



Suda Pharmaceuticals Limited and Controlled Entities

Appendix 4E

Preliminary Final Report

Year ended 30 June 2020

Name of entity
Suda Pharmaceuticals Limited and Controlled Entities

ABN or equivalent company reference

ABN 35 090 987 250

Year ended

30 June 2020
(Previous corresponding period: 30 June 2019)

Results for announcement to the market

					\$
Revenue for ordinary activities	Down	56.3%	to	532,690	
Net loss after tax (from ordinary activities) for the period attributable to members	Down	27.6%	to	(9,943,909)	

Net tangible assets per security

	30 June 2020	30 June 2019
	Cents	Cents
Net tangible asset backing (per share)	(0.12)	2.61

• Net Tangible Assets (NTA) means the total assets of a business, less any intangible asset such as goodwill, patents, and trademarks, less all liabilities. NTA for 30 June 20 does not include the right-of-use assets recognised under AASB 16 Leases.

• For comparison purpose, 2019 NTA has been recalculated by using total number of shares post consolidation approved at AGM on 12 November 2019.

Distributions

No dividends have been paid or declared by the Company for the current financial year. No dividends were paid for the previous financial year.

Brief explanation of any of the figures reported above

(i) Share consolidation

SUDA completed the consolidation of its share capital on a one (1) for twenty-five (25) basis (the "Consolidation"). The Consolidation was approved by shareholders at the Annual General Meeting of the Company held on 12 November 2019.

As a result of the consolidation, the post consolidation shares and options on the 22 November 2019 were:

Securities	Number of securities on issue (pre-consolidation)	Number of securities on issue (post-consolidation)
Fully-paid Ordinary Shares	3,556,371,635	142,254,397
Listed Options - SUDOC	698,908,634	27,956,286
Listed Options - SUDOD	517,206,121	20,688,051
Unlisted Options	27,500,000	1,100,000

(ii) SUDA Signed 4 New Agreements

SUDA signed feasibility study agreements with Ordesa and Sanofi, a licence agreement with Mitsubishi Tanabe Pharmaceuticals Korea for ZolpiMist for Korea as well as a development and licence agreement with Cann Pharma Australia.

(iii) Impairment ArTiMist®

In March 2020 the Company sought legal and regulatory advice. The Board reached the decision that the Company would no longer commit resources to the project and all steps in seeking to obtain regulatory approval ended. The carrying value of ArTiMist® at reporting date had been written down to nil (2019: \$5,338,148) which the Directors believe is a reasonable estimate of the recoverable amount. The impairment expense has been recognised in the statement of profit or loss and other comprehensive income.

Audit Status

The preliminary report is based on financial statements that are in the process of being audited.

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**Suda Pharmaceuticals Limited and
Controlled Entities**

ABN 35 090 987 250

**Preliminary Final Report For The Year Ended
30 June 2020**

Review of operations and activities

Operating results

The consolidated loss of the group after providing for income tax attributable to owners of the parent entity amounted to \$9,943,909 (2019: \$7,795,039).

Significant events

The significant events during the 2019-20 financial year were:

(i) SUDA finalised its agreement with Cann Pharma Australia

On 29 October 2019, SUDA finalised the Product Development, Licence and Supply Agreement (Agreement) with Cann Pharmaceutical Australia Ltd (CPA). The Agreement is to develop a novel oral spray of pharmaceutical-grade cannabinoid derivatives for the treatment of drug resistant epilepsy, melanoma and motion sickness throughout the world.

Following completion of the feasibility study, which is fully funded by CPA, further product development costs are to be determined by SUDA and CPA jointly and will be fully funded by CPA.

On regulatory approval, SUDA will arrange the manufacture and supply of the product to CPA with a 10% handling fee. CPA will pay an upfront fee of \$200,000 of which SUDA has received \$100,000. \$50,000 is due upon completion of development milestone of the feasibility study and \$50,000 on receipt of the final report. SUDA will also receive development milestone fees of \$650,000 linked to completion of various milestones, commercial milestones payments of \$650,000 linked to achieving the pre-defined commercial sales targets and a royalty of 10% of net sales of the product.

(ii) Fully funded feasibility study and option agreement with Laboratorios Ordesa, S.L.

On 5 December 2019, SUDA entered into a fully funded, feasibility study and option agreement with Laboratorios Ordesa, S.L., (Ordesa) a Spanish pharmaceutical company that focuses on nutrition, health and well-being. SUDA and Ordesa intend to co-develop a major consumer product for the paediatric market which SUDA anticipates will benefit from an improved patient delivery route and which could, potentially, also benefit from the OroMist technology superiority in speed of onset of action and less drug being required.

The feasibility study is fully funded by Ordesa and SUDA received an upfront option fee of US\$100,000 (approx. A\$140,000).

On the successful completion of the initial feasibility study, or as agreed by the parties, Ordesa may elect to expand the scope of work or to exercise its option for a full development of the product which is to be funded by Ordesa. The two companies will negotiate a definitive agreement for the development, licence and supply of the product.

All intellectual property from the feasibility study and the full development will be jointly owned, however, the trademark of the product will be the property of Laboratorios Ordesa.

(iii) Feasibility agreement with Sanofi

On 9 December 2019, SUDA entered into a fully funded feasibility study with SANOFI-AVENTIS GROUPE (Sanofi) to investigate the feasibility of SUDA's OroMist Technology and Sanofi selected active ingredient.

Based on the outcomes of this feasibility study, Sanofi and SUDA may enter into further collaboration.

Review of operations and activities

(iv) *License and Supply agreement with Mitsubishi Tanabe Pharma Korea*

On 23 March 2020, SUDA entered into an exclusive license agreement with Mitsubishi Tanabe Pharma Korea (MTPK) for the supply of ZolpiMist for South Korea. SUDA received an upfront payment of US\$100,000 (approximately A\$140,000) and will receive commercial milestone payments of US\$300,000 based on MTPK achieving sales targets.

SUDA will also receive a 12% royalty of net sales of the product.

(v) *Senior Management Changes*

On 24 September 2020, Stephen Carter stepped down as Managing Director and Chief Executive Officer after nearly 9 years on the board and management team. Mr Carter joined the board in 2010 when the Company was known as Eastland Medial Systems. Stephen Carter continued to provide technical assistance on a consulting basis for the remainder of FY 2020. Paul Hopper, who had joined the Company as Non-executive Director and Chairman, was appointed as interim Executive Chairman.

On 27 November 2020, Dr Michael Baker was appointed as CEO of SUDA and commenced 02 January 2020. Michael Baker joined SUDA Pharmaceuticals from the leading Australian life science fund, Bioscience Managers, where he was based from 2017. As an Investment Manager, he was responsible for deal sourcing from networks, conferences, universities and research institutes. He also conducted the due diligence to shortlist investment opportunities and managed portfolios, specifically helping investee companies with corporate and operational strategies and fund raisings.

Prior to that, Michael Baker was a project manager at Hexima Limited which specialises in developing agricultural and pharmaceutical products. He was a senior manager and his role was to lead and motivate a team of 4-8 research scientists and drive project development, ensuring timely completion of milestones, including helping guide a drug candidate from discovery to clinical trials.

In December 2020, Andrew Curtis who was employed to lead US based business development activities left SUDA.

(vi) *Impairment of ArTiMist[®]*

In May 2019, SUDA received a TGA notice of denial for marketing approval of its ArTiMist[®] oral spray. SUDA took the conservative approach and recognised an impairment on the project while it undertook an appeal against the TGA decision under section 60 of the Therapeutic Goods Act 1989 requesting reconsideration of the initial decision, which was lodged with the TGA in August 2019.

On 1 October 2020, SUDA received notice that the decision from the TGA that the delegate had decided to uphold the original decision as the delegate was not satisfied that the safety and efficacy of the product had been satisfactorily established for the purpose for which it is intended to be used.

Accordingly, on 30 March 2020, SUDA placed the ArTiMist[®] program on hold and all costs associated with program were fully written off following the decision of the TGA to uphold the denial.

(vii) *Capital raising*

On 3 July 2020, SUDA commenced a 1 for 1 non renounceable entitlement offer of fully paid ordinary shares in Suda (New Shares) (and 1 option for every 3 New Shares issued with an exercise price of \$0.05 and an expiry date of 31 July 2022) to raise approximately \$3.56 million (Entitlement Offer).

The Entitlement Offer closed on 29 July 2020 and was heavily oversubscribed. As a result of the over-subscription, the Company raised an additional \$0.5m via a placement to sophisticated investors.

Review of operations and activities

(viii) *ZolpiMist received TGA approval*

On 28 July 2020, the Company received approval of the registration of the Company's lead product ZolpiMist (zolpidem tartrate) for the treatment of short-term insomnia in adults from the Therapeutics Goods Administration (TGA).

SUDA submitted a Marketing Authorisation Application (MAA) to the TGA for ZolpiMist in April 2019. SUDA, subsequent to the submission, made a strategic decision to register a supplemental active pharmaceutical ingredient (API) supplier and final product manufacturer which required an amendment to the TGA submission. Completion of the TGA review was expected Q4 2020.

The TGA approval includes the supplemental API supplier and final product manufacturer which allows SUDA to supply the product at a more competitive supply price and potentially allows the Company to target additional territories.

The benefits of TGA approval are:

- ZolpiMist will be included on the Australian Register of Therapeutic Goods and can be commercialised and supplied within Australia;
- Demonstrates SUDA's compliance with Good Manufacturing Practice and an ability to obtain regulatory approvals for its products; and
- It will assist SUDA's current partners, TEVA, Mitsubishi Tanabe Pharma Singapore and MTP Korea, in their submissions in their respective territories with the amended API supplier and manufacturer.

Dividends Paid or Recommended

The Directors have recommended that no dividend be paid by the Company in respect of the financial year ended 30 June 2020.

After Balance Date Events

The following occurred after the Balance Date:

- i. Capital raising as outlined above
- ii. ZolpiMist received TGA approval, as outlined above
- iii. Dr Michael Baker was appointed Managing Director effective 1 July 2020

The Board thanks our shareholders for their ongoing support and looks forward to an exciting 2020/21 year.

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Consolidated statement of comprehensive income

	Notes	Consolidated entity	
		2020 \$	2019 \$
Revenue from contracts with customers	2(a)	532,690	1,219,083
Other income	2(b)	798,732	956,695
Interest income	2(b)	43,513	30,804
Cost of sales of goods		(200,969)	(199,688)
Employee benefits expenses		(1,427,544)	(1,186,083)
Depreciation and amortisation expense		(572,379)	(471,128)
Impairment of intangible assets	6	(5,937,532)	(6,276,758)
Finance costs		(6,570)	(125,062)
Other expenses	2(b)	(3,159,145)	(1,742,902)
Interest expenses AASB 16		(14,705)	-
Loss before income tax expense		(9,943,909)	(7,795,039)
Loss after tax from continuing operations		(9,943,909)	(7,795,039)
Net loss for the year		(9,943,909)	(7,795,039)
Total comprehensive loss for the year		(9,943,909)	(7,795,039)
		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:			
Basic loss per share	3	(6.99)	(7.91)
Basic loss per share from continuing operation (cents per share)		(6.99)	(7.91)
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Diluted loss per share (cents per share)		(6.99)	(7.91)
Diluted loss per share from continuing operations (cents per share)		(6.99)	(7.91)

For comparison purpose, 2019 loss per share has been recalculated by using total number of shares post consolidation approved at AGM on 12 November 2019.

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet

		Consolidated entity	
	Notes	2020 \$	2019 \$
ASSETS			
Current assets			
Cash and cash equivalents		977,472	4,313,562
Trade and other receivables	4	869,168	1,120,870
Inventories		21,801	45,409
Other current assets		166,203	115,278
Total current assets		2,034,644	5,595,119
Non-current assets			
Property, plant and equipment		364,587	367,370
Right-of-use assets	5	57,044	-
Intangible assets	6	4,251,222	10,290,825
Total non-current assets		4,672,853	10,658,195
Total assets		6,707,497	16,253,314
LIABILITIES			
Current liabilities			
Trade and other payables	7	1,434,083	1,106,411
Contract liabilities		333,002	75,000
Borrowings		12,054	36,206
Provisions		174,172	130,947
Lease liabilities	5	69,166	-
Total current liabilities		2,022,477	1,348,564
Non-current liabilities			
Trade and other payables	7	540,010	910,353
Borrowings		4,240	16,909
Provisions		5,350	-
Total non-current liabilities		549,600	927,262
Total liabilities		2,572,077	2,275,826
Net assets		4,135,420	13,977,488
EQUITY			
Issued capital	9	67,385,981	67,385,981
Reserves		1,638,293	2,303,384
Accumulated losses		(64,888,854)	(55,711,877)
Total equity		4,135,420	13,977,488

- The Group has reclassified certain expenditure items in prior year comparatives in order to be consistent with the current year classification and presentation.

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

	Issued capital \$	Accumulated losses \$	Share-based payment reserve \$	Minority interest acquisition reserve \$	Total equity \$
Consolidated entity					
Balance at 1 July 2018	57,204,713	(47,916,838)	772,574	1,404,267	11,464,716
Shares issued during the year	10,686,735	-	-	-	10,686,735
Share issue costs	(505,467)	-	-	-	(505,467)
Equity settled share-based payments	-	-	126,543	-	126,543
Loss for the period	-	(7,795,039)	-	-	(7,795,039)
Total comprehensive income for the period	-	(7,795,039)	-	-	(7,795,039)
Balance at 30 June 2019	67,385,981	(55,711,877)	899,117	1,404,267	13,977,488
Consolidated entity					
Opening balance	67,385,981	(55,711,877)	899,117	1,404,267	13,977,488
Share issue costs	-	-	101,841	-	101,841
Loss for the period	-	(9,943,909)	-	-	(9,943,909)
Shares lapsed during the year	-	766,932	(766,932)	-	-
Balance at 30 June 2020	67,385,981	(64,888,854)	234,026	1,404,267	4,135,420

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

Consolidated statement of cash flows

	Consolidated entity	
	2020	2019
Notes	\$	\$
Cash flows from operating activities		
Receipts from customers	952,261	1,050,643
Payments to suppliers and employees	(4,835,349)	(4,308,928)
Interest paid	(14,705)	-
Government grants and tax incentives	984,535	745,000
Interest received	33,050	29,984
Finance costs	(3,517)	(12,187)
Net cash (outflow) from operating activities	(2,883,725)	(2,495,488)
Cash flows from investing activities		
Payments for property, plant and equipment	(141,089)	(312,715)
Payments for intangible assets	(247,333)	(1,071,603)
Net cash (outflow) from investing activities	(388,422)	(1,384,318)
Cash flows from financing activities		
Proceeds from issues of shares, net of capital raising fees	-	8,095,243
Proceeds from borrowings	-	140,000
Repayment of borrowings	-	(140,000)
Principal elements of lease payments	(63,943)	-
Net cash (outflow) inflow from financing activities	(63,943)	8,095,243
Net (decrease)/ increase in cash and cash equivalents	(3,336,090)	4,215,437
Cash and cash equivalents at the beginning of the financial year	4,313,562	98,125
Cash and cash equivalents at end of year	977,472	4,313,562

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

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1 Summary of significant accounting policies

Basis of preparation

The preliminary final report is presented in Australian dollars and has been prepared on an accrual basis and is based on historical cost basis except for selected current and non-current assets which are measured at fair value at reporting date.

The preliminary final report has been prepared in accordance with Australian Securities Exchange Listing Rules as they relate to Appendix 4E and in accordance with the recognition with the recognition and measurement requirements of the Australian Accounting Standards (including Australian Accounting Interpretations) adopted by the AASB and the Corporations Act 2001.

As such, the preliminary final report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide a full understanding of the financial performance and financial position as the full financial report. It is recommended that the preliminary final report be considered together with any public announcements made by the Company in accordance with the continuous disclosure obligations of the Australian Securities Exchange Listing Rules.

(i) Going concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business. This includes the continued development and commercialisation of the Group's current projects.

(ii) New and amended standards adopted by the group

For the period ended 30 June 2020, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group and effective for the current reporting period. Those which have a material impact on the Group are set out below.

AASB 16 Leases

The Group has applied AASB 16 from 1 July 2019 using the modified retrospective approach, with no restatement of comparative information.

The impact on the account policies, financial performance and financial positions of the Group from the adoption of AASB 16 is detailed in Note 5.

Other than the above, there is no material impact of the new and revised Standards and Interpretations on the Group.

New Standard and Interpretations in issue not yet adopted

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet adopted for the period ended 30 June 2020. As a result of this review the Directors have determined that there is no material impact of the Standards and Interpretations in issue not yet adopted on the Group and, therefore, no change is necessary to Group accounting policies.

2 Revenue and expenses

(a) Revenue

	Consolidated entity	
	2020	2019
	\$	\$
Sales revenue		
- License and supply agreements and research and development projects	<u>532,690</u>	<u>1,219,083</u>

As a result of the contract which the Group enters into with its customers, a number of different assets and liabilities are recognised on the Group's balance sheet. These include but are not limited to: Trade receivables; Accrued income; and Deferred income. There has been no change in the accounting policies for these assets as a result of the adoption of AASB 15.

The following table shows how much relates to license and development project revenue invoiced in the year and how much relates to performance obligations that were unsatisfied in the year:

	Consolidated entity	
	2020	2019
	\$	\$
Total long-term research & development project invoiced amount	865,692	1,294,083
Less adjustment for partially or fully unsatisfied performance obligation as at 30 June (AASB 15)	<u>(333,002)</u>	<u>(75,000)</u>
Total project revenue recognised at 30 June	<u>532,690</u>	<u>1,219,083</u>

The Group derives its revenue from the sale of goods and the provision of services at a point in time and over time in the following major categories: (i) licence and supply agreements; and, (ii) research and development income. This is consistent with the revenue information that is disclosed for each reportable segment under AASB 8.

	Consolidated entity	
	2020	2019
	\$	\$
<i>At a point in time</i>		
Licence and supply agreements	302,088	893,898
<i>Over time</i>		
Research and development income	<u>230,602</u>	<u>325,185</u>
Total revenue	<u>532,690</u>	<u>1,219,083</u>

(b) Other Income and Expenses

(i) Interest income

	Consolidated entity	
	2020	2019
	\$	\$
Interest income	<u>43,513</u>	<u>30,804</u>

Revenue and expenses

(b) Other Income and Expenses (continued)

(ii) Other income

	Consolidated entity	
	2020	2019
	\$	\$
R&D Tax Incentive	655,882	925,000
COVID-19 assistance grant	80,000	-
Export Market Development Grants (EMDG)	62,850	31,695
	<u>798,732</u>	<u>956,695</u>

(iii) Other expenses

	Consolidated entity	
	2020	2019
	\$	\$
<i>Other expenses</i>		
Write-off of obsolete stock	23,608	25,000
Share-based payment expense	101,841	-
Legal fees	319,409	19,323
Professional fees	950,113	482,567
Operating lease rental expense	15,540	111,970
Patent and trademark costs	249,818	120,838
Research costs	228,778	58,770
General and administrative	628,438	649,339
Investor relation costs	213,411	13,155
Audit and accounting fees	129,564	69,367
Insurances	127,813	47,002
Travel costs	170,812	145,571
Total other expenses	<u>3,159,145</u>	<u>1,742,902</u>

3 Loss per share

(a) Basic earnings / (loss) per share

	Consolidated entity	
	2020	2019
	Cents	Cents
Basic loss per share (cents per share)	(6.99)	(7.91)
Basic loss per share from continuing operation (cents per share)	(6.99)	(7.91)
Diluted loss per share (cents per share)	(6.99)	(7.91)
Diluted loss per share from continuing operations (cents per share)	<u>(6.99)</u>	<u>(7.91)</u>

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Loss per share

(b) Reconciliations of earnings used in calculating earnings per share

	Consolidated entity	
	2020	2019
	\$	\$
Loss from continuing operations	<u>(9,943,909)</u>	<u>(7,795,039)</u>

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share and diluted earnings per share is as follows:

Weighted average number of shares used as the denominator

	Consolidated entity	
	2020	2019
	Number	Number
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>142,254,865</u>	<u>98,581,593</u>

For comparison purpose, 2019 loss per share has been recalculated by using total number of shares post consolidation approved at AGM on 12 November 2019.

In 2019-20 financial year, the Company completed the consolidation of its share capital on a one (1) for twenty-five (25) basis (the "Consolidation") during the current period (refer to Note 9). The Consolidation was approved by shareholders at the Annual General Meeting of the Company held on 12 November 2019. Due to ordinary shares number fluctuation, in current period loss per share is calculated by using total number of ordinary shares which provides reasonable comparatives to last period.

4 Trade and other receivables

	Consolidated entity	
	2020	2019
	\$	\$
Trade receivables ⁽ⁱ⁾	216,256	195,870
R&D incentive receivable	652,912	925,000
	<u>869,168</u>	<u>1,120,870</u>

(i) the average credit period on sales of goods and rendering of services is 60 days. All amounts are short term except when conditional on other party achieving a milestone. The carrying value of trade receivables is considered a reasonable approximation of fair value.

5 Leases

Accounting policy

AASB 16 Leases supersedes AASB 117 Leases. The Group has adopted AASB 16 from 1 July 2019 which has resulted in changes in the classification, measurement and recognition of leases. The changes result in almost all leases where the Group is the lessee being recognised on the Statement of Financial Position and removes the former distinction between 'operating and 'finance' leases. The new standard requires recognition of a right-of-use asset (the leased item) and a financial liability (to pay rentals). The exceptions are short-term leases and leases of low value assets.

Accounting policy (continued)

The Group has adopted AASB 16 using the modified retrospective approach under which the reclassifications and the adjustments arising from the new leasing rules are recognised in the opening Condensed Statement of Financial Position on 1 July 2019. Under this approach, there is no initial Impact on retained earnings, and comparatives have not been restated.

The Group leases various premises. Prior to 1 July 2019, leases were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, where the Company is a lessee, the Group recognises a right-of-use asset and a corresponding liability at the date which the lease asset is available for use by the Group (i.e. commencement date). Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a consistent period rate of interest on the remaining balance of the liability for each period.

The lease liability is initially measured at the present value of the lease payments that are not paid at commencement date, discounted using the rate implied in the lease. If this rate is not readily determinable, the Group uses its incremental borrowing rate.

Lease payments included in the initial measurement if the lease liability consist of:

- Fixed lease payments less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at commencement date;
- Any amounts expected to be payable by the Group under residual value guarantees;
- The exercise price of purchase options, if the Group is reasonably certain to exercise the options; and
- Termination penalties of the lease term reflects the exercise of an option to terminate the lease.

Extension options are included in a number of property leases across the Group. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if, at commencement date, it is reasonably certain that the options will be exercised.

Subsequent to initial recognition, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The lease liability is remeasured (with a corresponding adjustment to the right-of-use asset) whenever there is a change in the lease term (including assessments relating to extension and termination options), lease payments due to changes in an index or rate, or expected payments under guaranteed residual values.

Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before commencement date, less any lease incentives received and any initial direct costs. These right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Where the terms of a lease require the Group to restore the underlying asset, or the Group has an obligation to dismantle and remove a leased asset, a provision is recognised and measured in accordance with AASB 137. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Right-of-use assets are depreciated on a straight-line basis over the term of the lease (or the useful life of the leased asset if this is shorter). Depreciation starts on commencement date of the lease.

Where leases have a term of less than 12 months or relate to low value assets, the Group has applied the optional exemptions to not capitalise these leases and instead account for the lease expense on a straight-line basis over the lease term.

Leases

Accounting policy (continued)

Impact on adoption of AASB 16

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of AASB 117. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to lease liabilities on 1 July 2019 was 15%.

On initial application right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Statement of Financial Position as at 1 July 2019.

In the Condensed Statement of Cash Flows, the Group has recognised cash payments for the principal portion of the lease liability within financing activities, cash payments for the interest portion of the lease liability as interest paid within operating activities and short-term lease payments and payments for lease of low-value assets within operating activities.

The adoption of AASB 16 resulted in the recognition of right-of-use assets of \$133,109 and lease liabilities of \$133,109 in respect of all operating leases, other than short-term leases and leases of low-value assets.

The net impact on retained earnings on 1 July 2019 was \$nil.

Practical expedients applied

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- For existing contracts as at 1 July 2019, the Group has elected to apply the definition of lease contained in AASB 117 and Interpretation 4 and has not applied AASB 16 to contracts that were previously not identified as leases under AASB 117 and Interpretation 4;
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases, with no right-of-use asset nor lease liability recognised;
- Relying on historic assessments of whether leases were onerous instead of performing impairment reviews of right-of-use assets immediately prior to the date of initial application of AASB 16;
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(i) Reconciliation of operating lease commitments previously disclosed and lease liabilities on 1 July 2019

Below is a reconciliation of total operating lease commitments as at 30 June 2019, as disclosed in the annual financial statements for the year ended 30 June 2019, and the lease liabilities recognised on 1 July 2019:

	1 July 2019 \$
Operating lease commitments as at 1 July 2019 (AASB 117)	152,634
Operating lease commitments discount based on the weighted average incremental borrowing rate of 15%	(19,525)
Accumulated depreciation as at 1 July 2019 (AASB 16)	(38,031)
	<u>95,078</u>
Current lease liabilities (AASB 16)	(63,943)
Non-current lease liabilities (AASB 16)	(69,166)
Total lease liabilities (AASB 16)	<u>(133,109)</u>

Leases

(ii) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	Consolidated entity	
	2020	2019
	\$	\$
Right-of-use assets		
Properties	57,044	-
	<u>Consolidated entity</u>	
	2020	2019
	\$	\$
Lease liabilities		
Current	69,166	-

(iii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	Consolidated entity	
	2020	2019
	\$	\$
Depreciation charge of right-of-use assets		
Properties	76,065	-
	2020	2019
	\$	\$
Interest expenses AASB 16	14,705	-

The total cash outflow for leases in 2020 was \$78,648.

(iv) The group's leasing activities and how these are accounted for

At the start of the current accounting period, the Company has the following leased asset:

- Office lease at GF & Lv1 Unit12, 55 Howe Street, Osborne Park, Western Australia

	Leased properties
	\$
Consolidated entity	
At 30 June 2020	
Cost or fair value	133,109
Accumulated depreciation and impairment	(76,065)
Net book amount	<u>57,044</u>
Year ended 30 June 2020	
Transfer to right-of-use assets AASB 16	133,109
Depreciation charge	(76,065)
Closing net book amount	<u>57,044</u>

6 Intangible assets

Consolidated entity	Patents \$	Development costs \$	Total \$
Year ended 30 June 2019			
Opening net book amount	-	15,398,790	15,398,790
Additions	132,358	1,385,839	1,518,197
Impairment charge	-	(6,276,758)	(6,276,758)
Amortisation charge	-	(349,404)	(349,404)
Closing net book amount	<u>132,358</u>	<u>10,158,467</u>	<u>10,290,825</u>
Year ended 30 June 2020			
Opening net book amount	132,358	10,158,467	10,290,825
Additions	-	247,333	247,333
Impairment charge	-	(5,937,532)	(5,937,532)
Amortisation charge	-	(349,404)	(349,404)
Closing net book amount	<u>132,358</u>	<u>4,118,864</u>	<u>4,251,222</u>

The Board assesses each project at balance date:

i. ArTiMist®

The Company has taken into consideration the notice of denial for marketing approval received 14 May 2019, assessed recoverable amount and has taken a conservative approach and recognised an impairment loss of \$5,344,150 (2019: \$6,276,758).

In March 2020 the Company sought legal and regulatory advice. The Board reached the decision that the Company would no longer commit resources to the project and all steps in seeking to obtain regulatory approval ended. The carrying value of ArTiMist® at reporting date had been written down to nil (2019: \$5,338,148) which the Directors believe is a reasonable estimate of the recoverable amount. The impairment loss has been recognised in the statement of profit or loss and other comprehensive income.

ii. ZolpiMist

The Company submitted a Marketing Authorisation Application (MAA) to the TGA for ZolpiMist in April 2019. The Company, subsequent to the submission, made a strategic decision to register a supplemental active pharmaceutical ingredient (API) supplier and final product manufacturer which required amendment to the TGA submission. Completion of the TGA review was expected Q4 2020. On 28 July 2020, the Company received approval of the registration of the Company's lead product ZolpiMist (zolpidem tartrate) for the treatment of short-term insomnia in adults from the TGA.

The Company commenced amortising the carrying value on a straight-line basis from 1 January 2018 over 10 years. In relation to additional costs in relation to ZolpiMist, the recoverable amount has been determined based on a value-in-use calculation. The Company applied a discount rate to cash flow projections of 20%.

iii. Other projects

The Board has considered other projects and decided to fully impair SUD-002 and SUD-005 (totalling \$593,382).

7 Trade and other payables

	Consolidated entity	
	2020	2019
	\$	\$
Current		
Trade payables (i)	732,073	480,405
Payroll tax and other statutory liabilities	181	-
Sundry payables and accrued expenses	292,731	238,070
Legal settlement (ii)	409,098	387,936
	<u>1,434,083</u>	<u>1,106,411</u>
Non-current		
Legal settlement (ii)	<u>540,010</u>	<u>910,353</u>

The Group has reclassified certain provisions in prior year comparatives in order to be consistent with the current year classification and presentation.

(i) Trade payables are non-interest bearing and are normally settled on 30-45 day terms and include superannuation and PAYG.

(ii) On 28 June 2018, SUDA entered into a settlement agreement with the receiver for HC Berlin Pharma (HCBP). On 29 March 2018, the Company announced that the German Court had dismissed an appeal lodged by SUDA against the Receiver of HCBP with respect to a failed in-kind capital contribution in June 2008. SUDA was found liable for the payment of €4,000,000 plus interest and costs and the Receiver had reserved his rights to apply to the Courts to have the liability increased to €8,000,000 plus interest and costs (quantum of the failed in-kind contribution).

The judgement against SUDA was made for half of the failed in-kind contribution or €4,000,000 plus 5% interest dating back from August 2008, as reported by SUDA on 27 February 2017. The estimated total of this claim amounted to approximately €6,000,000 (\$9,400,000) plus legal costs. Upon the judgement being made final the HCBP Receiver reserved his right to assert claim over the full €8,000,000 plus costs (approximately \$12,000,000).

The settlement is for SUDA to pay €1,400,000 in respect of the claim, plus legal costs of €220,000, being a total of €1,620,000 (approximately \$2,570,000). The Directors of SUDA believe that this is a very good outcome for the Company and its shareholders. The settlement quantifies the liability and removes uncertainty.

The initial payment was due and paid by 30 September 2018 for €540,000 (approximately \$855,000) with €250,000 payable by 31 December 2020 and €330,000 payable by 31 December 2021. The amount due has not been discounted to present value and the effect of this is not considered material.

8 Controlled entities

Subsidiaries of Suda Pharmaceuticals Ltd	Country of Incorporation	Percentage owned	
		2020	2019
		%	%
Malaria Research Company Pty Ltd	Australia	100	100
Eastland CN Nominees Pty Ltd	Australia	100	100
Suda Europe Ltd	United Kingdom	100	100
Suda 18 Pty Ltd	Australia	100	100

9 Issued capital

	2020 Shares	2020 \$	2019 Shares	2019 \$
Ordinary shares Fully paid	142,254,865	67,385,981	3,556,371,635	67,385,981
	142,254,865	67,385,981	3,556,371,635	67,385,981
Total share capital	142,254,865	67,385,981	3,556,371,635	67,385,981
<i>Movements in ordinary shares on issue</i>				

Details	Number of shares	Total \$
Opening balance 1 July 2018	1,224,141,804	57,204,713
Rights issue (August 2018)	1,357,817,329	6,789,087
Right issue (June 2019)	974,412,502	3,897,648
Share issue costs	-	(505,467)
Balance 30 June 2019	3,556,371,635	67,385,981
Share consolidation ⁽ⁱ⁾	(3,414,116,770)	-
Balance 30 June 2020	142,254,865	67,385,981

- (i) SUDA completed the consolidation of its share capital ad options on a one (1) for twenty-five (25) basis which was approved by shareholders at the Annual General Meeting held on 12 November 2019.