Prenolica Limited (Solagran Limited)

ACN 002 592 396

Annual report
for the year ended 30 June 2016

Prenolica Limited (Solagran Limited)

ACN 002 592 396

Annual report - 30 June 2016

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Prenolica Limited (Solagran Limited)
Corporate directory

Directors

Dr. Vagif Soultanov
Executive Chairman

Mr. Alexander Kurganov
Executive Director

Dr. Ian Nisbet
Independent Non-Executive Director and Non-Executive Chairman Designate

Mr. Andi Solaiman (resigned 23 September, 2015)
Non-Executive Director

Company Secretary

Mr. Justyn Stedwell

Chief Executive Officer

Dr. Darren Schliebs

Principal registered office in Australia

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Australia
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F: +613 9820 3155
E: info@solagran.com

Share and debenture register

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Email: essential.registry@computershare.com.au
Website: www.computershare.com.au

Auditor

William Buck
Level 20, 181 William Street
Melbourne, Victoria, 3000
Ph: +613 9824 8555

Solicitors

Quinert Rodda & Associates
Suite 1, Level 6-50 Queen Street
Melbourne, Victoria, 3000
Ph: +613 8692 9030

Bankers

National Australia Bank
Level 2, 330 Collins Street
Melbourne, Victoria
Australia 3000

Website

www.solagran.com

Your Directors present their report on the consolidated entity consisting of Prenolica Limited (Solagran Limited) and the entities it controlled at the end of, or during, the year ended 30 June 2016. Throughout the report, the consolidated entity is referred to as both “the group” and “the consolidated entity”.

The group changed its name from Solagran Limited to Prenolica Limited on 16 August 2016.

Directors

The following persons held office as directors of Prenolica Limited (Solagran Limited) during the financial year:

Dr. Vagif Soultanov, Executive Chairman
Mr. Alexander Kurganov, Executive Director
Dr. Ian Nisbet, Independent Non-Executive Director and Non-Executive Chairman Designate
Mr. Andi Solaiman, Non-Executive Director (resigned 23 September 2015)

Information on Directors

Dr. Vagif Soultanov *Executive Director, Chairman of the Board*

Experience and expertise	Vagif Soultanov (DSc (Hon), PhD) is the principal founder of Prenolica and led the Bioeffectives® research team in St Petersburg in the 1980s. Dr. Soultanov holds a doctoral qualification in both organic and biochemistry, and is qualified as a registered medical practitioner in Russia. He first came to Australia in 1990 to work with the CSIRO Division of Forest Products as part of an inter-governmental scientific exchange program. He has published over 200 scientific papers both in Russia and internationally, and holds a number of patents. Dr. Soultanov is responsible, inter alia, for the Research and Development activities of Prenolica Limited.	
Appointed to the Board	18 June 2003	
Current or former directorships held in other listed entities within the last 3 years +	Nil	
Special responsibilities	Nil	
Interests in shares and options	Ordinary shares (directly held)	202,815,391
	Ordinary shares (indirectly held)	4,921,034
	Options over ordinary shares	Nil

Information on Directors
(continued)

Mr. Alexander Kurganov *Executive Director*

Experience and expertise	Alexander Kurganov is General Director of Solagran Son (new) LLC based in Tomsk, Russian Federation, the 100% owned subsidiary of Prenolica Ltd. He has lectured in science at the Tomsk Polytechnic University; holds 5 patents (in the Russian Federation) and has authored 21 publications. He directed the construction of the world's first commercial plant to produce polyprenols from conifer species.	
Appointed to the Board	6 February 2009	
Current or former directorships held in other listed entities within the last 3 years	Nil	
Special responsibilities	Nil	
Interests in shares and options	Ordinary shares (directly held)	3,333,334
	Ordinary shares (indirectly held)	57,833,334
	Options	Nil

Dr. Ian Nisbet *Non-Executive Director and Non-Executive Chairman Designate*

Experience and expertise	Dr. Ian Nisbet has over 30 years of drug development, business development and management experience at Executive and Director/Chair level in both the Australian and international biotechnology sector. Dr. Nisbet currently serves as Chairman or Non-Executive Director for several unlisted Australian biotech firms and has Australian and international CEO and senior management experience. He has a part-time role as Industrial Fellow at the Australian Institute for Bioengineering and Nanotechnology (AIBN) at the University of Queensland. Subject to the achievement of certain milestones by the consolidated entity, Dr. Nisbet will assume the role of Non-Executive Chairman.	
Appointed to the Board	24 October 2014	
Current or former directorships held in other listed entities within the last 3 years	Nil	
Special responsibilities	Nil	
Interests in shares and options	Ordinary shares (directly held)	Nil
	Ordinary shares (indirectly held)	Nil
	Options	Nil

Information on directors (continued)

Mr. Andi Solaiman Non-*Executive Director*

Experience and expertise	Andi Solaiman (B.Bus, MBA) holds a number of senior positions within the Salim Group. He is a Director of Asia Medic Limited, Interflour Holdings Limited and Universal Integrated Corporation Consumer Products Pty Ltd. He is also the President, Director and Chief Executive Officer of PT Indokemika Jayatama. Mr. Solaiman completed the executive program at the University of Pennsylvania – Wharton Business School in 2005. He currently resides in both Singapore and Jakarta where the Salim Group's main administrative offices are located.	
Appointed to the Board	27 July 2009	
Resigned from the Board	23 September 2015	
Current or former directorships held in other listed entities within the last 3 years	Nil	
Special responsibilities	Nil	
Interests in shares and options	Ordinary shares (directly held)	Nil
	Ordinary shares (indirectly held)	Nil
	Options	Nil

Mr. Justyn Stedwell *Company Secretary*

Justyn Stedwell is a professional Company Secretary with 10 years' experience as a Company Secretary of ASX listed companies within various industries including IT & telecommunications, biotechnology, agriculture, mining and exploration.
He has completed a Bachelor of Business & Commerce (Management & Economics) at Monash University, a Graduate Diploma of Accounting at Deakin University and a Graduate Diploma in Applied Corporate Governance at the Governance Institute of Australia.

Principal activity

The principal activity of Prenolica Limited (Solagran 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.

Dividends

The consolidated entity did not declare or pay any dividends during the financial year. The Directors do not recommend the payment of a dividend in respect of the 2016 financial year.

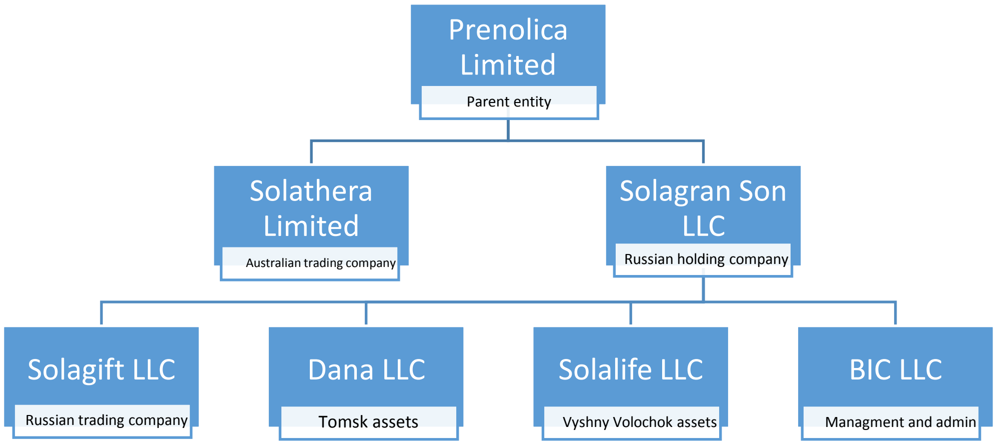
Review of operations and activities

During the year, the consolidated entity made a loss from ordinary activities of $4,373,578 (2015: $6,441,971) and as at 30 June 2016 had net assets of $2,735,029 (2015: net deficiency of assets of $16,746,833). The financial position of the consolidated entity significantly improved due to the conversion of convertible notes and settlement of creditor claims through the issue of ordinary shares in the Company. During the year, 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 2016 reporting period other than what is listed below.

The Russian division of Prenolica Limited (Solagran Limited) has been continuing a process of restructuring over the past four years. The restructure now has the Russian operations of Prenolica Limited (Solagran Limited) well positioned for the future with a more practical and less complex structure. The Russian holding company, Solagran Son (new) LLC which was created during the year, owns all the companies within the Russian group.



During the restructure, the following occurred:

- To remove inefficiencies and duplication of functions and tasks, the companies, Solagran Son (old), Sibex, Biotech and Darius were liquidated;
- To enhance effectiveness of production two new companies were formed: Dana LLC to which all assets concentrated in the Tomsk region were transferred; and Solalife LLC to which all assets concentrated in Vyshny Volochyok region were transferred;
- Solalife LLC acquired the production facility and land that was previously leased by Biotech LLC;
- Trading and marketing tasks are now concentrated in the company Solagift LLC, a resident of Tomsk's Special Economic Zone;
- For efficacy of management and administration functions, the company Business Invest Consulting LLC (BIC LLC) was established;
- Finally, the new Solagran Son LLC was established, which is wholly owned by Prenolica Limited (Solagran Limited). Solagran Son LLC manages and controls the entire Russian group of companies consisting of Solagift, Dana, Solalife and BIC LLC;
- Consequently, an integrated structure of the Russian group fully controlled by Prenolica Limited (Solagran Limited) was developed, entirely satisfying its requirements with clear delineation of assigned functions. Management believe the new structure is a better fit for the needs of Prenolica Limited (Solagran Limited) going forward.

Events since the end of the financial year

On the 16 August 2016, the company changed its name from Solagran Limited to Prenolica Limited.
On the same date, pursuant to, section 254H (1) of the Corporations Act, the shareholders agreed to a consolidation of capital on the basis that every twelve existing fully ordinary paid shares in the capital of the Company be consolidated into one fully paid ordinary share.

Events since the end of the financial year

No other matter or circumstance has arisen since 30 June 2016 that has significantly affected the group's operations, results or state of affairs, or may do so in future years

Likely developments and expected results of operations

The Board expects that the consolidated entity will continue to develop and commercialize its patented intellectual property. It is anticipated that as this process of commercialization matures, additional financing will not be required to the point that the consolidated entity will be able to provide a return on such financing in the form of dividend income or returns of capital to shareholders. In the short to medium term, the Directors of the consolidated entity will continue to evaluate immediate financing needs through its existing budgeting and forecasting processes.

Risk management

The Board is responsible for overseeing the establishment and implementation of risk management systems, and to review and assess the effectiveness of the consolidated entity's implementation and functionality of those systems on a regular basis.

Environmental regulation

In the Russian Federation, the group complies with certain environmental regulations relating to the collection of raw materials under an agreement with local regulatory authorities. To the best of the Directors' knowledge, the scientific research activities undertaken by, or on behalf of, the consolidated entity are in full compliance with all prescribed environmental regulations.

Meetings of Directors

The numbers of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2016, and the numbers of meetings attended by each Director were:

	Board Meetings	
Current Directors	**Number eligible to attend**	**Number attended**
Dr. Vagif Soultanov	11	11
Mr. Alexander Kurganov	11	8
Dr. Ian Nisbet	11	11
Former Directors	**Number eligible to attend**	**Number attended**
Mr. Andi Solaiman	1	Nil

Shares under option

As at the date of this report, Prenolica Limited (Solagran Limited) had no unissued ordinary shares under option.

Insurance of officers and indemnities

(a) Insurance of Officers

The consolidated entity has indemnified its Directors and Officers for costs incurred, acting in their capacity as a Director or Officer, for which they may be held personally liable, except where there is a lack of good faith.

(b) Indemnity of auditors

The consolidated entity has not during, or since the end of the financial year, indemnified, or agreed to indemnify, the consolidated entity's Auditor, or any related entity against a liability incurred by the Auditor.

Insurance of Officers and indemnities (continued)

(b) Indemnity of auditors (continued)

During the financial year, the consolidated entity did not pay a premium in respect of a contract to insure the Auditor of the consolidated entity or any related entity.

Proceedings on behalf of the Company

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

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001.*

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.

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF PRENOLICA LIMITED (FORMERLY SOLAGRAN LIMITED)

I declare that, to the best of my knowledge and belief during the year ended 30 June 2016 there have been:

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

William Buck

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

N. S. Benbow
Director

Dated this 14th day of December 2016

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Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Prenolica Limited (Solagran Limited)
Consolidated profit or loss and other comprehensive income
For the year ended 30 June 2016

	Notes	**Consolidated entity**	
		2016	2015
		$	$
Revenue			
Sale of goods	2	**1,847,781**	2,093,619
Cost of sales			
Changes in inventory of finished goods and WIP		**(481,693)**	(2,360,536)
Raw materials and consumables used		**(468,429)**	(417,699)
Gross margin		**897,659**	(684,616)
Other income	2	**3,005,644**	1,023,469
Gain on deconsolidation of subsidiaries	27	**607,671**	-
Total revenue		**4,510,974**	338,853
Corporate administration expenses	3	**(1,122,616)**	(767,896)
Employee expenses		**(561,206)**	(959,379)
Profit (Loss) for the year before research and development, impairment, depreciation, finance, unrealized foreign exchange and corporate reconstruction expenses		**2,827,152**	(1,388,422)
Research and development expenses	22	**(3,392,242)**	(329,942)
Impairment expenses	3	**(837,753)**	(4,051,656)
Depreciation expenses		**(163,951)**	(153,548)
Finance expenses		**(83,092)**	(420,467)
Unrealized foreign exchange gain/ (loss)		**34,281**	(80,297)
Corporate reconstruction expenses	22	**(2,665,250)**	-
Other expenses		**(92,723)**	(17,639)
Loss from ordinary activities before income tax expense		**(4,373,578)**	(6,441,971)
Income tax expense		**-**	-
Loss from ordinary activities after income tax expense		**(4,373,578)**	(6,441,971)
Other comprehensive income			
Foreign currency translation differences		**(188,120)**	(1,594,075)
Total comprehensive loss for the year		**(4,561,698)**	(8,036,046)
		Cents	Cents
Loss per share attributable to the ordinary equity holders of the company:			
Basic and diluted loss per share	5	**(0.78)**	(1.88)

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

Prenolica Limited (Solagran Limited)
Consolidated statement of financial position
As at 30 June 2016

	Notes	Consolidated entity 2016 $	2015 $
ASSETS			
Current assets			
Cash and cash equivalents	6	**262,580**	963,846
Trade and other receivables	7	**1,214,305**	225,700
Inventories	8	**723,726**	1,338,223
Other current assets		**66,892**	95,516
Total current assets		**2,267,503**	2,623,285
Non-current assets			
Financial assets		**31,977**	29,517
Property, plant and equipment	9	**3,820,066**	4,149,604
Other non-current assets		**87,753**	30,598
Total non-current assets		**3,939,796**	4,209,719
Total assets		**6,207,299**	6,833,004
LIABILITIES			
Current liabilities			
Trade and other payables	10	**2,089,738**	4,423,459
Interest-bearing liabilities	11	**-**	17,782,429
Borrowings	12	-	1,166,391
Provisions	13	**120,673**	166,137
Deferred revenue		**56,472**	-
Total current liabilities		**2,266,883**	23,538,416
Non-current liabilities			
Borrowings	12	**1,175,259**	**-**
Provisions	13	**30,128**	41,421
Total non-current liabilities		**1,205,387**	41,421
Total liabilities		**3,472,270**	23,579,837
Net (deficiency of) assets		**2,735,029**	(16,746,833)
EQUITY			
Share capital	14	**103,363,880**	79,393,130
Reserves	15	**(1,045,757)**	1,315,717
Accumulated losses		**(99,583,094)**	(97,455,680)
Total equity		**2,735,029**	(16,746,833)

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

Prenolica Limited (Solagran Limited)
Consolidated statement of changes in equity
For the year ended 30 June 2016

Consolidated entity	Contributed Equity $	Share-Based Payment Reserve $	Foreign Currency Translation Reserve $	Acquisition of NCI Reserve $	Accumulated Losses $	Total $
Balance at 1 July 2014	79,393,130	3,225,494	512,439	(877,460)	(91,013,709)	(8,760,106)
Loss for the year					(6,441,971)	(6,441,971)
Exchange differences on translating foreign operations			(1,594,075)			(1,594,075)
Total comprehensive loss for the year	-	-	(1,594,075)	-	(6,441,971)	(8,036,046)
Transactions with owners in their capacity as owners:						
Share based payments	-	49,319	-	-	-	49,319
Balance at 30 June 2015	79,393,130	3,274,813	(1,081,636)	(877,460)	(97,455,680)	(16,746,833)
Balance at 1 July 2015	**79,393,130**	**3,274,813**	**(1,081,636)**	**(877,460)**	**(97,455,680)**	**(16,746,833)**
Loss for the year					**(4,373,578)**	**(4,373,578)**
Exchange differences on translating foreign operations			**(188,120)**			**(188,120)**
Total comprehensive loss for the year	**-**	**-**	**(188,120)**	**-**	**(4,373,578)**	**(4,561,698)**
Transactions with owners in their capacity as owners:						
Share based payments	**5,534,250**	**72,810**	**-**	**-**	**-**	**5,607,060**
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**

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

Prenolica Limited (Solagran Limited)
Consolidated statement of cash flows
For the year ended 30 June 2016

	Notes	Consolidated entity 2016 $	2015 $
Cash flows from operating activities			
Receipts from customers		**1,399,378**	1,735,131
Payments to suppliers and employees		**(3,764,994)**	(2,602,798)
Interest received		**13,810**	58,343
Interest paid		**(83,092)**	(149,029)
Research and development rebate		**301,426**	477,926
Net cash outflow from operating activities	16	**(2,133,472)**	(480,427)
Cash flows from investing activities			
Cash disposed on deconsolidation of subsidiaries		**(331)**	-
Payments for plant and equipment		**(920,912)**	-
Payments for intangible assets		**(1,860)**	-
Net cash (outflow) from investing activities		**(923,103)**	-
Cash flows from financing activities			
Receipts from borrowings and convertible notes		**2,980,000**	1,660,845
Repayments of borrowings		**(609,333)**	-
Proceeds from loans received from related parties		**8,868**	-
Net cash inflow from financing activities		**2,379,535**	1,660,845
Net (decrease) increase in cash and cash equivalents		**(677,040)**	1,180,418
Cash and cash equivalents at the beginning of the financial year		**963,846**	10,404
Effects of exchange rate changes on cash and cash equivalents		**(24,226)**	(226,976)
Cash and cash equivalents at end of year	6	**262,580**	963,846

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

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Prenolica Limited (Solagran Limited) is a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS

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

(ii) Historical cost convention

These financial statements except for cash flow information have been prepared on an accruals basis and have been prepared under the historical cost basis.

(b) Critical accounting estimates and significant judgements

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the consolidated entity's accounting policies.

The consolidated entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities if they were to significantly change within the next financial year are discussed below.

Non capitalization of clinical trial research and development costs

Due to the high element of risk and uncertainty associated with the development of pharmaceutical products the consolidated entity elects to expense all ongoing patent costs and all research and development costs. This is consistent with other companies in the biotechnology sector in the same stage of development as the group.

Valuation of inventories

The consolidated entity values inventories at the lower of cost and net realizable value. Following an assessment of inventory carrying values at 30 June 2016, the Directors have written off amounts in inventory that are considered obsolete. Refer to Note 3.

Assessment of fair values of share-based payments

Refer to note 22.

Provision for doubtful debts

Details of receivables individually assess as impaired, based upon their ageing profile and individual assessment of their credit-worthiness are included in note 7.

1 Summary of significant accounting policies (continued)

(c) Going concern

For the year ended 30 June 2016, the consolidated entity incurred an operating loss of $4,373,578 as it continued to further invest in new product development, capital outlay and corporate initiatives. The consolidated entity's profit before research and development, impairment, depreciation, finance, unrealized foreign exchange and corporate reconstruction expenses, all of which are not ongoing, or discretionary expenses, was $2,827,152. As at year-end, the consolidated entity's net assets stood at $2,735,029 with available cash of $262,580. For the year ended 30 June 2016, the consolidated entity had net cash outflows from operating activities totaling $2,133,472.

The financial report has been prepared on a going concern basis on the assumption that sufficient funding will be available through loans from existing shareholders and/or further capital placements. The consolidated entity is seeking to minimize the funds required through loans and/or capital placements by focusing on maximizing revenue from existing research and products, through improved marketing, increased customer access, new product registrations in new territories and new product development.

The Directors have a history of successfully raising capital and are confident one of the above funding sources will result in an injection of cash. This is further supported by the consolidated entity raising $4,230,000 in the period June 2015 to June 2016.

To assist with the working capital requirements for the consolidated entity, the following activities have been undertaken to support its operations:

- Rollover of debt to equity of $18,436,500 during the current financial year;
- The directors intend to and have the ability to not make cash calls for amounts owed to them for their services rendered to the consolidated entity if such calls jeopardize the working capital position of the company amounting to $1,175,259;
- Control of cost and cash outflows;
- A major shareholder has written to the Company advising of his intention and ability to support the Company financially for a period of at least 13 months from the date of signing the financial report; and
- A pipeline of sales available, including future additional capacity to meet sales demand for existing customer agreements.

Accordingly, the Directors believe that the value of the consolidated entity's existing net assets will generate sufficient funds for the consolidated entity to continue to operate in its normal manner.

In common with other biotechnology and drug development companies, the consolidated entity's operations are subject to considerable risks and uncertainty due primarily to the nature of the development and commercialization undertaken. To allow the consolidated entity to execute it's near term and longer term plans, it will be necessary to raise additional capital or secure funding through commercial transactions in the future. Accordingly, there remains uncertainty concerning the consolidated entity's ability to continue as a going concern for a further 12 months as defined in current accounting standards.

Based on the reduced cash flow requirements of the consolidated entity, the Directors consider that the consolidated entity is likely to have sufficient available funds to support operations and will manage the availability of resources over the immediate term.

Should the consolidated entity be unsuccessful in its funding activities noted above, significant uncertainty as to whether the consolidated entity will be able to continue as a going concern would exist and therefore, whether it will be able to realize its assets, specifically property plant and equipment and inventory balances, and settle its liabilities and commitments in the normal course of business.

1 Summary of significant accounting policies (continued)

(d) New accounting standards and interpretations

(i) New and amended standards adopted by the group

The adoption of AASB 2013-3 and AASB 2014-1 did not have any impact on the current period or any prior period and is not likely to have any significant impact.

(ii) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods and have not been early adopted by the group. The Directors have assessed that none of these new standards and interpretations will have a material impact both upon these and future financial statements.

(e) Principles of consolidation

The consolidated financial statements incorporate all of the assets and liabilities and results of the parent Prenolica Limited (Solagran Limited, or the Company) and the assets and liabilities of all subsidiaries of Prenolica Limited as at 30 June 2016 and the results of all subsidiaries for the year ended (together, the group or the consolidated entity).

Subsidiaries are all those entities over which the parent has control. The parent controls an entity when they are exposed to, or have rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

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

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

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

1 Summary of significant accounting policies (continued)

(f) Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting or taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right of offset and intends either to settle on a net basis, or to realize the assets and settle the liability simultaneously.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(g) Impairment of assets

At each reporting date the consolidated entity assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, the recoverable amount is determined and an impairment loss is recognised in profit or loss.

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

1 Summary of significant accounting policies (continued)

(h) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognsed as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the consolidated entity and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation on plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

Plant and equipment:	5 years	Motor Vehicles:	5 years
Land:	Not depreciated	Buildings:	20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is group policy to transfer the amounts included in reserves in respect of those assets to accumulated losses.

(i) Intangible assets

Patents and trademarks have an indefinite useful life and are carried at cost less any impairment losses. The carrying value of patents and trademarks is assessed using methods such as discounted future cash flow of the estimated revenue expected to be generated from the assets. Patents and trademarks are tested for impairment annually and whenever there is an indication that the intangible asset may be impaired.

(j) Cash and cash equivalents

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

(k) Employee benefits

Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognsed in other payables and provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

1 Summary of significant accounting policies (continued)

(k) Employee benefits (continued)

Long service leave

The liability for long service leave is 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 reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, and closely as possible, the estimated future cash outflows.

Share-based payments

Under AASB 2 Share Based Payments, the consolidated entity must recognise the fair value of shares granted to Directors, employees and consultants as remuneration as an expense on a pro-rata basis over the vesting period in profit or loss with a corresponding adjustment to equity.

The consolidated entity provides benefits to employees (including Directors) of the consolidated entity in the form of share based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions"). The cost of these equity-settled transactions with employees (including Directors) is measured by reference to fair value at the date they are granted.

(l) Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(m) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade receivables is established when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in profit and loss in other expenses.

(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Revenue is recognised for the major business activities as follows:

Sale of goods

Revenue from the sales is recognised when significant risk and rewards of ownership have passed to the buyer and can be reliably measured. Risks and rewards are considered passed to the buyer when goods have been delivered to the customer.

Interest income

Revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

1 Summary of significant accounting policies (continued)

(n) Revenue recognition (continued)

Licensing fees

Licensing fees are recognised on an accrual basis in accordance with the substance of the agreement. Shares received in other corporations as part of a licensing agreement are recognised as revenue at the fair value of shares received.

(o) Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

(p) Inventories

Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are seated at the lower of cost and net realizable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(q) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

(r) Contributed equity

Ordinary shares are classified as equity. Contributing shares are partly paid with calls of capital being made at the discretion of the consolidated entity. Where calls are not paid, these shares will be forfeited by the holder. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(s) Goods and services and value added taxes (VAT)

Revenues, expenses and assets are recognised net of the amount of associated VAT, unless the VAT incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of VAT receivable or payable. The net amount of VAT recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

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

1 Summary of significant accounting policies (continued)

(t) Financial instruments

The consolidated entity recognises financial assets when it becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets and liabilities are derecognsed when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

For the purpose of subsequent measurement, financial instruments are classified into the following categories upon initial recognition:

- Trade and other receivables
- Financial assets
- Trade and other payables
- Interest bearing liabilities
- Borrowings

Accounting policies for trade and other receivables, trade and other payables, financial liabilities and borrowings are disclosed separately in this note 1.

(u) Financial assets

All financial assets are quoted equity securities and are designated at fair value through the profit and loss upon initial recognition. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Fair value applied to these financial assets is the quoted bid price, as gazetted under the market for which the financial asset is listed. As a consequence, all financial assets are Level 1 hierarchy financial assets.

(v) Financial liabilities

Financial liabilities are initially recognised at fair value, net of transactions costs incurred, and are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the financial liability using the effective interest method. Financial liabilities are classified as current liabilities unless the consolidated entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(w) Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in AUD, which is Prenolica Limited's functional and presentation currency.

Transactions and balances

Transactions in foreign currency are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at reporting date are translated to Australian Dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

1 Summary of significant accounting policies (continued)

(w) Foreign currency (continued)

Financial statements of foreign operations

The functional currency of the Russian subsidiaries is the Russian Rouble. The assets and liabilities of foreign operations are translated to Australian Dollars at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated to Australian Dollars at rates approximating to the foreign rates of exchange ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised in the foreign currency translation reserve.

(x) Prior period comparatives

On few occasions there have been changes to classifications and setout with subtotals to 2015 comparatives. It has been done in instances when 2016 classifications did not match 2015 classifications in their entirety, with the view to improve integrity of information. There were no adjustments made to 2015 total assets and liabilities in each class or to total result of operation of consolidated entity

2 Revenue

	Consolidated entity 2016 $	2015 $
Revenue		
Sale of goods	**1,847,781**	2,093,619
Total revenue	**1,847,781**	2,093,619
Other income		
Forgiveness of accrued loan interest	**1,716,596**	-
Forgiveness of interest-bearing liabilities	**420,863**	-
Interest	**13,810**	58,343
Research and development tax rebate	**758,683**	477,926
Other income	**95,692**	487,200
Total other income	**3,005,644**	1,023,469

Forgiveness of accrued loan interest

During the six months ended 31 December 2015, the convertible note holders entered into an agreement to waive all accrued interest payable on convertible notes. As disclosed in note 11, these convertible notes were subsequently converted into equity.

3 Expenses

Loss before income tax includes the following:

	Consolidated entity 2016 $	2015 $
Corporate administration expenses		
Audit and accounting fees	**295,586**	126,095
Legal fees	**6,100**	1,301
Business development	**241,979**	36,364
Marketing and promotion expenses	**62,532**	54,472
Travel and entertainment expenses	**75,481**	53,664
Commercialization expenses	**196,100**	40,338
Director expenses	**97,000**	32,000
Equipment repairs	**3,147**	2,824
Packaging and distribution expenses	**33,612**	41,367
Other corporate and administration expenses	**111,079**	379,470
Total corporate administration expenses	**1,122,616**	767,896
Impairment expenses		
Stock impairment	**709,072**	3,035,540
Bad Debts	**126,821**	1,016,116
Impairment of intangibles	**1,860**	-
Total impairment expenses	**837,753**	4,051,656

4 Income tax expense

Tax losses

Prenolica Limited (Solagran Limited) has unconfirmed, un-recouped tax losses which have not been brought to account. The ability to be able to recognise a deferred tax asset in respect of these tax losses will be dependent upon the probability that future taxable profit will be available, against which the unused tax losses can be utilized and the conditions for deductibility imposed by Australian tax authorities will be complied with.

5 Loss per share

	2016	2015
	Cents	Cents
Loss per share attributable to the ordinary equity holders of the Company:		
Basic and diluted loss per share	**(0.78)**	(1.88)

	2016	2015
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating loss per share	**561,214,898**	343,510,161

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 financial report.

6 Cash and cash equivalents

	Consolidated entity	
	2016	2015
	$	$
Cash at bank and in hand	**262,580**	963,846
Total cash and cash equivalents	**262,580**	963,846

7 Trade and other receivables

	Consolidated entity	
	2016	2015
	$	$
Current		
Trade receivables	**350,580**	256,732
Research and development tax rebate receivable	**457,257**	-
Other receivables	**428,606**	542,440
Less: allowance for doubtful debts	**(22,138)**	(573,472)
Total trade and other receivables	**1,214,305**	225,700

With the exception of the amount provided for in the allowance for doubtful debts (for an impaired receivable greater than 90 days old) there were no material receivables as at 30 June that were past due and not impaired (2015: $225,700).

For risk analysis of these receivables, refer to note 18.

8 Inventories

	Consolidated entity	
	2016	2015
	$	$
Raw materials and stores	**30,316**	275,461
Work in progress	**5,678**	100,086
Finished goods	**687,732**	962,676
Total inventories	**723,726**	1,338,223

9 Property, plant and equipment

	Consolidated entity	
	2016	2015
	$	$
Plant and equipment		
Gross value	**5,335,953**	6,147,397
Accumulated depreciation	**(1,721,639)**	(2,151,811)
	3,614,314	3,995,586
Motor vehicles		
Gross value	**71,967**	264,695
Accumulated depreciation	**(4,023)**	(248,485)
	67,944	16,210
Other		
Gross value	**147,500**	147,500
Accumulated depreciation	**(9,692)**	(9,692)
	137,808	137,808
Total property, plant and equipment	**3,820,066**	4,149,604

Consolidated entity	**Land, building and leasehold improvements**	**Motor vehicles**	**Plant and equipment**	**Total**
	$	**$**	**$**	**$**
Year ended 30 June 2015				
Opening net book amount	137,808	35,301	6,041,348	6,214,457
Currency conversion adjustments	-	-	(1,895,456)	(1,895,456)
Disposals	-	(15,849)	-	(15,849)
Depreciation charge	-	(3,242)	(150,306)	(153,548)
Closing net book amount	137,808	16,210	3,995,586	4,149,604
At 30 June 2015				
Cost or fair value	147,500	264,695	6,147,397	6,559,592
Accumulated depreciation	(9,692)	(248,485)	(2,151,811)	(2,409,988)
Net book amount	137,808	16,210	3,995,586	4,149,604

9 Property, plant and equipment (continued)

Consolidated entity	Motor vehicles	Plant and equipment	Other	Total
	$	$	$	$
Year ended 30 June 2016				
Opening net book amount	16,210	3,995,586	137,808	4,149,604
Currency conversion adjustments	(14,466)	(215,717)	-	(230,183)
Additions	71,967	848,945	-	920,912
Disposals	(1,643)	(854,673)	-	(856,316)
Depreciation charge	(4,124)	(159,827)	-	(163,951)
Closing net book amount	67,944	3,614,314	137,808	3,820,066

10 Trade and other payables

	Consolidated entity	
	2016	2015
	$	$
Current		
Trade payables	**921,918**	1,596,242
Other payables	**1,167,820**	2,827,217
Total trade and other payables	**2,089,738**	4,423,459

11 Interest-bearing liabilities

	Consolidated entity	
	2016	2015
	$	$
Bank loan facility – Russia	-	609,333
Convertible notes (*)	-	17,173,096
Total interest-bearing liabilities	-	17,782,429

* During the year convertible notes recorded the following movements:

	Owing to key management personnel	Total consolidated entity
	$	$
As at 1 July 2015	**6,000,000**	**17,173,096**
New convertible notes issued	**-**	**2,980,000**
Waiving of accrued interest	**-**	**(1,716,596)**
Exercise of convertible notes for issued shares	**(6,000,000)**	**(18,436,500)**
As at 30 June 2016	-	-

Refer to note 14 for detail on the conversion of debt to equity.

12 Borrowings

Borrowings comprise unsecured loans from the Executive Chairman and his related entities. The loans are interest free and repayable not earlier than 2018.

13 Provisions

	Consolidated entity					
	2016			2015		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	$	**$**	**$**	$	$	$
Annual leave provision	**52,643**	**-**	**52,643**	91,297	-	91,297
Long service leave provision	**40,106**	**30,128**	**70,234**	74,840	41,421	116,261
Other provisions	**27,924**	**-**	**27,924**	-	-	-
Total provisions	**120,673**	**30,128**	**150,801**	166,137	41,421	207,558

14 Equity

Share capital

Movements in ordinary shares:

Details	**Number of shares**	**$**
Opening balance 1 July 2014	343,510,161	79,393,130
Shares issued during the year	-	-
Shares issued on exercise of convertible notes	-	-
Balance 30 June 2015	343,510,161	79,393,130
Share-based payments	184,475,002	5,534,250
Shares issued on exercise of convertible notes	614,550,000	18,436,500
Balance 30 June 2016	1,142,535,163	103,363,880

Ordinary shares

Ordinary shares participate in dividends and the proceeds on winding up of Prenolica Ltd (Solagran Ltd) in proportion to the number of shares held. At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands. The ordinary shares have no par value.

Options outstanding

At 30 June 2016 there were nil ordinary share options outstanding (2015: nil).

14 Equity (continued)

Share capital (continued)

Capital risk management

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain an optimal capital structure to sustain the future growth and development of the business. The consolidated entity is not currently subject to any externally imposed capital requirements.

The capital structure of the consolidated entity comprises contributed equity, reserves, accumulated losses and convertible notes.

To achieve and maintain an optimal capital structure, the Company may seek to issue new shares through capital raisings or share based payments to suppliers and employees or alternatively may enter into new convertible note arrangements which may be extinguished through the issue of shares.

In the short to medium term, the consolidated entity will continue to evaluate its immediate financing needs through its existing budgeting and forecasting processes and will adjust its capital structure accordingly.

15 Reserves

(a) Summary

	Consolidated entity	
	2016	2015
	$	$
Share-based payments reserve	**223,999**	3,274,813
Foreign currency translation reserve	**(1,269,756)**	(1,081,636)
Acquisition of NCI reserve	**-**	(877,460)
Total reserves	**(1,045,757)**	1,315,717

(b) Reconciliations

Reconciliations of movements in reserves are disclosed in the Statement of changes in equity.

(c) Nature and purpose of the reserve

Share-based payments reserve

The share-based payments reserve is used to recognise the vesting of the fair value of shares granted.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences on translation of foreign controlled subsidiaries. Amounts are reclassified to profit or loss when the investment is disposed of.

16 Cash flow information

Reconciliation of loss after income tax to net cash outflow from operating activities

	Consolidated entity	
	2016	2015
	$	$
Loss for the year	**(4,373,578)**	(6,441,971)
Adjustment for		
Depreciation	**163,951**	153,548
Impairment of intangible assets	**1,860**	15,489
Gain on deconsolidation of subsidiaries	**(607,671)**	-
(Forgiveness of) Accrued interest	**(1,716,596)**	271,438
Share-based payment expenses	**5,534,250**	-
Fair value gain on financial assets	**(2,460)**	-
Working capital:		
Trade and other receivables	**(1,168,448)**	170,428
Other assets	**(40,269)**	66,704
Inventories	**194,824**	5,396,076
Trade and other payables	**(75,589)**	(65,991)
Provisions	**(43,746)**	(46,148)
Net cash outflow from operating activities	**(2,133,472)**	(480,427)

17 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 $943,021 were derived from a single external customer, Unilever. These revenues are attributed to the Russian segment and comprise 51% of total revenue. As at year end the debtor balance of this customer was $270,488. There were no other material credit risk exposures.

17 Segment information (continued)

(c) Segment results

The segment information for the reportable segments for the year ended 30 June 2016 is as follows:

Consolidated entity 2016	**Australia**	**Russia**	**Adjustments***	**Total**
	$	$	$	$
Segment revenue from external customers	329,992	1,517,789	-	1,847,781
EBITDA	**(3,000,734)**	**(416,019)**	**-**	**(3,416,753)**
Forgiveness of liabilities	2,137,459	-	-	2,137,459
Gain on deconsolidation of subsidiaries	-	607,671	-	607,671
Interest revenue	13,810	-	-	13,810
Corporate reconstruction expenses	(2,665,250)			(2,665,250)
Depreciation and amortization	(163,951)	-	-	(163,951)
Finance expenses	(83,092)	-	-	(83,092)
Impairment of assets	(837,753)	-	-	(837,753)
Unrealized foreign exchange (gain)/ loss	34,281	-	-	34,281
Profit (loss) before income tax	**(4,565,230)**	**191,652**	**-**	**(4,373,578)**
Segment assets and liabilities				
Additions to non-current assets	35,999	(956,911)	-	(920,912)1
Total segment assets	18,930,312	5,125,895	(17,848,908)	6,207,299
Total segment liabilities	15,593,071	(1,216,433)	(17,848,908)	(3,472,270)

The segment information for the reportable segments for the year ended 30 June 2015 is as follows:

Consolidated entity 2015	**Australia**	**Russia**	**Adjustments***	**Total**
	$	$	$	$
Segment revenue from external customers	758,583	1,774,498	-	2,533,081
EBITDA	**(1,071,278)**	**(1,819,481)**	**-**	**(2,890,759)**
Interest revenue	3,440	54,903	-	58,343
Depreciation and amortization	(256)	(153,804)	-	(154,060)
Segment assets and liabilities				
Total segment assets	25,793,590	5,497,846	(24,458,432)	6,833,004
Total segment liabilities	20,206,069	27,832,200	(24,458,432)	23,579,837

* Loans and investments in subsidiaries.

18 Financial risk management

The consolidated entity's activities expose it to a variety of financial risks: foreign exchange risk, credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include cashflow budgeting and forecasting in the case of foreign exchange and liquidity risk and customer approval processes and ageing analysis for credit risk. These risks are reported to the Board on a periodic basis for evaluation and actioning.

(a) Foreign exchange risk

The consolidated entity operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Russian Rouble.

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

Based on the consolidated financial instruments held at reporting date, the consolidated entity has no material exposure to foreign exchange risk.

(b) Credit risk

Credit risk is the risk of financial loss to the consolidated entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from receivables from customers and cash and cash equivalents. For the consolidated entity it arises from trade and other receivables and cash and cash equivalents. The parent has credit risk in the intercompany receivables. The credit risk on financial assets of the consolidated entity, which have been recognised in the statement of financial position, other than investments in shares, is generally the carrying amount, net of any allowance for doubtful debts.

The consolidated entity's exposure to credit risk at the reporting date is as follows:

	Consolidated entity	
	2016	2015
	$	$
Cash and cash equivalents	**262,580**	963,846
Trade and other receivables	**1,214,305**	225,700
Total	**1,476,885**	1,189,546

(c) Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash balances and access to equity funding.

All liabilities fall due within 6 months from the year-end date. The fair value of all liabilities equates to their carrying value at year-end date.

19 Controlled entities

Material subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1.

Name of entity	Country of incorporation	2016 %	2015 %
Parent entity			
Prenolica Limited	Australia	**-**	-
Subsidiaries of Prenolica Limited			
Solathera Limited	Australia	**100.0**	100.0
Sibex LLC (i)	Russia	**-**	100.0
Solagran Son LLC (new)	Russia	**100.0**	100.0
Biotech LLC (ii)	Russia	**-**	81.0
Darius LLC (iii)	Russia	**-**	25.0
Solagran Son LLC (old) (iv)	Russia		100.0
Dana LLC (v)	Russia	**99.0**	-
BIK LLC (v)	Russia	**99.0**	-
Solagift LLC	Russia	**100.0**	100.0
Solalife LLC (v)	Russia	**99.0**	-

(i) Sibex LLC was wound up on 16 December 2015.

(ii) Biotech LLC was wound up on 28 August 2015.

(iii) Darius LLC was wound up on 24 December 2015

(iv) Solagran Son LLC (old) was wound up on 02 October 2015

(v) There is no non-controlling interest accounted for due to the agreements in place with the Russian resident shareholders conferring economic benefit to the group.

20 Parent entity financial information

(a) Summary financial information

	2016	2015
	$	$
Assets		
Total current assets	**409,625**	776,955
Total non-current assets	**31,977**	29,517
Total assets	**441,602**	806,472
Liabilities		
Total current liabilities	**(1,490,686)**	(18,847,587)
Non-current liabilities	**-**	-
Total liabilities	**(1,490,686)**	(18,847,587)
Net deficiency of assets	**(1,049,084)**	(18,041,115)
Equity		
Contributed equity	**103,139,881**	79,393,130
Reserves	**223,999**	3,274,808
Accumulated losses	**(104,412,964)**	(100,709,053)
Total equity	**(1,049,084)**	(18,041,115)
Loss for the year	**(6,827,535)**	(2,042,365)
Total comprehensive loss for the year	**(6,827,535)**	(2,042,365)

(b) Guarantees entered into by the parent entity

The parent entity has not provided any financial guarantees.

(c) Contingent liabilities of the parent entity

There are no contingent assets or liabilities at the date of this report. The parent entity is not involved in any legal or arbitration proceedings and, as far as the Directors are aware, no such proceedings are pending or threatened against the consolidated entity.

(d) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2016, the parent entity had no such contractual commitments.

21 Commitments

Non-cancellable operating leases

	Consolidated entity	
	2016	2015
	$	$
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**21,194**	64,050

22 Share-based payments

The following material share-based payments took place during the year:

Shares issued on corporate reconstruction

Corporate reconstruction expenses to the value of $2,665,250 have been charged as a one off expense, to the profit and loss account and settled via issue of 88,841,667 shares.

Shares issued to research and development consultants

During the year, the consolidated entity received an invoice from its Russian-based research and development consultants in respect of services rendered to the Prenolica group between the years 2009 and 2016. In prior periods, this service was undertaken by the consultants but not invoiced to the consolidated entity and could not therefore be reliably measured prior to the date of the invoice. Research and development costs to the value of $2,850,000 were charged, as a one-off transaction, to the profit and loss account and were settled through the issue of 95,000,000 shares.

Fair value of shares

The Directors have determined that the 3 cent fair valuation applied to all of the above share-based transactions appropriately represents fair value based upon the following points:

- The Company has sourced most its financing needs through the issue of convertible notes. The majority of these convertible notes had 3 cent conversion formulae and all had converted to shares by 30 June 2016; and
- The Company intends to pursue a re-quotation of its shares on the Australian Securities Exchange within the next 12 months with its securities, before any share restructuring activity, quoted at a price of 3 cents per share.

23 Related party transactions

Transactions between related parties are on normal commercial terms and conditions no more favorable than those available to other parties unless otherwise stated. Transactions with related parties are as follows:

	Consolidated entity	
	2016	2015
	$	$
Sale of goods and services		
Sale of Bioeffectives® to Eastok Pty Ltd	**70,633**	72,522
Payments for services		
Payment for sharing of overhead and for staffing services provided by Eastok Pty Ltd	**102,828**	122,867
Expenses incurred relative to research and development	**66,000**	53,867

Loans from related parties
Information concerning loans from related parties, including related terms and conditions and transactions during the year is disclosed in:

Note 11 Convertible notes; and
Note 12 Borrowings.

24 Key management personnel compensation

	Consolidated entity	
	2016	2015
	$	$
Short-term employee benefits	**98,000**	148,871
Post-employment benefits	**32,308**	20,566
Share-based payments	**96,410**	81,315
	226,718	250,752

Key Management Personnel (KMP)
KMP are defined as those persons having authority and responsibility for planning, directing, and controlling the major activities of the consolidated entity, directly or indirectly, including any Director (whether Executive or otherwise) of the consolidated entity.

The Directors of the consolidated entity during the year were:

Dr. Vagif Soultanov - Executive Chairman
Mr. Alexander Kurganov - Executive Director
Mr. Andi Solaiman - Non-Executive Director (Resigned: 23 September 2015)
Dr. Ian Nisbet - Non-Executive Director

The other KMP of the consolidated entity during the year were:

Dr. Darren Schliebs - Chief Executive Officer

25 Events occurring after the balance sheet date

On the 16 August 2016 the Company changed its name from Solagran Limited to Prenolica Limited.

No other matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the group, the results of those operations or the state of affairs of the group or economic entity in subsequent financial years.

26 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor William Buck (2015: Grant Thornton Pty Ltd) of the parent entity, its related practices and non-related audit firms:

(i) Audit and other assurance services

	Consolidated entity	
	2016	2015
	$	$
Audit and review of financial statements		
Grant Thornton (former auditor, including Russian component)	**106,622**	53,975
William Buck (current auditor)	**18,000**	-
Audit Systema (auditor of Russian component in 2016)	**12,000**	-
Taxation services		
Grant Thornton	**34,400**	41,460
Total remuneration for audit and other assurance services	**171,022**	95,435

27 Contingent liabilities and contingent assets and deconsolidation activities

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

- Solagran Son LLC (old) was liquidated on 02 October 2015
- Biotech was liquidated on 28 August 2015
- Darius was liquidated on 24 December 2015
- Sibex was liquidated on 16 December 2015

As a consequence of these corporate restructuring activities, a total amount of $AUD 607,671 in net liabilities were derecognised from the group's results, resulting in a gain to the profit or loss on deconsolidation. None of the entities which were liquidated satisfied the accounting definition of a discontinued operation, as defined in Australian Accounting Standards and therefore the gains on deconsolidation have not been disaggregated from the profit and loss. In considering why treating these arrangements as discontinued operations was inappropriate, the Directors considered the following:

- Normal trading activity continued with key customers, suppliers and employees without disruption;
- The group continued to operate from its two factory locations in Tomsk and Vishny Volochyok;
- The group continued its unfettered access to the necessary intellectual property and know-how required to manufacture, sell and distribute its product.

In addition to this, no guarantee arrangements existed between any of the entities within the group which continue to trade, and these deconsolidated entities, nor have any claims or actions been taken or can be taken under Russian law by former suppliers or employees of the deconsolidated entity that could possibly be attributed to the group or its controlled entities as at report date.

As a consequence of this, as at 30 June 2016 no contingent liabilities were applicable to the group as at 30 June 2016 (2015: nil).

Prenolica Limited (Solagran Limited)
Directors' declaration
30 June 2016

In the Directors' opinion:

(a) the financial statements and notes set out on pages 8 to 37 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 30 June 2016 and of its performance for the year 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.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

Dr. Vagif Soultanov
Executive Chairman
Dated: This the 14th of December 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRENOLICA LIMITED (FORMERLY SOLAGRAN LIMITED) AND CONTROLLED ENTITIES

Report on the Financial Report

We have audited the accompanying consolidated financial report comprising Prenolica Limited (formerly Solagran Limited) (the Company) and the entities it controlled at the year's end or from time to time during the financial year (the consolidated entity). The consolidated financial report comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit of loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility 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 Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRENOLICA LIMITED (FORMERLY SOLAGRAN LIMITED) AND CONTROLLED ENTITIES (CONT)

Basis for Qualified Audit Opinion - Subsidiaries

The Russian based subsidiaries; SibEx LLC, Solagran Son (old) LLC, BioTech LLC and Darius LLC went into liquidation between 1 July 2015 and 30 June 2016. Russian legislation states that once bankruptcy proceedings are commenced the accounting books and records are seized. As such we were unable to obtain sufficient appropriate audit evidence over any revenue and expenses that should have been reported for these subsidiaries up to the date of liquidation.

Auditor's Opinion

In our opinion, except for the matters outlined above in the basis for qualification:

a) the financial report of the consolidated entity is in accordance with the Corporations Act 2001, including:
   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
   ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Emphasis of Matter

Without further modification to our opinion, we draw attention to Note 1(c) of the financial report which indicates that the consolidated entity incurred a net loss before income tax of $4,373,578, current assets exceeded current liabilities by $620 and a net cash outflow from operations of $2,133,472 for the year ended 30 June 2016. These conditions, along with other matters as set forth in Note 1(c), indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and extinguish its liabilities in the normal course of business.

Other Matter

The financial report of Prenolica Limited (formerly Solagran Limited) for the year ended 30 June 2015 was audited by another auditor who expressed a qualified opinion on that financial report in relation to inventory (among other matters). The previous auditor issued a qualified opinion as they were not appointed until after 30 June 2015 and thus did not observe the counting of physical inventories at the beginning and end of the year. They were therefore unable to satisfy themselves by alternative means concerning inventory quantities held.

William Buck

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

N.S. Benbow
Director
Dated this 14th day of December, 2016