was deregistered on 31 May 2017. There was no impact on profit or loss from the liquidation of BIC LLC that was material.

As a consequence of this, as at 30 June 2017 no contingent liabilities were applicable to the group as at period end (31 December 2016: nil).

Prenolica Limited
Directors' declaration
30 June 2017

In the Directors' opinion:

- (a) the accompanying financial statements and notes are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the six months ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001*.



Dr. Vagif Soultanov
Executive Director

Dated this 24th day of October 2017

Prenolica Limited

Independent auditor's review report to members

Report on the Review of the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Prenolica Limited (the company) and the entities it controlled at the half-year's end or from time to time during the half year (the consolidated entity), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Prenolica Limited is not in accordance with the Corporations Act 2001 including:

- a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the half-year ended on that date; and
- b) complying with Australian Accounting Standard 134 Interim Financial Reporting and the Corporations Regulations 2001.

Material Uncertainty Related to Going Concern

We draw attention to Note 1(b) in the half-year financial report, which indicates that the consolidated entity reported a profit after tax of \$214,726 during the half-year ended 30 June 2017 and, as of that date, the consolidated entity's current assets exceeded its current liabilities assets by \$151,124. The consolidated entity generated a net cash inflow from operations of \$54,697 for the half-year ended 30 June 2017. The consolidated entity has historically reported losses and incurred net cash outflows from operations. As stated in Note 1(b), these events or conditions, along with other matters as set forth in Note 1(b), indicate that a material uncertainty exists that may cast significant doubt on the consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Responsibilities of the Directors for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

CHARTERED ACCOUNTANTS & ADVISORS

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Auditor's Responsibilities for the Review of the Half-Year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including:

- giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and its performance for the half-year ended on that date; and
- complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

As the auditor of Prenolica Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Prenolica Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.



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



N. S. Benbow
Director

Dated this 24th day of October, 2017