SUDA PHARMACEUTICALS LTD

ANNUAL REPORT **2019**

SUDA PHARMACEUTICALS LTD

SUDA PHARMACEUTICALS LTD
AND CONTROLLED ENTITIES / ABN 35 090 987 250

ANNUAL REPORT

30 JUNE 2019

CORPORATE DIRECTORY

Directors	Mr. Paul Hopper	Non-Executive Director Appointed Executive Director 23-9-19
	Mr. Stephen Carter	Executive Director Resigned 23-9-19
	Mr David Phillips	Executive Director
	Mr. David Simmonds	Non-Executive Director
Company Secretary	Mr Joseph Ohayon	
Registered Office	Suda Pharmaceuticals Ltd ABN 35 090 987 250 Level 1, Unit 12, 55 Howe Street Osborne Park WA 6017 Telephone Facsimile Email Website	 PO Box 1719 Osborne Park BC WA 6916 (08) 6142 5555 (08) 9443 8858 info@sudapharma.com www.sudapharma.com
Share Registry	Advanced Share Registry Ltd 110 Stirling Highway Nedlands WA 6009 Telephone Facsimile	 PO Box 1156 Nedlands WA 6909 (08) 9389 8033 (08) 9389 7871
Auditors	HLB Mann Judd Level 4, 130 Stirling Street PERTH WA 6000	
Bankers	Westpac Banking Corporation Corporate Banking 109 St Georges Terrace PERTH WA 6000	
Home Securities Exchange	Australian Securities Exchange Ltd Exchange Plaza 2 The Esplanade Perth WA 6000	
	Listing codes: Ordinary Shares Options Options	 SUD SUDOC SUDOD

TABLE OF CONTENTS

ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2019

CHAIRMAN'S LETTER

On behalf of the Board, I am pleased to present my review of SUDA's activities for the financial year ended 30 June 2019.

It has been a period of intense activity across all fronts of the business.

Operationally, three new agreements were signed with Strides for Sumatriptan, MTPS for Zolpimist and Zelda for cannabinoid. The transactions with Strides and Zelda were co-development deals fully funded by these companies. Further, a binding term sheet was signed with Cann Pharma.

However, whilst these agreements confirm the attractiveness of SUDA's technology, it is clear that market expectations are seeking more substantial transactions, and to that end the Company has been devoting time and resources towards Big Pharma in pursuit of larger deals. As a result, a number of discussions are underway.

Development work on Anagrelide continues on track, however shareholders are reminded of the expected slower timelines associated with a cancer product, compared to the more accelerated 505b(2) pathway for existing FDA approved drugs.

We were disappointed that the TGA declined ArTiMist's approval and, as you are aware, a strong appeal has been lodged. To be financially prudent, we have written down the value of ArTiMist by $6.3 million, notwithstanding the Board's view that substantial value remains with the asset.

In June we completed a successful $3.9 million capital raising of which approximately 70% was supported by existing shareholders. We thank them for their confidence.

Post balance date, we announced that our long serving CEO, Steve Carter had stepped down as Director and CEO, and that a search for new leadership of the Company had begun.

On behalf of my fellow directors, I wish to record our thanks to Steve for his long and committed service to the Company. We are pleased that he has agreed to assist with the transition of the new CEO to the role.

In the interim, I have been appointed Executive Chairman until a new CEO is appointed.

The Board was strengthened during the year with the appointment of David Simmonds and David Phillips moved into an Executive Directors role to further enhance our focus on Big Pharma.

This year has been both exciting and challenging. Your Board recognises our shareholders' sentiment & frustration generated by a weak share price, and is committed to positioning the Company in a way that more fully reflects the fundamental value of our unique assets.

I wish to thank all our stakeholders for their continuing support and look forward to an exciting year ahead.

Paul Hopper
Chairman

MISSION STATEMENT

SUDA Pharmaceuticals Ltd is drug delivery to improve the health and lifestyle of the global community by providing new, high-quality, innovative, oro-mucosal spray pharmaceutical products to assist in the treatment of various conditions whilst maintaining consistent growth and investment value for its shareholders.

REVIEW OF OPERATIONS

REVIEW OF OPERATIONS AND ACTIVITIES FOR THE 2019 FINANCIAL YEAR:

SUDA Pharmaceuticals Ltd (SUDA) is pleased to announce its financial results for the year ending 30 June 2019.

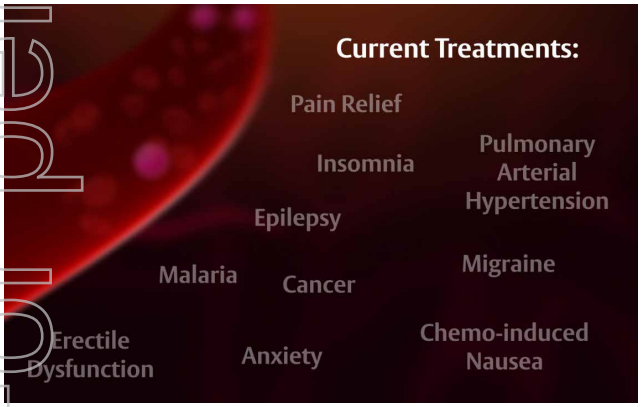
Highlights

- A total of $10.4m raised during the year
- Expanded into US market
- Signed our first co-development agreement with Strides
- Signed a supply and licence agreement with Mitsubishi Tanabe Singapore
- Restructured the Board with a new Chairman
- Cleaned up Balance Sheet
- Revenue of $1.2m from projects
- Impairment loss on its ArTiMist project of $6.3m
- Negotiated Berlin Pharma Settlement
- Loss for the year of $7.8m

Financial review

The revenue for the financial year ended 30 June 2019 was $1,219,083 (2018: $425,864). The loss for the year was $7,795,039 (2018 loss: $5,459,278) after an impairment loss for its ArTiMist project of $6,276,758 and anticipated income tax benefit (R&D Tax claim) of $925,000.

The Group's net assets increased from $11,464,716 to $13,977,488 at 30 June 2019 with cash reserves of $4,313,562. The Group also redeemed its convertible notes of $2,002,500 as part of its capital raising in July 2018.



Significant events

The significant events during the 2019 financial year for SUDA were:

i. Development and licence agreement with Strides

On 8 November 2018, SUDA entered into an exclusive product development, licence and supply agreement with Strides Pharma Global Pte Ltd, a fully-owned subsidiary of Strides Pharma Science Ltd, for the development and commercialisation of SUDA's novel fast acting oral spray of sumatriptan to treat migraine headache for the United States market.

The product will be a formulation of sumatriptan using the Company's proprietary OroMist® hydrotrope technology. Once approved by the US Food and Drug Administration, the sumatriptan product would be the first novel fast-acting oral spray of sumatriptan in the US market.

SUDA received an upfront cash payment of $560,000 and will receive a further payment of $830,000 on reaching certain milestones including the pilot first-in-man clinical study, submission and approval of the product in the US.

Strides is funding the development work.

ii. Supply and license agreement with Mitsubishi Tanabe Singapore

On 19 December 2018, SUDA entered into an exclusive licence agreement with Mitsubishi Tanabe Pharma Singapore Pte Ltd, a wholly owned subsidiary of Mitsubishi Tanabe Pharma Corporation for its ZolpiMist product. The agreement is for an exclusive licence for, and supply of, ZolpiMist for the Philippines, Malaysia and Singapore and options for Thailand, Indonesia, Vietnam, Myanmar, Cambodia, Laos and Brunei. SUDA received an upfront fee of US$100,000 (approximately A$140,000).

iii. Feasibility agreement with Zelda Therapeutics

On 6 December 2018, SUDA entered into a fully funded feasibility and option agreement with Australian based Zelda Therapeutics Ltd. (ASX: ZLD, OTCQB: ZLDAF), a leading company in medical grade cannabis to develop an oral spray of pharmaceutical-grade cannabinoid derivatives. SUDA will apply its proprietary OroMist® oro-mucosal spray technology to Zelda's pharmaceutical-grade cannabinoid derivatives for evaluation by Zelda. Under the terms of the agreement Zelda paid SUDA an upfront of $100,000 and will make further payment of $100,000 in downstream milestone payments. Zelda will also fund the formulation work.

iv. Binding term sheet with Cann Pharma Australia

On 5 June 2019, SUDA signed a binding term sheet for an exclusive licence with Australian-based Cann Pharmaceutical Australia Ltd (CPA), a subsidiary of Israeli group Better Holdings, to develop and supply an oral spray of pharmaceutical-grade cannabinoid derivatives. CPA, a leading company in medical grade cannabis, is interested in developing a novel oral spray of pharmaceutical-grade cannabinoid derivatives for the treatment of: drug resistant epilepsy, melanoma and motion sickness. The parties are working together to finalise the definitive agreement.

v. Impairment of ArTiMist®

In May 2019, SUDA received a TGA notice of denial for marketing approval of its ArTiMist oral spray and consequently has taken the conservative approach and recognised an impairment loss on the project for the amount of $6,276,758. The impairment is recognised in the Loss from ordinary activities. The carrying value of ArTiMist at reporting date is $5,338,148. The Company has submitted an appeal against the TGA decision and remains confident of a successful outcome of the appeal.

vi. Capital raising (July 2018)

On 28 June 2018, SUDA announced a renounceable rights issue on a one-for-one basis at 0.5 cents per share to raise up to $6,120,709 (before costs) with one attaching listed option (exercise price of $0.015 and expiry date of 31 July 2020) for every two new shares subscribed for under the rights issue. The offer, which was oversubscribed, closed on 26 July 2018 and the Company accepted oversubscriptions of $668,376.

The use of funds, as outlined in the prospectus dated 29 June 2018, included the redemption of convertible notes ($2,142,675) and the initial payment to the Receiver in settlement of the HC Berlin Pharma matter ($831,600).

vii. Capital raising (June 2019)

On 3 June 2019, SUDA announced a renounceable rights issue on a one-for-three basis at 0.4 cents per share to raise up to $3,144,612 (before costs) with an attaching option (exercise price of $0.015 and expiry date of 30 June 2021) for every two new shares subscribed under the rights issue. The offer, which was oversubscribed, closed on 21 June 2019 and the Company accepted oversubscriptions of $455,038.

The use of funds, as outlined in the prospectus dated 3 June 2019, is for project development and general working capital.

viii. Board changes

SUDA restructured the board of directors bringing on David Simmonds in March 2019 as a non-executive director and Paul Hopper in May 2019 as non-executive director and chairman. David Phillips became an executive director in May 2019 (previously non-executive director).

Paul Hopper has over 25 years' experience in the life sciences, medical, & healthcare sectors. Focussed on start-up and rapid growth companies, he has served as either Founder, Chairman, non-executive director, or CEO, of more than 14 companies in the US, Australia and Asia. Previous Boards include Viralytics, pSivida, Somnomed, Polynoma & Fibrocell Science and is currently Chairman of ASX listed Imugene Ltd, a non-executive director of ASX listed Prescient Therapeutics Ltd, Chairman of Vaxinia Pty Ltd, Chairman of Semexion Pty Ltd and Chairman of BioScience Oncology Pty Ltd.

His experience covers extensive fund raising in Australia, Asia, US and Europe, and he has deep experience in corporate governance, risk and strategy. He also has many years' experience in providing corporate advice and guidance, financial analysis and management of companies of differing sizes and financial circumstances.

Mr Hopper was the Chairman of ASX listed oncolytic cancer company Viralytics, which was acquired by Merck for $502M last year.

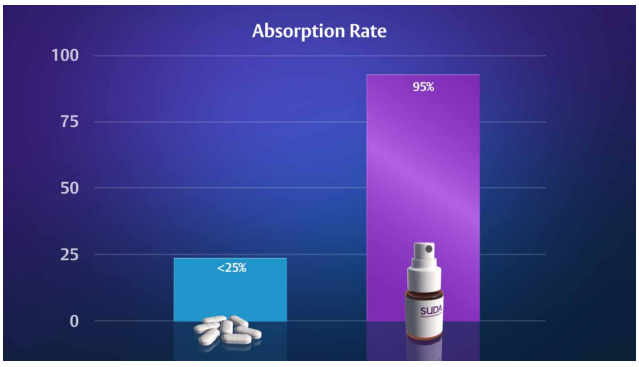
ix. US operations

SUDA appointed Andrew Curtis as Vice President, Business Development & Alliance Management, based in the USA, in October 2018 to introduce SUDA and our projects into the world's largest market and lead the drive to secure new agreements.

An Overview of SUDA Pharmaceuticals

SUDA Pharmaceuticals Limited (ASX: SUD) is a global leader in reformulating and providing medication via the oral mucosa. SUDA uses its proprietary OroMist® technology to develop low-risk oral sprays to reformulate current pharmaceuticals. Administering drugs through the oral mucosa (palate, cheeks, gum and tongue) has many potential benefits including reduced side effects, ease of use, faster response time and lower dosage.

Stepping ahead in the evolution of drug delivery technology, the Company has increased bioavailability of the drug from 25 per cent to as high as 95 per cent through its OroMist technology.



OroMist® Technology Absorbtion Rate Target.

The Company has an extensive knowledge of proven techniques that improve solubility including particle size reduction, novel solvent systems and solid dispersions as well as permeability enhancers and taste masking.

REVIEW OF OPERATIONS

The oro-mucosal spray delivery is a highly effective drug delivery method through which drugs are delivered directly into the blood, avoiding first-pass metabolism effects of the liver and gut wall. This is because the oral cavity, which includes the gums, palate, tongue and cheeks, is an attractive delivery site for the drugs. The oro-mucosal membrane or the mucous membrane of the oral cavity, which is readily accessible to patients/carers, has a high degree of vascularisation that can diminish or avoid the intestinal and hepatic degradation mechanisms and can promote a faster onset of action.

SUDA's Hydrotrope Technology

Hydrotropes may be defined as a molecule containing the non-polar end and polar end, which can aggregate though

SUDA's hydrotrope technology covers the particle, assuring a better passage via the mucosa into the bloodstream and accelerating the absorption rate.

cannot create micelles. The Company's permeation-enhancing hydrotropes technology is connected with the novel combinations of hydrotropes.

A drug can travel across the mucosal tissue through either the transcellular or paracellular permeation pathway, as shown in the below figure:

It has been observed in previous experiments that most compounds travel through the oro-mucosa through the intercellular or transcellular path. In the transcellular pathway, the drug travels through the cells while in the paracellular pathway, the drug travels around the cells. SUDA's hydrotrope technology is designed to facilitate unimpeded passage through the paracellular pathway by changing the apparent chemical characteristics of the drug and preventing it interacting with the extra cellular components and fats that reside through these intercellular spaces.

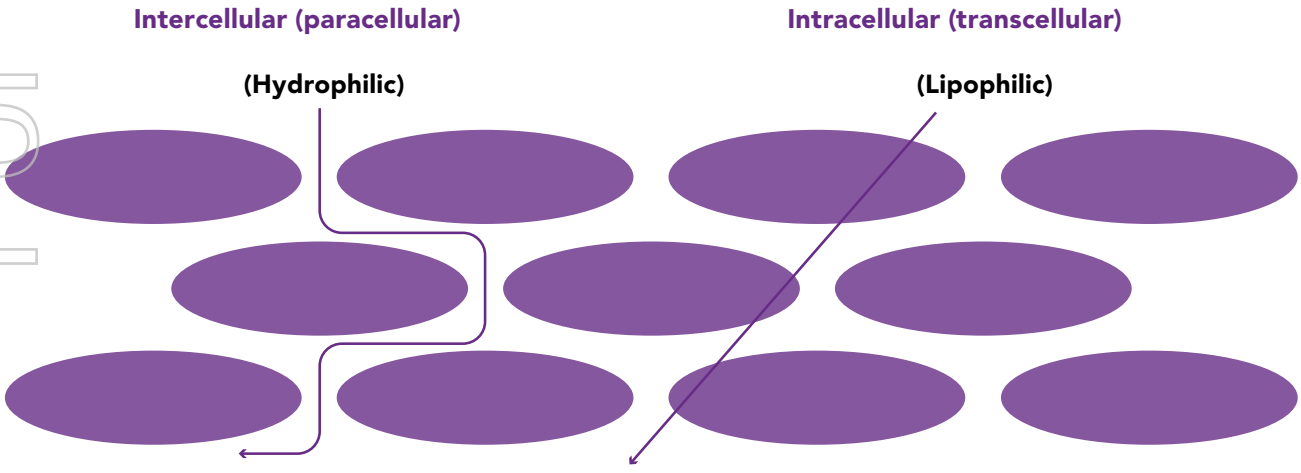
Intellectual Property

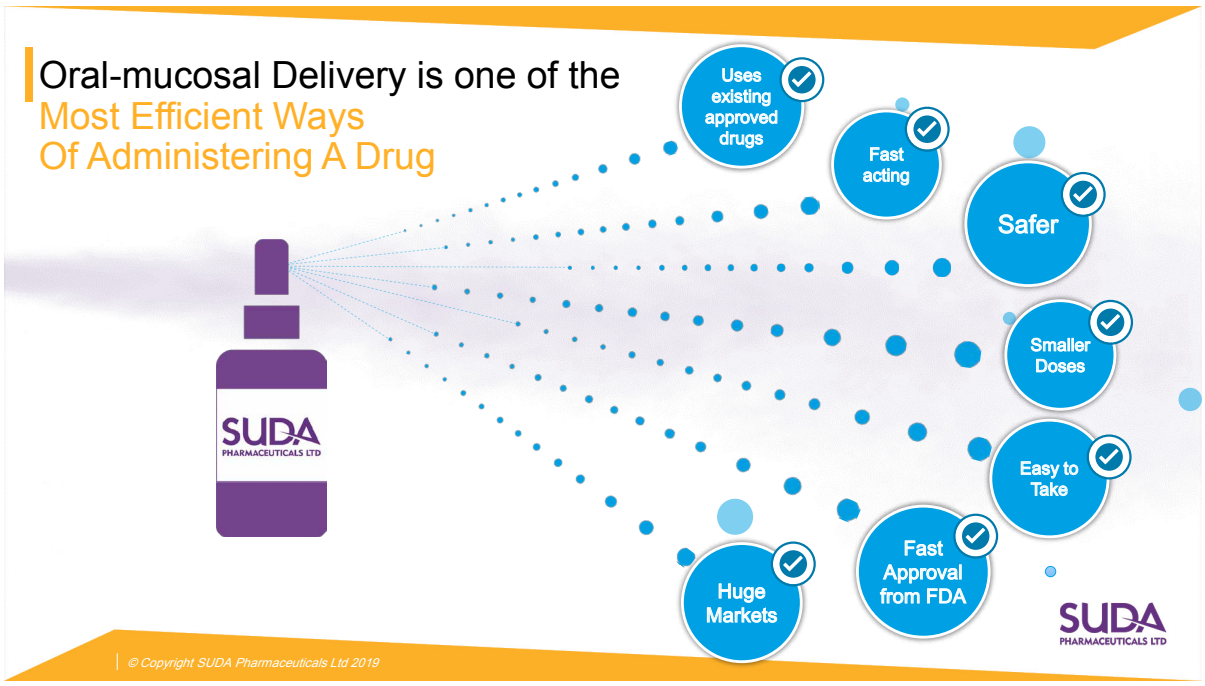
SUDA's intellectual property includes granted and pending patents, trademarks and proprietary know-how. The patent estate covers liquid spray formulations of a wide range of drug classes such as anti-infectives, (ie. antibiotics and antifungals), anti-asthmatics, barbiturates and opioids as well as biologically active peptides and hormones such as insulin and cyclosporine. These formulations can be administered to the oral cavity in the form of a micro-mist covering the oral mucosal membranes. The management is currently working with the technical team to further strengthen the intellectual property portfolio as it progresses with its R&D efforts. A list of patents is shown on pages 13 to 14.

Reformulations: a shortcut to market

Development timelines of reformulated drugs can be considerably shorter (3-7 years) when compared to the development of a New Chemical Entity (NCE) which can be over 13 years from discovery to approval. Development risks are considerably lower than a NCE due to the extensive amount of pre-existing data that confirms safety and efficacy of the target drug.

In the USA the regulatory pathway for approval of reformulations falls under the abbreviated FDA 505(b)(2) legislation. In Europe there is an analogous legislation, which is based on a hybrid application under Article 10(3) of Directive 2001/83/EC and successive amendments. Applications through either the FDA 505(b)(2) pathway or the EMA hybrid process can leverage the safety and efficacy data generated for the formulations already approved and can rely solely on data showing comparable bioavailability to the reference drug.



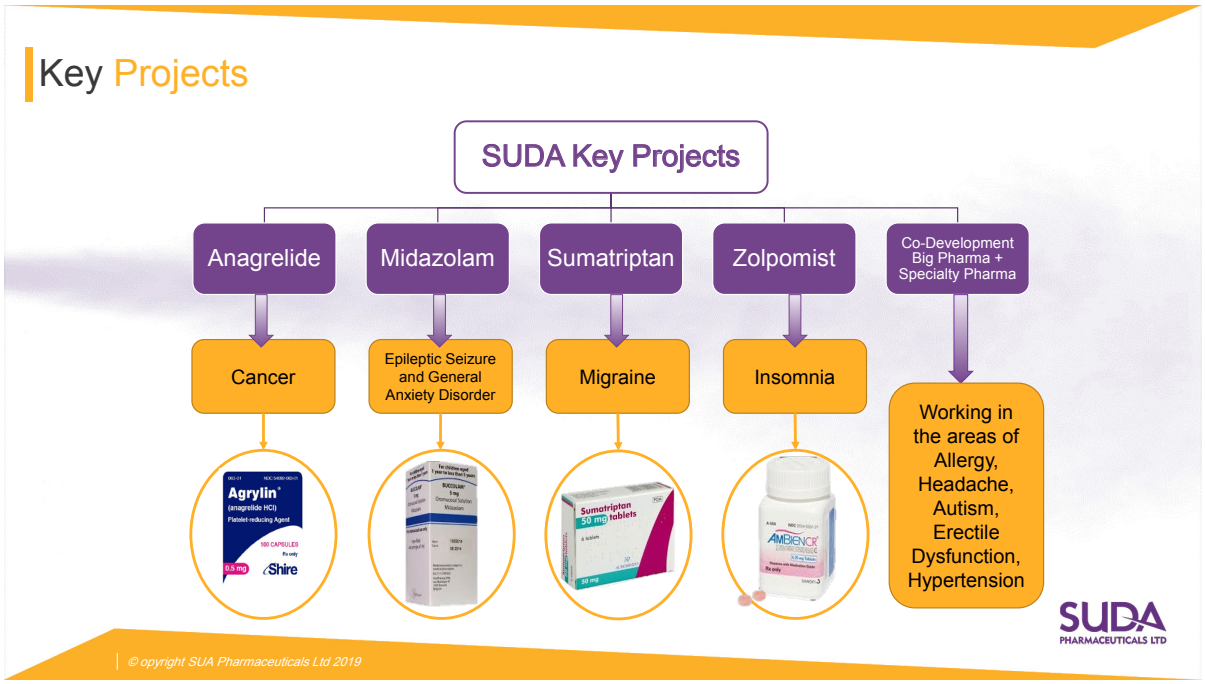


There are many factors that affect the bioavailability of pills, tablets and capsules: drug metabolism, food affect, first pass metabolism, enzymatic degradation and others.

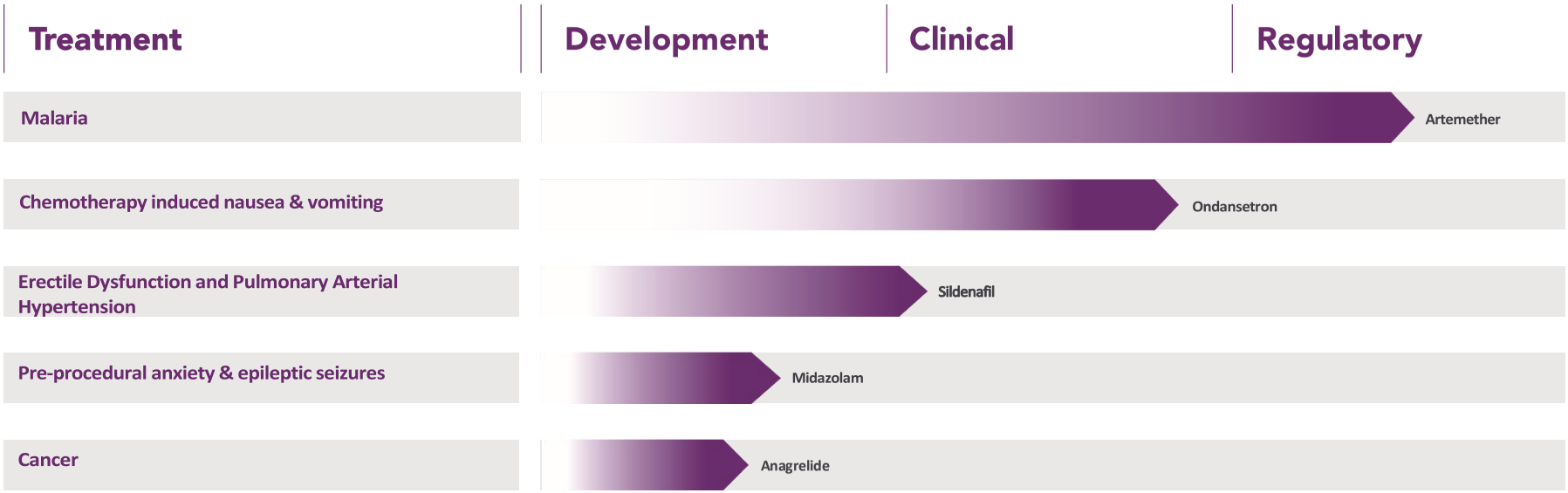
SUDA's technology overcomes these factors by changing the drug delivery so that is absorbed directly into the blood stream through the oral mucosa.

As delivery of the drug becomes more efficient, then the benefits for the patient include:

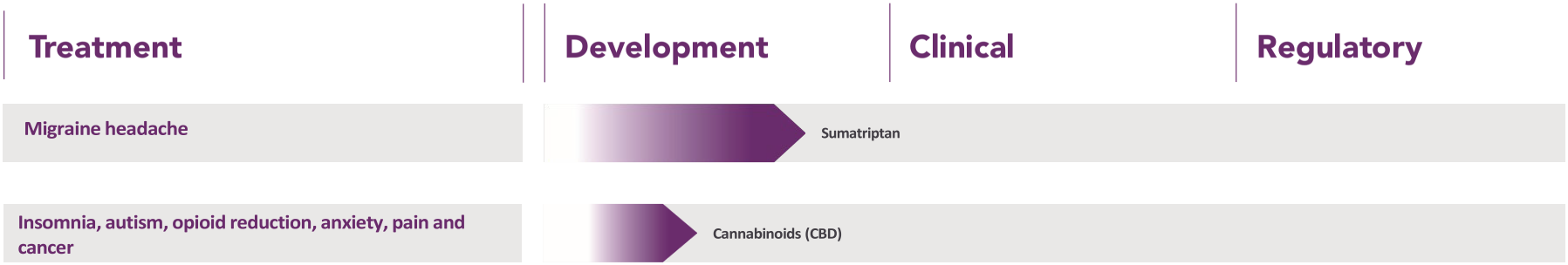
- Faster onset of action
- Lower amount of drug required
- Reduced side effects
- Increased patient compliance



Research Pipeline In-house



Research Pipeline Co-Development



PRODUCT PIPELINE: KEY PROJECTS

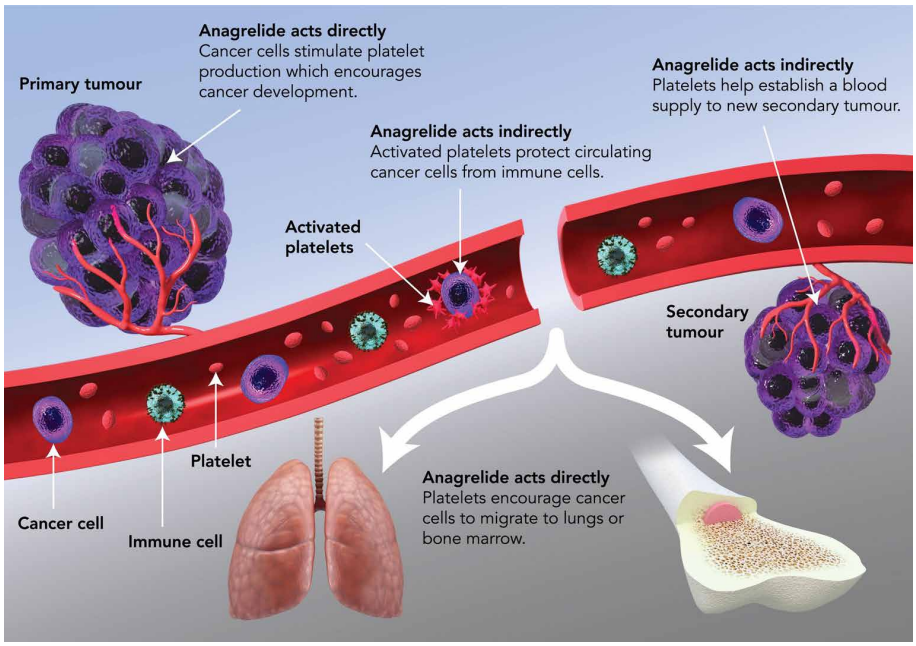
Anagrelide for treatment of cancer

This project relates to the use of a radically new, first-in-class approach to the treatment of cancer, potentially applicable across a wide range of solid tumours. Currently, newer cancer treatments involve immunotherapy that stimulates patients' immune systems. Anagrelide could be complementary to such treatments rendering circulating cancer cells more susceptible to attack by the body's own "killer" T cells and could thus offer a valuable new adjunctive therapy.

Role of Platelets in Cancer Progression

Apart from playing a crucial role in controlling the clotting process and wound healing, it has been identified that platelets play an active role in several processes that support cancer. When the platelets get activated by the cancer cells, they release different bio-active materials in the blood stream to help the primary tumour produce its own blood supply and further protect the released cancer cells that move in the body to form new tumours. Realising the importance of platelets in supporting their growth, the cancer cells send out chemicals to the body to produce more platelets.

It is believed that the overall survival of the patient shortens with more platelet production in the body. Science and medical experts assert that reduction of platelets can be a boon for cancer patients. SUDA's Anagrelide, an FDA approved drug, plays a significant role in reducing platelets without affecting any other blood cells.



Potential role of anagrelide in cancer treatment

Anagrelide will slow the production of the platelets reducing the impact of these protectors of, and promoters of, tumour growth. Anagrelide is therefore proposed as an adjuvant or neo-adjuvant therapy (modifier/promotor of the effect of another drug). By reducing the production of platelets, anagrelide will reduce the feedback loop discussed above and will further expose the cancer cells to the immune system. This means that by potentially slowing the growth of the tumours the existing cancer drugs have a greater chance of reducing the tumour burden. It also has the potential to improve the performance of some the most exciting new immunotherapies.

The potential of reducing the platelet count in patients with solid tumours includes: greater progression free survival; reduced tumour burden; and even potentially greater cure rates.

The use of platelets as surrogate biomarkers in cancer risk/diagnosis then poses the question of what chemo-prevention strategies could be used.

Intellectual Property

SUDA owns the global rights to the following patent: "Prevention and treatment of metastatic disease in thrombocytotic cancer patients" Priority date 22 December 2014. PCT published 30 June 2016.

The patent is in its National Phase and is undergoing examination in a number of key jurisdictions including the USA, Europe and Japan.

REVIEW OF OPERATIONS

The patent claims are based around the treating or prevention of cancer in thrombocytotic cancer patients with solid cancers such as brain, GI, oral, head and neck, pancreatic, liver, colorectal, lungs, ovarian, cervical, endometrial, breast, prostate, kidney, melanoma, mesothelioma, multiple myeloma and gallbladder.

In July 2019 SUDA announced that the European Patent Office had informed SUDA that it intended to grant our anagrelide patent. The European Patent Office will grant SUDA's Application No. 15817516.6 titled "Use of Anagrelide for Treating Cancer". The patent expiry is December 2035.

The granting of this patent is a very important step in the commercialisation process for SUDA and validates our position as the only company in the world with a patent covering the use of anagrelide in the treatment or prevention of metastatic disease in the bone or lung in a patient with a high platelet count and a solid cancer including brain, oral cavity, head and neck, thyroid, gastrointestinal, pancreatic, liver, kidney, colorectal, lungs and bronchus, ovaries, endometrium, cervix, breast prostate, skin, mesothelioma, melanoma, gall bladder and multiple myeloma.

Project Status

Anagrelide is a challenging drug to formulate. It is virtually insoluble in all major pharmaceutically acceptable solvents with a water solubility of just 0.002mg/mL, which is over 1000 times less than needed for an oro-mucosal spray that requires a concentration of ~2.5mg/mL. It is insoluble in most non-aqueous solvents as well. SUDA's technical team has been able to improve the solubility by greater than 10,000-fold using novel solvent compositions and solubility enhancers. We are still working on developing a formulation with the solubility and stability characteristics required for a pharmaceutical product. The technical team is confident they can achieve this and are currently testing a number of formulations that have shown promise.

Assessment and optimisation of the permeability of the product in vitro has begun using artificial membrane models. Preliminary flux rate estimates are very encouraging showing a high permeability for the drug. This is an ongoing process that will continue throughout the formulation development and optimisation stage of product development.

Once a suitable oro-mucosal formulation has been developed, pre-clinical testing will be conducted to confirm the ability of an oral spray formulation to reduce the formation of the cardio-toxic metabolite. This will pave the way for demonstrating proof-of-concept (POC) in man.

Midazolam for pre-procedural anxiety and epileptic seizures

The midazolam product is a first-in-class flavoured oral spray formulation of midazolam (available as an injection and as a syrup under the brand name Versed®) for the treatment of epileptic seizures and pre-procedure anxiety in imaging and dental procedures. Initial formulation work of midazolam oral spray has been completed and stability studies have been successful.

One major advantage of the midazolam oral spray compared to an oral syrup or a tablet is the possible avoidance of first pass metabolism. This offers advantages such as an increase in the bioavailability of the drug; a reduction in dose variability; and more predictable pharmacological effects. Additionally, its pleasant taste and easy administration would make it particularly useful for young, anxious patients.

Midazolam is one of the most frequently used agents in: epileptic seizures; paediatric dentistry imaging; and pre-medication in paediatrics and adults due to its potent anxiolytic, amnestic, and sedative properties.

The global epilepsy drugs market is expected to reach over USD 5.5 billion by 2024, according to a recent report by Grand View Research, Inc. The rising government funding for the development of new and effective drugs for the treatment of seizures is driving market growth in epilepsy drugs.

Following significant interest from perspective partners, SUDA has raised the priority of midazolam within its pipeline. The Company has prepared a development plan with the initial target indication being for the treatment of generalised anxiety disorder. Optimisation of the existing formulation using the Company's hydrotrope technology is underway.

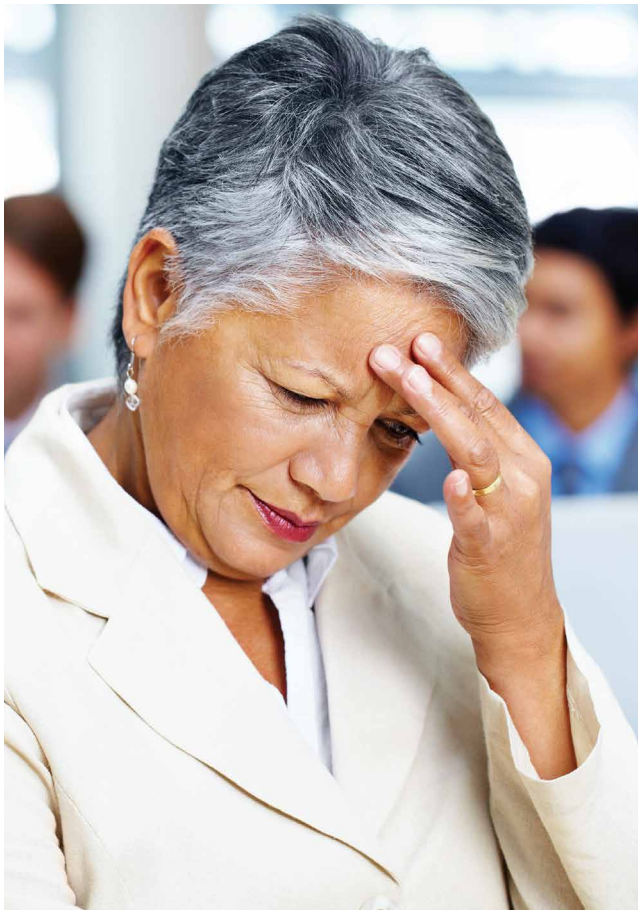
Sumatriptan for the treatment of migraine headache

SUDA has entered into an exclusive product development, licence and supply agreement with Strides Pharma Global Pte Ltd, a fully-owned subsidiary of Strides Pharma Science Ltd, for the development and commercialisation of SUDA's novel fast acting oral spray of sumatriptan to treat migraine headache in the US market.

SUDA's treatment is a first-in-class oral spray formulation of sumatriptan (marketed in tablet form and in a nasal spray by GlaxoSmithKline under the brand name Imitrex®). Sumatriptan is one of the most widely used drugs for the treatment of acute migraine in adults and works by narrowing the blood vessels in the brain.

Migraine is a painful and debilitating condition that disrupts lives, impacts careers and costs employers in lost work and diminished productivity. According to a 2011 WHO report, migraine affects about 11% of the global adult population and the market value for the same year was estimated to be around US$3.2bn and is forecast to reach US$4.4bn by 2020.

The product will be a formulation of sumatriptan using the Company's proprietary OroMist® hydrotrope technology. Once approved by the US Food and Drug Administration (FDA), the product would be the first novel fast-acting oral spray of sumatriptan in the US market.



ZolpiMist™: treatment for insomnia

ZolpiMist™ is a US approved, patented, cherry-flavoured, oro-mucosal spray formulation of zolpidem tartrate (marketed under the brand name of Ambien® or Stilnox®), a non-benzodiazepine prescribed for the short-term treatment of insomnia characterised by difficulties with sleep initiation, as per Ambien's approved indication. The spray offers quicker sleep onset latency, patient convenience, and ease of use compared to conventional tablets. Zolpidem tartrate is the most widely prescribed sleep aid on the market with a market share over 70%.

SUDA submitted a Marketing Authorisation Application to the Australian Therapeutic Goods Administration (TGA) for ZolpiMist Oral spray for the treatment of insomnia during the 2018-19 year.

SUDA entered into an exclusive licence agreement with Mitsubishi Tanabe Pharma Singapore Pte Ltd (MTPS), a wholly owned subsidiary of Mitsubishi Tanabe Pharma Corporation in December 2018.

SUDA is in the process of terminating its agreement with Eddingpharm for China and is in advanced discussion with another group to take over the licence for ZolpiMist for China, as well as Taiwan and Hong Kong.

SUDA has now out-licensed ZolpiMist in six countries: Brazil, Chile, Mexico, Philippines, Malaysia, Singapore with options over Thailand, Indonesia, Vietnam, Myanmar, Cambodia, Laos and Brunei.

SUDA is in negotiations with pharmaceutical companies for other countries in South America as well as for China, Korea, Middle East and North Africa, UAE, Kuwait, Spain, Italy, France and Germany.

These deals have the potential to generate downstream value of $50 million to $160 million through milestone payments, double-digit royalty rates on sales and supply of the finished product.

ArTiMist®: malaria

ArTiMist® is the world's first sublingual spray for the treatment of *p. falciparum* severe paediatric malaria. The active pharmaceutical ingredient in ArTiMist is artemether, which is a widely used anti-malarial and is currently administered by infusion or orally in a tablet form. ArTiMist was designed with a child in mind: a child living in a challenging environment where healthcare resources are scarce and time is of the essence. The simple sublingual spray could be particularly valuable as a pre-referral treatment when children first show signs of a malaria-like fever, before being referred to hospital. ArTiMist is owned and managed by SUDA's subsidiary company, Malaria Research Company Pty Ltd (MRC).

On 14 May, SUDA received the official Delegate's letter of denial for marketing approval of its ArTiMist oral spray.

SUDA subsequently lodged an appeal under Section 60 of the Therapeutic Goods Act of 1989 in August 2019 and expects a response from the TGA in early October 2019.

While SUDA is confident of our arguments and is hopeful of a successful outcome of the appeal, it should be noted that, if for any reason SUDA is not satisfied with the outcome of the Section 60 appeal, there are several further avenues we can consider including making an application to the Administrative Appeals Tribunal (AAT) for review. Applications to the AAT must be made within 28 calendar days of the Minister's decision regarding a Section 60 appeal. Further to this secondary avenue of appeal, and since the AAT provides only a merit review process, affected parties may appeal at any time to the Federal Court on the grounds of the legality of a decision.

Ondansetron for the treatment of chemotherapy-induced nausea and vomiting (CINV) and post-operative nausea and vomiting (PONV)

SUDA's ondansetron project is a first-in-class mint-flavoured oral spray formulation of ondansetron (marketed in tablet

REVIEW OF OPERATIONS

form by GlaxoSmithKline under the brand name Zofran®), the most commonly prescribed antiemetic to treat nausea and vomiting induced by chemotherapy or radiotherapy and also other post-operative settings.

This project achieves therapeutic drug levels by delivering a micro-mist of concentrated ondansetron over the oral mucosa and may offer a desirable alternative to patients requiring antiemetic therapy who have difficulty in swallowing.

Sildenafil for the treatment of erectile dysfunction and pulmonary arterial hypertension

SUDA's ED/PAH project DuroMist™ is a first-in-class oral spray formulation of sildenafil (marketed in tablet form by Pfizer under the brand name Viagra®), sprayed directly in the mouth over the tongue for the treatment of erectile dysfunction (ED). The DuroMist dosage form is a metered spray that offers the potential for increased patient convenience, reduced food effect and lower dose.

Sildenafil is the largest selling drug globally for ED and is also approved to treat pulmonary arterial hypertension. Sildenafil acts by inhibiting phosphodiesterase type 5 (PDE5), an enzyme that promotes degradation of cyclic guanosine monophosphate (cGMP), which regulates blood flow in the penis.

The global erectile dysfunction market was estimated to reach US$3.4 billion in 2019. In the US alone, more than 18 million individuals suffer from ED. The risk of developing ED increases with age. Primary market research conducted in the US suggests that over two thirds of physicians would prescribe a spray version of sildenafil to their patients if the oral spray achieved a quicker onset of action or reduced the side-effects associated with Viagra.

Cannabinoids (CBD)

SUDA entered into a fully funded feasibility and option agreement with Zelda Therapeutics Ltd for the use of cannabinoids for a range of uses including insomnia, autism, opioid reduction, anxiety, pain and cancer. The study is expected to take 12 months.

Under the work plan outlined in the agreement, SUDA will apply its proprietary OroMist® oro-mucosal spray technology to Zelda's pharmaceutical-grade cannabinoid derivatives, for evaluation by Zelda. Under the terms of the Agreement Zelda paid SUDA an upfront option fee of $100,000 and a further $100,000 in downstream milestone payments. Zelda will also fund the formulation work. The 24-month option provides Zelda with an exclusive right to extend the agreement and to enter into a global development and licensing agreement for the oral spray formulations developed by SUDA.

In June 2019 SUDA signed a binding term sheet for an exclusive licence with Australian-based Cann Pharmaceutical Australia Ltd (CPA), a subsidiary of Israeli group Better Holdings, to develop and supply an oral spray of pharmaceutical-grade cannabinoid derivatives (Agreement).

CPA, a leading company in medical grade cannabis, is interested in developing a novel oral spray of pharmaceutical-grade cannabinoid derivatives for the treatment of drug resistant epilepsy, melanoma and motion sickness.

CPA will fund the development and take responsibility for the regulatory approvals of the product on a worldwide basis. The cost of the initial development phase to develop a formulation and permeability testing is expected to be $184,400 with other development costs to be determined between SUDA and CPA at a later stage.

Both parties are working together to finalise the definitive development and licence agreement.

LIST OF PATENTS

Country	Title	Earliest Priority	Case Status	Appln No.
USA	Buccal Polar Spray or Capsule	12-Apr-1996	Registered	09/199,380
USA	Buccal, Polar and Non-Polar Spray or Capsule	18-Mar-2002	Registered	10/100,156
Australia	Oral Spray formulations and Methods for Administration of Sildenafil	07-Jun-2010	Registered	2011264941
Brazil	Oral Spray formulations and Methods for Administration of Sildenafil	07-Jun-2010	Pending	BR1120120312979
Canada	Oral Spray formulations and Methods for Administration of Sildenafil	07-Jun-2010	Registered	2,802,047
Hong Kong	Oral Spray formulations and Methods for Administration of Sildenafil	07-Jun-2010	Approved	13111354.2
Australia	Oral Spray formulations and Methods for Administration of Sildenafil	05-Dec-2011	Registered	2012347997
Brazil	Oral Spray formulations and Methods for Administration of Sildenafil	05-Dec-2011	Pending	BR112014013650-5
Canada	Oral Spray formulations and Methods for Administration of Sildenafil	05-Dec-2011	Registered	2,858,364
China	Oral Spray formulations and Methods for Administration of Sildenafil	05-Dec-2011	Pending	201280068898.5
Hong Kong	Oral Spray formulations and Methods for Administration of Sildenafil	05-Dec-2011	Pending	15100438.3
India	Oral Spray formulations and Methods for Administration of Sildenafil	05-Dec-2011	Pending	5306/DELNP/2014
Israel	Oral Spray formulations and Methods for Administration of Sildenafil	05-Dec-2011	Pending	232970
Japan	Oral Spray formulations and Methods for Administration of Sildenafil	05-Dec-2011	Registered	2014-545981
New Zealand	Oral Spray formulations and Methods for Administration of Sildenafil	05-Dec-2011	Registered	625922
Republic of Korea	Oral Spray formulations and Methods for Administration of Sildenafil	05-Dec-2011	Pending	10-2014-7016435
Russian Federation	Oral Spray formulations and Methods for Administration of Sildenafil	05-Dec-2011	Registered	2014123435
Singapore	Oral Spray formulations and Methods for Administration of Sildenafil	05-Dec-2011	Registered	11201402938R
South Africa	Oral Spray formulations and Methods for Administration of Sildenafil	05-Dec-2011	Registered	2014/4091
USA	Oral Spray formulations and Methods for Administration of Sildenafil	05-Dec-2011	Registered	14/363,245
France	Oral Spray formulations and Methods for Administration of Sildenafil	05-Dec-2011	Registered	12806256.9
Germany	Oral Spray formulations and Methods for Administration of Sildenafil	07-Jun-2010	Registered	12806256.9
United Kingdom	Oral Spray formulations and Methods for Administration of Sildenafil	07-Jun-2010	Registered	12806256.9
Canada	Stable Anti-nausea Oral Spray Formulations and Methods	22-Dec-2006	Registered	2,673,049
Canada	Stable Hydroalcoholic Oral Spray Formulations and Methods	19-Apr-2007	Registered	2,649,895
Australia	Mucosal Active Agent Delivery	31-Oct-2016	Pending	2017351744
Brazil	Mucosal Active Agent Delivery	31-Oct-2016	Pending	BR112019008565-3
Canada	Mucosal Active Agent Delivery	31-Oct-2016	Pending	3,041,112
China	Mucosal Active Agent Delivery	31-Oct-2016	Pending	201780067280.X
Europe	Mucosal Active Agent Delivery	31-Oct-2016	Pending	17865329.1
India	Mucosal Active Agent Delivery	31-Oct-2016	Pending	201927015960
Japan	Mucosal Active Agent Delivery	31-Oct-2016	Pending	2019-523864
Mexico	Mucosal Active Agent Delivery	31-Oct-2016	Pending	MX/a/2019/004894
Republic of Korea	Mucosal Active Agent Delivery	31-Oct-2016	Pending	10-2019-7014312
USA	Mucosal Active Agent Delivery	31-Oct-2016	Pending	16/345,098
ARIPO	Anti-Malarial Pharmaceutical Composition	27-Oct-2008	Registered	AP/P/2013/006997
ARIPO	Anti-Malarial Pharmaceutical Composition	27-Oct-2008	Registered	AP/P/2013/006997
Australia	Anti-Malarial Pharmaceutical Composition	25-Oct-2007	Registered	2013201643
Bangladesh	Anti-Malarial Pharmaceutical Composition	29-Mar-2009	Pending	167/2013
Brazil	Anti-Malarial Pharmaceutical Composition	27-Oct-2008	Pending	BR122013005952-0
Burundi	Anti-Malarial Pharmaceutical Composition	09-Mar-2009	Registered	279/BUR

LIST OF PATENTS (CONTINUED)

Country	Title	Earliest Priority	Case Status	Appln No.
Cambodia	Anti-Malarial Pharmaceutical Composition	16-Jul-2013	Pending	KH/P/2013/00030
China	Anti-Malarial Pharmaceutical Composition	27-Oct-2008	Registered	200880113338.0
DR of the Congo	Anti-Malarial Pharmaceutical Composition	04-Apr-2009	Registered	NP/013/EXT/2013
Ethiopia	Anti-Malarial Pharmaceutical Composition	26-Feb-2009	Registered	ET/P/2009/116
Belgium	Anti-Malarial Pharmaceutical Composition	27-Oct-2008	Registered	13176933.3
France	Anti-Malarial Pharmaceutical Composition	27-Oct-2008	Registered	13176933.3
Switzerland	Anti-Malarial Pharmaceutical Composition	27-Oct-2008	Registered	13176933.3
United Kingdom	Anti-Malarial Pharmaceutical Composition	27-Oct-2008	Registered	13176933.3
Haiti	Anti-Malarial Pharmaceutical Composition	27-Mar-2009	Registered	007-HAI-DAJ-RE-6
Malaysia	Anti-Malarial Pharmaceutical Composition	07-Oct-2008	Registered	PI 2013002816
Mexico	Anti-Malarial Pharmaceutical Composition	25-Oct-2008	Registered	MX/a/2013/008621
OAPI	Anti-Malarial Pharmaceutical Composition	25-Oct-2007	Registered	1201000141
Rwanda	Anti-Malarial Pharmaceutical Composition	10-Mar-2009	Registered	123/ARK
Singapore	Anti-Malarial Pharmaceutical Composition	25-Oct-2007	Registered	201002621-9
South Africa	Anti-Malarial Pharmaceutical Composition	25-Oct-2007	Registered	2010/02607
United Kingdom	Anti-Malarial Pharmaceutical Composition	25-Oct-2007	Registered	GB0819559.6
Australia	Use of Anagrelide for Treating Cancer	22/12/2014	Pending	2015370666
China	Use of Anagrelide for Treating Cancer	22/12/2014	Pending	2015800751658
Japan	Use of Anagrelide for Treating Cancer	22/12/2014	Pending	1422978.5
USA	Use of Anagrelide for Treating Cancer	22/12/2014	Pending	15/538,326
Europe	Use of Anagrelide for Treating Cancer	22/12/2014	Not Yet Filed	PCT/GB2015/054116
International	Use of Anagrelide for Treating Cancer	22/12/2014	Nationalised	PCT/GB2015/054116
Austria	Method for the Manufacture of Anagrelide	26/07/2000	Granted	US 09/625962
Belgium	Method for the Manufacture of Anagrelide	26/07/2000	Granted	US 09/625962
Switzerland	Method for the Manufacture of Anagrelide	26/07/2000	Granted	US 09/625962
Germany	Method for the Manufacture of Anagrelide	26/07/2000	Granted	US 09/625962
Denmark	Method for the Manufacture of Anagrelide	26/07/2000	Granted	US 09/625962
Spain	Method for the Manufacture of Anagrelide	26/07/2000	Granted	US 09/625962
Finland	Method for the Manufacture of Anagrelide	26/07/2000	Granted	US 09/625962
France	Method for the Manufacture of Anagrelide	26/07/2000	Granted	US 09/625962
United Kingdom	Method for the Manufacture of Anagrelide	26/07/2000	Granted	US 09/625962
Ireland	Method for the Manufacture of Anagrelide	26/07/2000	Granted	US 09/625962
Italy	Method for the Manufacture of Anagrelide	26/07/2000	Granted	US 09/625962
Luxembourg	Method for the Manufacture of Anagrelide	26/07/2000	Granted	US 09/625962
Netherlands	Method for the Manufacture of Anagrelide	26/07/2000	Granted	US 09/625962
Portugal	Method for the Manufacture of Anagrelide	26/07/2000	Granted	US 09/625962
Sweden	Method for the Manufacture of Anagrelide	26/07/2000	Granted	US 09/625962

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DIRECTORS' REPORT

Your Directors present their report together with the financial statements of the Group consisting of SUDA Pharmaceuticals Limited ("SUDA" or "Company") and the entities it controlled during the period for the financial year ended 30 June 2019. In order to comply with the provisions of the Corporations Act 2001, the Directors' Report is as follows:

Directors

The names of directors who held office during or since the end of the year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Director	Executive or Non-Executive	Changes during the year
Paul Hopper	Non-Executive Chairman	Appointed 15 May 2019, appointed Executive Chairman 23 September 2019
Stephen Carter	Executive	Resigned as Chairman on 15 May 2019, resigned as Director and CEO 23 September 2019
David Phillips	Executive	Appointed Executive Director on 17 May 2019 (previously Non-Executive)
David Simmonds	Non-Executive	Appointed 27 March 2019
Joseph Ohayon	Executive	Resigned on 17 May 2019

Names, qualifications, experience and special responsibilities

Mr Paul Hopper

Non-Executive Chairman
(appointed 15 May 2019)

Qualifications:
Bachelor of Arts (UNSW),
Diploma – Securities Institute of Australia

Paul Hopper has international and ASX biotech capital markets experience and over 25 years' experience in the medical, healthcare & life sciences sectors, particularly in immune-oncology and vaccines. He is the former Chairman of Viralytics Ltd (acquired by Merck for $500m in 2018), Founder and Director of Prescient Therapeutics Ltd, Founder of Imugene Ltd and Polynoma LLC, former Director of pSivida Corp, Somnomed Ltd and Fibrocell Science, Inc. Paul has deep experience in corporate governance, risk and strategy.

Paul Hopper is a member of the Risk & Audit Committee, Nomination Committee and HR & Remuneration Committee.

Mr Hopper was appointed Executive Chairman on 23 September 2019.

In the 3 years immediately before the end of the financial year, Paul Hopper served as a director of other ASX-listed companies: Viralytics Ltd (ASX: VLA) until 21 June 2018, and continues to be a director of Prescient Therapeutics Ltd (ASX: PTX) and Imugene Ltd (ASX: IMU).

Mr Stephen Carter

Executive Managing Director,
Chief Executive Officer
(Resigned 23 September 2019)

Qualifications:
Bachelor of Science

Stephen Carter joined the Board of SUDA on 26 October 2010. He has extensive pharmaceutical industry experience and has held a variety of senior positions with listed public companies including roles as both Chairman and Director. He has extensive contacts and experience in the financial markets and the pharmaceutical industry and is well equipped to lead executive management through the Company's product commercialisation phase.

Stephen Carter is a member of the Risk & Audit Committee, Nomination Committee and HR & Remuneration Committee.

In the 3 years immediately before the end of the financial year, Stephen Carter did not serve as a director of other ASX-listed companies.

Mr Carter resigned on 23 September 2019 and will remain as a consultant to the Company.

Mr David Phillips

Executive Director, Chief Business Officer

Qualifications:
Bachelor of Science (Pharmacology),
Diploma in Marketing

David Phillips joined the Board as a Non-Executive Director on 6 April 2018 and became an Executive Director on 17 May 2019 and currently heads up the Business Development. He has 30 years of experience in the global healthcare industry, including Glaxo Wellcome, Cephalon Inc, Oxford Molecular Group Plc and SR One (GlaxoSmithKline's corporate venture fund). David spent 12 years at Board level as Chief Business Officer of Argenta Discovery, The Automation Partnership and BioFocus PLC. David re-joined GlaxoSmithKline's (GSK) SR One corporate venture arm in 2008 to pioneer a new function to incubate and spin-out technologies from GSK and in parallel investing in early-stage life science companies.

David Phillips is a member of the Group's Risk & Audit Committee, Nomination Committee and HR & Remuneration Committee.

In the 3 years immediately before the end of the financial year, David Phillips did not serve as a director of other ASX-listed companies.

Mr David Simmonds
Non-Executive Director
(appointed 27 March 2019)

Qualifications: Bachelor of Economics, Associate Member of the Institute of Chartered Accountants

Description of experience: David Simmonds was a senior audit partner with Ernst & Young from 1989 to 2017. From 2008 to 2013, David led the Capital Markets desk in Australia with responsibility for overseeing or reviewing all Australian cross border fundraisings. As an audit partner, David was involved in several high-profile businesses including Ramsay Health Care Ltd, John Fairfax Holdings and Commonwealth Bank of Australia and also was audit partner for the Australian operations of the leading US technology companies Hewlett Packard, Sun Microsystems and Oracle. David is currently a member of the Board and chairs the Audit, Risk and Finance Committee of MS Research Australia, the largest national not-for-profit body dedicated to funding and coordinating multiple sclerosis research in Australia.

David Simmonds is chair of the Group's Risk & Audit Committee and a member of the Nomination Committee and HR & Remuneration Committee.

In the 3 years immediately before the end of the financial year, David Simmonds did not serve as a director of other ASX-listed companies.

Mr Joseph Ohayon
Executive Director (resigned 17 May 2019), Chief Financial Officer, Company Secretary

Qualifications:
Chartered Accountant, Masters of Business Administration: International Business

Joseph Ohayon joined the Company on 4 July 2010 as the Chief Financial Officer and in March 2011 he took over the role of Company Secretary and then became an Executive Director and member of the Board on 1 December 2012 until 17 May 2019. He has over 20 years' experience in financial roles.

Joseph Ohayon is a member of the Group's Risk & Audit Committee, Nomination Committee and HR & Remuneration Committee.

In the 3 years immediately before the end of the financial year, Joseph Ohayon did not serve as a director of other ASX-listed companies.

Company Secretary

Joseph Ohayon held the position as Company Secretary at the financial year end.

Principal Activities

The principal activity of the entities within the Company during the year was pharmaceutical development of drug delivery technology.

Review of operations

Group overview

The significant events during the 2018-19 financial year are outlined on pages 4-5.

Operating results for the year

The Group reported revenue of $1,219,083 (2018: $425,864) in the reporting period. The net loss of the Consolidated Group was $7,795,039 (2018 loss: $5,459,278) after providing for an income tax benefit. The increase in the loss was primarily due to the impairment of the Company's ArTiMist project of $6,276,758.

The income tax benefit relates to the R&D Tax Incentive claim for the 2018-19 year of $925,000 (2018: $745,000).

Risk Management

Business risks and mitigations

SUDA has adopted a risk management framework which sets out the processes for the identification and management of risk across the Group. The risk management framework aligns with ISO 9001:2015.

The Risk & Audit Committee assists, and reports to, the Board in relation to risk management. The Committee's responsibilities include oversight of the Company's risk management system and to assist the Board to review the adequacy and effectiveness of that system.

The Chief Executive Officer, with the assistance of the Chief Financial Officer and other management, is responsible for establishing and implementing the system for adequately managing risks. Management is also responsible for developing and enhancing specific risk policies, processes and procedures.

The Company was awarded ISO 9001:2015 certification for its quality management system and received its Good Manufacturing Practice accreditation in August 2018.

Through its risk management framework, SUDA seeks to:

i. Protect its people, communities and the environment and its assets and reputation;

ii. Ensure good governance and legal compliance; and

iii. Enable it to realise opportunities and create long term shareholder value

Set out below are the key risk areas that could have a material impact on the Company and its ability to achieve its objectives. The nature and potential impact of risks changes over time. The risks described below are not the only risks that SUDA faces, and whilst every effort is made to identify and manage material risks, additional risks not currently known or detailed below may also adversely affect the future performance.

Regulatory and licensing risk

If the Company does not obtain the necessary regulatory approvals it may be unable to commercialise its pharmaceutical products. Even if it receives regulatory approval for any product candidates, profitability will depend on its ability to generate revenues from the sale of its products or the licensing of its technology.

The clinical development, manufacturing, sales and marketing of the Company's products are subject to extensive regulation by regulatory authorities in the United States, the United Kingdom, the European Union, Australia and elsewhere. These regulations vary in important, meaningful ways from country to country.

Despite the substantial time and expense invested in preparation and submission of a Marketing License Application or equivalents in other jurisdictions, regulatory approval is never guaranteed.

Success of future trials

Ongoing and future clinical trials of the Company's product candidates may not show sufficient safety or efficacy to obtain requisite regulatory approvals for commercial sale.

Phase I and phase II clinical trials are not primarily designed to test the efficacy of a product candidate but rather to test safety and to understand the product candidate's side effects at various doses and schedules. Furthermore, success in preclinical and early clinical trials does not ensure that later large-scale trials will be successful nor does it predict final results. Acceptable results in early trials may not be repeated in later trials. Further, phase III clinical trials may not show sufficient safety or efficacy to obtain regulatory approval for marketing.

The Company may conduct lengthy and expensive clinical trials of its product candidates, only to learn that the product candidate is not an effective treatment or not sufficiently safe. A number of companies in the biotechnology industry have suffered significant setbacks in clinical trials, even after promising results in earlier trials. In addition, clinical results are frequently susceptible to varying interpretations that may delay, limit or prevent regulatory approvals. Negative or inconclusive results or adverse medical events during a clinical trial could require that the clinical trial be redone or terminated. In addition, failure to construct appropriate clinical trial protocols could result in the test or control group experiencing a disproportionate number of adverse events and could require that a clinical trial be redone or terminated.

Key personnel and contractor reliance risk

The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its senior management and its key personnel. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these employees cease their employment.

To the extent the Company relies significantly on contractors, it will be exposed to risks related to the business conditions of its contractors.

Future funding requirements

The Company may require substantial additional financing in the future to sufficiently fund its operations, research and development. It has been incurring losses and will continue to do so as it expands its drug development programs. The Company's actual cash requirements may vary from those now planned and will depend upon many factors, including:

- the continued progress of its research and development programs;
- the timing, costs and results of clinical trials;
- the cost, timing and outcome of submissions for regulatory approval;
- the commercial potential of its product candidates; and
- the status and timing of competitive developments.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the reporting period.

Significant events after balance date

On 23 September 2019, Mr Stephen Carter, Managing Director and CEO, resigned effective immediately. Mr Carter will provide consulting services to the company and assist in the transition to a new CEO. Mr Hopper will take the role as Executive Chairman on an interim basis.

Besides the event above there has been no additional matter or circumstance that has risen after balance date 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 in future financial periods.

Likely developments and expected results

The Company's drug delivery business is in various stages of development and is adopting a staged business and marketing strategy as the Company moves along the growth path and remains abreast with developments in the pharmaceutical industry.

The Company intends to adopt steps to achieve financial, clinical, technical and regulatory risk reduction by combining the sale of certain assets and, in parallel, run in-house development of some projects and collaborate with partners on others.

Future license agreements and research collaborations represent key strategic assets both from a financial and knowledge point of view, helping to finance other in-house projects.

The initial focus is on a partnership or divesture of ArTiMist and development of its Midazolam and Anagrelide projects.

The Company's project pipeline intends to adopt a multi-pronged commercial strategy providing income streams in the short to medium-term and the potential for a big upside in the future.

The Board of Directors is of the opinion that the Company's current strategy and activities will form the basis on which to realise the Company's maximum potential value.

Environmental legislation

The Group is currently not subject to any significant environmental legislation.

Dividends

No dividends have been paid or declared since the start of the financial year and the Directors do not recommend the payment of a dividend in respect of the financial year.

Interests in the shares, options and convertible notes of the Company and related bodies corporate

The following relevant interests in shares and options of the Company or a related body corporate were held by the directors as at the date of this report.

Directors	Number of fully paid ordinary shares	Number of unlisted options over ordinary shares	Number of listed options (SUDOC) over ordinary shares	Number of listed options (SUDOD) over ordinary shares
Paul Hopper (note 1)	1,000,000	-	-	-
David Phillips	-	-	-	-
David Simmonds	-	-	-	-

Note 1: Paul Hopper has been granted 40,000,000 options which are subject to shareholder approval. The options have not been issued as at the date of this report.

There were no shares issued during or since the end of the year as a result of exercise of options.

DIRECTORS' REPORT

Directors' Meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

	Directors' meetings	Risk & Audit Committee	HR & Remuneration Committee	Nomination Committee
Number of meetings held:	11	2	2	1
Number of meetings attended:				
Paul Hopper (appt'd 15/5/19)	3	-	1	-
Stephen Carter (resigned 23/9/19)	11	2	1	1
Joseph Ohayon (resigned 17/5/19)	8	2	2	1
David Phillips	11	-	2	1
David Simmonds (appt'd 27/3/19)	6	-	1	-

Indemnification and insurance of Directors and Officers

The Company has agreed to indemnify all the directors of the Company for any liabilities to another person (other than the Company or related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

During the financial year the Company paid a premium in respect of a contract insuring the directors and officers of the Company and its controlled entities against any liability incurred in the course of their duties to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Proceedings on behalf of the Company

No person has applied for leave of court to bring proceedings on behalf of the Company or 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 any part of those proceedings.

Auditor Independence and Non-Audit Services

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the Company with an Independence Declaration in relation to the audit of the financial report. This Independence Declaration is set out on page 31 and forms part of this directors' report for the year ended 30 June 2019.

Corporate Governance

SUDA and the Board of Directors are committed to achieving the highest standards of corporate governance. The Board continues to review the framework and practices to ensure they meet the interests of shareholders. The Company and its controlled entities together are referred to as the Group in this statement.

A description of the Group's main corporate governance practices and Corporate Governance Statement can be found on the Company's website, www.sudapharma.com under the About Us section. All these practices, unless otherwise stated, were in place for the entire year and comply with ASX Corporate Governance Principles and Recommendations and are contained in the Appendix 4G for the year ended 30 June 2019.

Signed in accordance with a resolution of the Directors.

Paul Hopper
Executive Chairman
Perth 24 September 2019

REMUNERATION REPORT (AUDITED)

This report, which forms part of the Directors' Report, outlines the remuneration arrangements in place for the key management personnel ("KMP") of SUDA Pharmaceuticals Limited (the "Company") for the financial year ended 30 June 2019. The information provided in this remuneration report has been audited as required by Section 308(3C) of the Corporations Act 2001.

The Remuneration Report details the remuneration arrangements for KMP who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent Company.

Key Management Personnel

Directors

Paul Hopper	Non-Executive Chairman (appointed 15 May 2019, appointed Executive Chairman 23 September 2019)
Stephen Carter	Executive Director (resigned 23 September 2019)
David Phillips	Executive Director
David Simmonds	Non-Executive Director (appointed 27 March 2019)

Executives

Dr Carol Worth	Chief Technical Officer
Joseph Ohayon	Chief Financial Officer, Company Secretary
Andrew Curtis	VP, Business Development and Alliance Management (appointed 15 October 2018)
Nick Woolf	Chief Business Officer (resigned 24 July 2018, effective 23 October 2018)

Remuneration philosophy

The performance of the Company depends upon the quality of the directors and executives. The philosophy of the Company in determining remuneration levels is to:

- set competitive remuneration packages to attract and retain high calibre employees;
- link executive rewards to shareholder value creation; and
- establish appropriate, demanding performance hurdles for variable executive remuneration.

HR & Remuneration Committee

The HR & Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the directors, the CEO and the executive team.

The HR & Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of directors and executives on a periodic basis by reference to relevant employment market conditions with an overall objective of ensuring maximum stakeholder benefit from the retention of a high-quality Board and executive team.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Relationship between remuneration policy and company performance

The remuneration policy has been tailored to increase goal congruence between shareholders, Directors and executives. The methods implemented are discussed below.

DIRECTORS' REPORT

The following lists the performance of the Company since the 2015 financial year:

	2015	2016	2017	2018	2019
	$	$	$	$	$
Revenue	5,727,589	5,871,615	495,029	425,864	1,219,083
Net Loss	(3,378,331)	(2,286,813)	(1,238,309)	(5,459,278)	(7,795,039)
Share Price at year-end	0.028	0.020	0.019	0.008	0.003
Dividends Paid	0.00	0.00	0.00	0.00	0.00
Market capitalisation	31.81m	22.83m	23.17m	9.89m	10.67m

Non-executive director remuneration

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders. The Company may offer options to non-executive directors as part of their remuneration package.

The ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 25 November 2010 when shareholders approved an aggregate remuneration of $200,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external shareholders as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the Company.

Senior manager and executive director remuneration

Remuneration consists of fixed remuneration and variable remuneration (comprising short-term and long-term incentive schemes).

Fixed Remuneration

Fixed remuneration is reviewed annually by the Remuneration Committee. The process consists of a review of relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. The Committee has access to external, independent advice where necessary.

The fixed remuneration component of the key management personnel is detailed in the table on page 25.

Variable Remuneration

The Directors considered that it was desirable to establish various employee incentive plans, in order to:

a. reward employees of the Company;

b. assist in the retention and motivation of employees of the Company; and

c. provide an incentive to employees of the Company to grow shareholder value by providing them with an opportunity to receive an ownership interest in the Company.

Accordingly, on 26 September 2017 and ratified at the Annual General Meeting held on 28 November 2017, the Directors adopted the:

a. Employee Share Option Plan (Option Plan) under which Directors and executives and other employees may be offered the opportunity to be granted Options (Executive Long Term Incentive Plan); and

b. Tax Exempt Plan under which eligible employees may be issued up to $1,000 of Shares.

The plans are designed to provide incentives to the employees and Directors of the Company and to recognise their contribution to the Company's success. Under the current circumstances the Directors consider that the incentive plans are a cost effective and efficient incentive for the Company as opposed to alternative forms of incentives such as increased cash-based remuneration. To enable the Company to secure employees and Directors who can assist the Company in achieving its objectives, it is necessary to provide remuneration and incentives to such personnel. The plans are designed to achieve this objective, by encouraging continued improvement in performance over time and by encouraging personnel to acquire and retain shareholdings in the Company.

As Directors of the Company may receive securities in the Company under the Option Plan prior shareholder approval will therefore be required before a Director or related party of the Company can participate in an issue of Options under the Option Plan. Directors will not participate in the Tax Exempt Plan.

Short-Term Incentive (STI) Plan

The objective of the short-term incentive program is to link the achievement of the Group's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential short-term incentive available is set at a level so as to provide sufficient incentive to the senior manager to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances.

Actual payments granted to each senior manager depend on the extent to which specific operating targets set at the beginning of the financial year are met.

Aspect	Plan Rules, Offers and Comments
Measurement period	The Company's financial year, i.e. from 1 July to the following 30 June, with a review after 6 months.
Eligible participants	Senior management and consultants that have worked with the Company for at least 2 years.
Performance conditions	The profit before income tax of the Group must exceed $2m.
Incentive pool	The incentive pool will be 4% of the profit before income tax.
Award opportunities	KMPs have been allocated a percentage of the pool, of which 75% of the award is directly linked to the financial performance of the Group and the remaining 25% is linked to KPIs and are at the CEO/Board discretion. The CBO has the opportunity to earn 1% of total sales value of a project.

Executive Long-Term Incentive Plan (LTI Plan)

Aspect	Plan Rules and Offers
Measurement Period	The LTI Plan is for the period to 10 December 2020.
LTI Offer	Options were offered under the Plan during the financial year with the relevant policies and Plan rules.
Eligible participants	Executive directors, non-executive directors and senior management are eligible for the LTI.
Performance conditions for executive directors	The Directors are of the opinion that the performance conditions of Options should be linked to shareholder return and consider that the most appropriate measure is the market capitalisation of the Company. The market capitalisation on the date of approval of the Option Plan by the Board on 26 September 2017 was $25,000,000. The intention of the Directors is that the market capitalisation of the Company increase by 100% during the life of the Option Plan in order for the Directors to receive the full benefit of the Options. The performance conditions are also linked to continuous employment so that the Directors have to be employed by the company for a minimum of 12 months before any Options vest.
Performance conditions for non-executive directors	The Directors are of the opinion that the performance conditions of Options should be linked continuous employment.

Terms of Options	Each Option will be granted to eligible employees under the Option Plan for nil consideration. The exercise price of an Option shall be 145% of the VWAP of Shares sold on ASX during the five trading days up to and including the grant date, or such other period as determined by the Board in its discretion.
Vesting	The Options will vest following satisfaction of the performance conditions or such other date as determined by the Board in its discretion.
Cashless Exercise Facility	Participants may, at their election, elect to pay the exercise price for an Option by setting off the exercise price against the number of Shares which they are entitled to receive upon exercise (Cashless Exercise Facility). By using the Cashless Exercise Facility, the participant will receive Shares to the value of the surplus after the exercise price has been set off.
Disposal restrictions	A participant may not transfer an Option granted under the Option Plan without the prior consent of the Board.

The aggregate of annual payments available for executives across the Company is subject to the approval of the Remuneration Committee.

The Company also makes long term incentive payments to reward senior executives in a manner that aligns this element of remuneration with the creation of shareholder wealth.

Employment Contracts

The details of the executives' employment contracts are:

Executive	Period of notice
Paul Hopper	Nil
Stephen Carter	3 months
David Phillips	1 month
David Simmonds	Nil
Joseph Ohayon	3 months
Carol Worth	3 months
Andrew Curtis	1 month

The employment contracts are ongoing and there are no termination payments provided for under the contracts.

REMUNERATION OF KEY MANAGEMENT PERSONNEL

Key Management Personnel remuneration for the years ended 30 June 2019 and 30 June 2018

	Short-term employee benefits			Post-employment benefits	Share-based payments		Performance Related
	Salary & fees	Bonus	Other	Superannuation	Options	Total	
30 June 2019	$	$	$	$	$	$	%
Directors							
Paul Hopper	10,000	-	-	-	31,695	41,695	76.0
Stephen Carter	303,667	-	-	28,848	8,085	340,600	2.4
David Phillips	140,000	-	-	3,800	-	143,800	-
David Simmonds	10,329	-	-	981	-	11,310	-
Executives							
Carol Worth	151,250	-	-	14,369	-	165,619	-
Joseph Ohayon	235,965	-	-	22,416	4,312	264,347	1.6
Andrew Curtis (note 2)	270,182	-	28,500	-	-	298,682	-
Nick Woolf (note 3)	55,679	-	-	5,093	-	60,772	-

Note 1: David Phillips received $40,000 in director fees and $100,000 for consulting services in relation to his role as Chief Business Officer.

Note 2: $28,500 for Andrew Curtis relates to health benefits paid in the US.

Note 3: Nick Woolf resigned effective 23 October 2018.

	Short-term employee benefits			Post-employment benefits	Share-based payments		Performance Related
	Salary & fees	Bonus	Other	Super-annuation	Options	Total	
30 June 2018	$	$	$	$	$	$	%
Directors							
Stephen Carter	348,324	-	-	29,838	4,453	382,615	1.2
Joseph Ohayon	230,833			21,929	2,374	255,136	0.9
David Phillips	10,000	-	-	950	-	10,950	-
Michael Stewart (note 1)	54,444	-	-	5,172	4,453	64,069	6.9
Executives							
Nick Woolf	177,263	3,776	-	17,199	-	198,238	1.9
Carol Worth	124,167	-	-	11,796	-	135,963	-
John Billingham (note 2)	164,314	-	-	10,947	-	175,261	-

Note 1: Michael Stewart resigned effective 10 April 2018

Note 2: John Billingham resigned effective 7 March 2018

Option plans in existence during the financial year

	Number	Option grant date	Expiry date	Grant date fair value	Vesting date
ESOP	11,500,000	11 Dec 2017	10 Dec 2020	$51,388	Note (i)
ESOP	6,000,000	31 Jan 2019	30 Jan 2022	$12,446	Note (i)
ESOP	40,000,000	14 May 2019	13 May 2023	$31,695	Note (i), (ii)

Note (i): For details on the valuation of the options, including models and assumptions used, please refer to Notes 13 and 15.

Note (ii): Share-based payments granted as remuneration to Paul Hopper. Vesting conditions and expiry dates of options are:

I. 13,000,000 unlisted options exercisable at $0.0059, expiring: 14 May 2023

II. 13,000,000 unlisted options exercisable at $0.0063, vesting after 14 May 2020 and expiring: 14 May 2023

III. 14,000,000 unlisted options exercisable at $0.0067, vesting after 14 May 2021 and expiring: 14 May 2023

Bonuses

There were no bonuses paid during the year.

Share-based payments granted as compensation to key management personnel during the current financial year

The share-based payments granted as compensation to key management personnel are listed above with options grant dates of 31 January 2019 and 14 May 2019.

Options granted, exercised or lapsed during the year

	Number	Option grant date	Expiry date	Grant date fair value	Vesting date
ESOP	6,000,000	31 Jan 2019	30 Jan 2022	$12,446	Note (i)
ESOP	40,000,000	14 May 2019	13 May 2023	$31,695	Note (i), (ii)

Refer to Notes (i) and (ii) above

The company granted Paul Hopper 40,000,000 options subject to shareholder approval. The options have not been issued at balance date.

Vesting conditions and expiry dates of options granted to Paul Hopper are outlined above.

There were no options exercised or lapsed during the year.

Shareholdings of Key Management Personnel

	Balance at beginning of period	Granted as remuneration	On Exercise of Options or conversion of convertible note	Net Change Other	Balance at end of period or date of departure	Balance held nominally
30 June 2019	Number	Number	Number	Number	Number	Number
Directors						
Paul Hopper	-	-	-	1,000,000	1,000,000	1,000,000
Stephen Carter	1,400,000	-	-	16,688,889	18,088,889	18,088,889
David Phillips	-	-	-	-	-	-
David Simmonds	-	-	-	-	-	-
Executives						
Joseph Ohayon	500,000	-	-	5,431,664	5,931,664	5,931,664
Carol Worth	40,000	-	-	40,000	80,000	80,000
Andrew Curtis	-	-	-	-	-	-
Nick Woolf	-	-	-	4,306,667	4,306,667	4,306,667

	Balance at beginning of period	Granted as remuneration	On Exercise of Options or conversion of convertible note	Net Change Other	Balance at end of period or date of departure	Balance held nominally
30 June 2018	Number	Number	Number	Number	Number	Number
Directors						
Stephen Carter	-	-	-	1,400,000	1,400,000	1,400,000
Joseph Ohayon	-	-	-	500,000	500,000	500,000
David Phillips	-	-	-	-	-	-
Michael Stewart	24,411,890	-	-	588,110	25,000,000	25,000,000
Executives						
Nick Woolf	-	-	-	-	-	-
Carol Worth	40,000	-	-	-	40,000	40,000
John Billingham	1,156,673	-	-	-	1,156,673	1,156,673

All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

Option holdings of Key Management Personnel

30 June 2019	Opening Balance Number	Granted as remuneration Number	Options Exercised Number	Net Change Other Number	Balance at end of period or date of departure Number	Vested but not exercisable Number	Vested and exercisable Number	Options vested during year Number
Directors								
Paul Hopper [1]	-	-	-	-	-	-	-	-
Stephen Carter[2]	7,500,000	-	-	8,344,443	15,844,443	-	8,344,443	8,344,443
David Phillips	-	-	-	-	-	-	-	-
David Simmonds	-	-	-	-	-	-	-	-
Executives								
Joseph Ohayon[2]	4,000,000	-	-	2,715,832	6,715,832	-	2,715,832	2,715,832
Carol Worth[2]	-	-	-	20,000	20,000	-	20,000	20,000
Andrew Curtis	-	-	-	-	-	-	-	-
Nick Woolf[2]	-	-	-	2,153,333	2,153,333	-	2,153,333	2,153,333

Note 1: The company granted Paul Hopper 40,000,000 options subject to shareholder approval. The options have not been issued at balance date.

Note 2: Stephen Carter, Joseph Ohayon, Carol Worth and Nick Woolf participated in the rights issues of July 2018 and/or June 2019 and received attaching listed options (SUDOC and SUDOD) as outlined in the prospectus dated 29 June 2018 and 3 June 2019 respectively. The options do not form part of their remuneration.

The terms of SUDOC options are: expiry date 31 July 2020, exercise price 1.47 cents.

The terms of SUDOD options are: expiry date 30 June 2021, exercise price 1.5 cents.

30 June 2018	Opening balance Number	Granted as remuneration Number	Options exercised Number	Net change Other Number	Balance at end of period or date of departure Number	Vested but not exercisable Number	Vested and exercisable Number	Options vested during year Number
Directors								
Stephen Carter	-	7,500,000	-	-	7,500,000	-	-	-
Joseph Ohayon	-	4,000,000	-	-	4,000,000	-	-	-
David Phillips	-	-	-	-	-	-	-	-
Michael Stewart	-	7,500,000	-	-	7,500,000	-	-	-
Executives								
Nick Woolf	-	-	-	-	-	-	-	-
Carol Worth	-	-	-	-	-	-	-	-
John Billingham	-	-	-	-	-	-	-	-

Convertible Note holdings of Key Management Personnel

	Opening balance	Granted as remuneration	Net change Other	Balance at end of period or date of departure	Balance held nominally
30 June 2019	Number	Number	Number	Number	Number
Directors					
Paul Hopper	-	-	-	-	-
Stephen Carter	50,000	-	(50,000)	-	-
David Phillips	-	-	-	-	-
David Simmonds	-	-	-	-	-
Executives					
Joseph Ohayon	20,000	-	(20,000)	-	-
Carol Worth	-	-	-	-	-
Andrew Curtis	-	-	-	-	-
Nick Woolf	20,000	-	(20,000)	-	-

	Opening balance	Granted as remuneration	Net change Other	Balance at end of period or date of departure	Balance held nominally
30 June 2018	Number	Number	Number	Number	Number
Directors					
Stephen Carter	50,000	-	-	50,000	50,000
Joseph Ohayon	20,000	-	-	20,000	20,000
David Phillips	-	-	-	-	-
Michael Stewart	50,000	-	100,000	150,000	150,000
Executives					
Nick Woolf	20,000	-	-	20,000	20,000
Carol Worth	-	-	-	-	-
John Billingham	-	-	-	-	-

Transactions and balances with Key Management Personnel

	Consolidated	
	2019	2018
Key Management Personnel	$	$
Mr Michael Stewart – consulting services	-	6,250
Mr Michael Stewart – interest on convertible notes	-	8,088
Mr Michael Stewart –finance fees on funding	-	35,784
Mr Michael Stewart –drawdown and repayment of finance facility	-	850,000
Mr Stephen Carter – interest on convertible notes	3,833	4,000
Mr Stephen Carter – interest on interim funding[2]	905	-
Mr Joseph Ohayon – interest on convertible notes	1,533	1,600
Mr Joseph Ohayon - interest on interim funding[2]	927	-
Mr David Phillips – consulting fees payable	10,000	14,000
Mr Andrew Curtis – consulting fees payable	32,866	-
Mr Nicholas Woolf – bonus	-	3,776
Mr Nicholas Woolf – interest on convertible notes	1,533	1,600
Balance on Convertible Notes		
Mr Michael Stewart	-	150,000
Mr Stephen Carter[1]	-	50,000
Mr Joseph Ohayon[1]	-	20,000
Mr Nicholas Woolf[1]	-	20,000

Note 1: Convertible notes held by Stephen Carter, Joseph Ohayon and Nicholas Woolf were redeemed in July 2018 as outlined in the prospectus dated 29 June 2018.

Note 2: During the financial year, both Mr Carter and Mr Ohayon provided interim funding of $20,000 each to the Company which was repaid.

END OF REMUNERATION REPORT

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Suda Pharmaceuticals Limited for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

Perth, Western Australia
24 September 2019

L Di Giallonardo
Partner

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	Consolidated 2019	Consolidated 2018
		$	$
Revenue	2	1,219,083	425,864
Interest income	2	30,804	2,529
Other income	2	31,695	62,628
Direct costs		(199,688)	(185,621)
Employee benefits expense		(1,186,083)	(1,605,717)
Depreciation and amortisation expense	2	(471,128)	(157,460)
Impairment of intangible assets	10	(6,276,758)	(559,939)
Finance costs	2	(125,062)	(177,030)
Other expenses	2	(1,742,902)	(4,583,337)
Loss before income tax expense		(8,720,039)	(6,778,083)
Income tax benefit	3	925,000	745,000
Loss after tax from continuing operations		(7,795,039)	(6,033,083)
Discontinued operation	2	-	573,805
Net Loss for the year		(7,795,039)	(5,459,278)
Total comprehensive loss for the year		(7,795,039)	(5,459,278)
Loss and total comprehensive loss attributable to:			
Owners of the parent		(7,795,039)	(5,459,278)
Basic loss per share (cents per share)	5	(0.32)	(0.45)
Basic loss per share from continuing operations (cents per share)	5	(0.32)	(0.49)
Diluted loss per share (cents per share)	5	(0.32)	(0.45)
Diluted loss per share from continuing operations (cents per share)	5	(0.32)	(0.49)

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Notes	Consolidated 2019 $	Consolidated 2018 $
Assets			
Current assets			
Cash and cash equivalents	6	4,313,562	98,125
Trade and other receivables	7	1,120,870	790,728
Inventories	8	45,409	97,971
Other assets		115,278	83,932
Total current assets		5,595,119	1,070,756
Non-current assets			
Property, plant and equipment	9	367,370	172,689
Intangible assets	10	10,290,825	15,398,790
Total non-current assets		10,658,195	15,571,479
Total assets		16,253,314	16,642,235
Liabilities			
Current liabilities			
Trade and other payables	11	1,312,358	1,811,936
Borrowings	12	36,206	2,023,412
Total current liabilities		1,348,564	3,835,348
Non-current liabilities			
Trade and other payables	11	910,353	1,316,000
Borrowings	12	16,909	26,171
		927,262	1,342,171
Total liabilities		2,275,826	5,177,519
Net assets		**13,977,488**	**11,464,716**
Equity			
Issued capital	13	67,385,981	57,204,713
Reserves		2,303,384	2,176,841
Accumulated losses		(55,711,877)	(47,916,838)
Total equity		**13,977,488**	**11,464,716**

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

	Consolidated				
	Issued capital $	Accumulated losses $	Share-based payment reserve $	Minority interest acquisition reserve $	Total equity $
Balance as at 1 July 2017	57,138,713	(42,457,560)	766,934	1,404,267	16,852,354
Shares issued during the year	66,000	-	-	-	66,000
Recognition of share-based payments expenses	-	-	5,640	-	5,640
Loss for the year attributable to members of the parent entity	-	(5,459,278)	-	-	(5,459,278)
Balance as at 30 June 2018	57,204,713	(47,916,838)	772,574	1,404,267	11,464,716
Balance as 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 year attributable to members of the parent entity	-	(7,795,039)	-	-	(7,795,039)
Balance as at 30 June 2019	67,385,981	(55,711,877)	899,117	1,404,267	13,977,488

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	Consolidated 2019 $	Consolidated 2018 $
Cash flows from operating activities			
Receipts from customers		1,050,643	5,099,169
Receipts for R&D tax incentive		745,000	662,877
Payments to suppliers and employees		(4,308,928)	(8,178,172)
Interest received		29,984	2,529
Finance costs		(12,187)	(134,433)
Net cash outflows from operating activities	6	(2,495,488)	(2,548,030)
Cash flows from investing activities			
Payments for property, plant and equipment		(312,715)	(68,307)
Payments for intangible assets		(1,071,603)	(839,790)
Proceeds from sale of entity		-	1,584,440
Net cash inflows/(outflows) from investing activities		(1,384,318)	676,343
Cash flows from financing activities			
Proceeds from issue of shares, net of capital raising fees		8,095,243	-
Proceeds from borrowings		140,000	1,050,000
Repayment of borrowings		(140,000)	(850,000)
Net cash inflows from financing activities		8,095,243	200,000
Net increase/(decrease) in cash and cash equivalents		4,215,437	(1,671,687)
Cash and cash equivalents at the beginning of the year		98,125	1,769,812
Cash and cash equivalents at the end of the year	6	4,313,562	98,125

The accompanying notes form part of these financial statements

NOTE 1: BASIS OF PREPARATION

These financial statements are general purpose financial statements, which have been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial statements comprise the consolidated financial statements for the Group. For the purposes of preparing the consolidated financial statements, the Group is a for-profit entity.

The accounting policies detailed below have been consistently applied to all of the years presented unless otherwise stated. The financial statements are for the Group consisting of Suda Pharmaceuticals Limited and its subsidiaries.

The financial statements have been prepared on a historical cost basis. Historical cost is based on the fair values of the consideration given in exchange for goods and services.

The financial statements are presented in Australian dollars.

The Company is a listed public Company, incorporated in Australia and operates in Australia and United States of America. The entity's principal activity is pharmaceutical development of drug delivery technology.

a. Statement of compliance

The financial report was authorised for issue on 24 September 2019.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

b. Adoption of new and revised standards

Standards and Interpretations applicable to 30 June 2019

In the year ended 30 June 2019, 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 annual reporting period. The standard which has a material impact on the Group is set out below.

AASB 15 Revenue from contracts with Customers

AASB 15 replaces AASB 118 Revenue and AASB 111 Construction Contracts and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards.

The Group has adopted AASB 15 from 1 July 2018.

AASB 15 establishes a single comprehensive income for entities to use in accounting for revenue arising from contracts with customers.AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised, including in respect of multiple element arrangements. The core principle of AASB 15 is that it requires identification of distinct performance obligations within a transaction and associated transaction price allocation to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occur when control of goods or services is transferred, rather than on transfer of risks or rewards. Revenue received for a contract that includes a variable amount is subject to revised conditions for recognition, whereby it must be highly probable that no significant reversal of the variable component may occur when the uncertainties around its measurement are removed.

The core principle of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group has adopted AASB 15 using the modified retrospective method of adoption (without practical expedients) with the effect of initially applying this standard recognised at the date of initial application, being 1 July 2018. Accordingly, the information presented for 30 June 2018 has not been restated. The effect of the application of AASB 15 has been applied to all contracts at date of initial application.

The impact on the financial performance and position of the Group from the adoption of this Accounting Standard is not material.

Other than the above, the Directors have determined that there is no material impact of the new and revised Standards and

Interpretations on the Company and, therefore, no material change is necessary to Group accounting policies.

Standards 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 year ended 30 June 2019. 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.

AASB 16 Leases

AASB 16 replaces AASB 117 Leases. AASB 16 removes the classification of leases as either operating leases of finance leases- for the lessee – effectively treating all leases as finance leases.

AASB 16 is applicable to annual reporting periods beginning on or after 1 July 2019.

Impact on operating leases

AASB 16 will change how the Group accounts for leases previously classified as operating leases under AASB 117, which were off-balance sheet. On initial application of AASB 16, for all leases (except as noted below), the Group will:

- Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments.
- Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss.
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under AASB 117 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under AASB 16, right-of-use assets will be tested for impairment in accordance with AASB 136 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by AASB 16.

The Group has elected not to early adopt AASB 16 but has commenced the process of evaluating the impact of the new lease standard. This standard will primarily affect the accounting for the Group's operating lease. As at 30 June 2018, the Group had $167,265 of non-cancellable operating lease commitments, predominantly relating to a property lease. The Group is considering the available options to account for this transition but the Group expects a change in reported earnings before interest, tax, depreciation and amortisation (EBITDA) and increase in lease assets and liabilities recognition. The lease standard is also expected to have an impact on deferred tax balances. This will however, be dependent on the lease arrangements in place when the new standard is effective.

Impact on finance leases

The main differences between AASB 16 and AASB 117 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor.

AASB 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by AASB 117.

On initial application the Group will present equipment previously included in property, plant and equipment within the line item for right-of use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

Based on an analysis of the Group's finance leases as at 30 June 2019 on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed that the impact of this change will not have an impact on the amounts recognised in the Group's consolidated financial statements

c. Significant accounting estimates and judgements

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Inventories

Management estimates the net realisable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realisation of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and IT equipment.

Impairment

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

NOTE 1: BASIS OF PREPARATION (CONTINUED)

Capitalisation of internally developed project development

Distinguishing the research and development phases of a new project development and determining whether the recognition

requirements for the capitalisation of development costs are met

requires judgement. After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised costs may be impaired.

Impairment of intangibles with indefinite useful lives and goodwill

The Group determines whether intangibles with indefinite useful lives and goodwill and impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in Note 10.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is either determined by an external valuer using a Binomial model, or internally using a Black-Scholes model, using the assumptions detailed in Notes 15.

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that sufficient future tax profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

d. 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 ordinary course of business. This includes the continued development and commercialisation of the Group's current projects.

e. Basis of consolidation

The consolidated financial statements incorporate the financial statements of SUDA Pharmaceuticals Limited and entities controlled by the Group and its subsidiaries. Control is achieved when the Company:

- Has power of the investee;
- Is exposed, or has rights, to variable returns from its involvement in with the investee; and
- Has the ability to its power to affect its returns.

The Company reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements listed above.

When the Company has less than a majority of the voting rights if an investee, it has the power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights are sufficient to give it power, including,

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties; rights arising from other contractual arrangements; and
- relevant activities at the time that decisions need to be made, including voting patterns at previous shareholder meetings

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Changes in the Group's ownership interest in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in subsidiaries. Any difference between the amount paid by which the non- controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between:

- The aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- The previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by the applicable AASBs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

NOTE 2: REVENUE AND EXPENSES

Accounting policies

Revenue recognition

a. Revenue from Contracts with Customers

Applicable to 30 June 2019

Revenue arises mainly from licence and supply agreements, and research and development projects. The Group generates revenue largely in India, Europe, Australia and Singapore. To determine whether to recognise revenue, the Group follows a 5-step process:

i. Identifying the contract with a customer
ii. Identifying the performance obligations
iii. Determining the transaction price
iv. Allocating the transaction price to the performance obligations
v. Recognising revenue when/as performance obligation(s) are satisfied.

The revenue and profits recognised in any period are based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

In determining the amount of revenue and profits to record, and related balance sheet items (such as contract fulfilment assets, capitalisation of costs to obtain a contract, trade receivables, accrued income and deferred income) to recognise in the period, management is required to form a number of key judgements and assumptions. This includes an assessment of the costs the Group incurs to deliver the contractual commitments and whether such costs should be expensed as incurred or capitalised.

Revenue is recognised either when the performance obligation in the contract has been performed, so 'point in time' recognition or 'over time' as control of the performance obligation is transferred to the customer.

For contracts with multiple components to be delivered such as research and development, clinical trials and regulatory submissions, management applies judgement to consider whether those promised goods and services are (i) distinct - to be accounted for as separate performance obligations; (ii) not distinct - to be combined with other promised goods or services until a bundle is identified that is distinct or (iii) part of a series of distinct goods and services that are substantially the same and have the same pattern of transfer to the customer.

Transaction price

At contract inception the total transaction price is estimated, being the amount to which the Group expects to be entitled and has rights to under the present contract.

The transaction price does not include estimates of consideration resulting from change orders for additional goods and services unless these are agreed.

Once the total transaction price is determined, the Group allocates this to the identified performance obligations in proportion to their relative stand-alone selling prices and recognises revenue when (or as) those performance obligations are satisfied.

For each performance obligation, the Group determines if revenue will be recognised over time or at a point in time. Where the Group recognises revenue over time for long term contracts, this is in general due to the Group performing and the customer simultaneously receiving and consuming the benefits provided over the life of the contract.

For each performance obligation to be recognised over time, the Group applies a revenue recognition method that faithfully depicts the Group's performance in transferring control of the goods or services to the customer. This decision requires assessment of the real nature of the goods or services that the Group has promised to transfer to the customer. The Group applies the relevant output or input method consistently to similar performance obligations in other contracts.

When using the output method, the Group recognises revenue on the basis of direct measurements of the value to the customer of the goods and services transferred to date relative to the remaining goods and services under the contract. Where the output method is used, in particular for long term service contracts where the series guidance is applied, the Group often uses a method of time elapsed which requires minimal estimation. Certain long-term contracts use output methods based upon estimation of number of users, level of service activity or fees collected.

If performance obligations in a contract do not meet the overtime criteria, the Group recognises revenue at a point in time. This may be at the point of physical delivery of goods and acceptance by a customer or when the customer obtains control of an asset or service in a contract with customer-specified acceptance criteria.

Disaggregation of revenue

The Group disaggregates revenue from contracts with customers by contract type, which includes (i) licence and supply agreements; and, (ii) research and development income as management believe this best depicts how the nature, amount, timing and uncertainty of the Group's revenue and cash flows.

Performance obligations

The nature of contracts or performance obligations categorised within this revenue type includes (i) licence and supply agreements; and, (ii) research and development income.

The service contracts in this category include contracts with either a single or multiple performance obligations.

NOTE 2: REVENUE AND EXPENSES (CONTINUED)

The Group considers that the services provided meet the definition of a series of distinct goods and services as they are (i) substantially the same and (ii) have the same pattern of transfer (as the series constitutes services provided in distinct time increments (e.g., monthly or annual services)) and therefore treats the series as one performance obligation.

i. Signing of licence and supply agreements and research and development agreements. Revenues are recognised upon signing the agreement.

ii. Submission of regulatory applications and/or approvals by agreement partners. Revenues are recognised on submission of regulatory applications by agreement partners.

iii. Product sales by agreement partners. Revenues in form of royalties are recognised on product sales by agreement partners.

iv. Completion of contract phases within research and development agreements. Revenues are recognised upon completion of contract phases within research and development agreements.

v. Undertaking research and development studies and project management. Revenues are recognised as research and development studies are performed and project managed.

Contract assets and contract liabilities

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

As a result of the contracts 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.

Revenue	Consolidated	
	2019	2018
	$	$
Sales revenue		
Licence and supply agreements and research and development projects	1,219,083	425,864

The Group derives its revenue from the sale of goods and the provision at 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, refer to note 4.

	2019
	$
At a point in time	
Licence and supply agreements	893,898
Over time	
Research and development income	325,185
Total revenue	1,219,083

b. Other Income and Expenses

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that assets' net carrying amount on initial recognition.

	Consolidated	
	2019	2018
	$	$
Interest income	30,804	2,529

Other income

Government grants

Grants, such as Export Market Development Grants, from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Gain on disposal of property, plant and equipment	-	1,818
Government grants	31,695	60,810
	31,695	62,628

Other expenses

Finance costs	125,062	177,030
Depreciation of non-current assets	121,724	98,460
Amortisation of intangible assets	349,404	59,000
Write-off of obsolete stock	25,000	70,300
Operating lease rental expense	111,970	87,243
Share-based payment expense	56,543	5,640
Legal settlement	-	2,570,000
Legal fees	19,323	1,042,107
Professional fees	482,566	64,940

c. Discontinued Operation

On 27 February 2018, the Company announced it had entered into a Share Sale and Purchase Agreement for the sale of Westcoast Surgical and Medical Supplies Pty Ltd (Westcoast). Westcoast was sold on 27 February 2018 with effect from 7 March 2018 and the subsidiary disposed of was reported in the financial statements for the year ended 30 June 2018 as a discontinued operation.

NOTE 2: REVENUE AND EXPENSES (CONTINUED)

	Consolidated	
	2019	2018
Consideration received	$	$
Cash	-	1,736,266
Total disposal consideration	-	1,736,266
Less: Westcoast loss for the year to date of disposal	-	(371,680)
Add: Westcoast accumulated losses to date of disposal leaving the Group	-	1,649,542
Less: Intercompany loan written off	-	(2,440,323)
Profit on disposal before income tax	-	573,805
Income tax expense	-	-
Profit on disposal after income tax	-	573,805

NOTE 3: INCOME TAX

Accounting policy

Income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation

SUDA and its 100% owned Australian resident subsidiaries have implemented the tax consolidation legislation. Current and deferred tax amounts are accounted for in each individual entity as if each entity continued to act as a taxpayer on its own.

SUDA recognises its own current and deferred tax amounts and those current tax liabilities, current tax assets and deferred tax assets arising from unused tax credits and unused tax losses which it has assumed from its controlled entities within the tax consolidated Group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts payable or receivable from or payable to other entities in the Group. Any difference between the amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) controlled entities in the tax consolidated Group.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Research and Development Tax

The Research and Development Tax Incentive is recognised at its fair value where there is a reasonable assurance that the tax incentive will be received and the Group will comply with all attached conditions.

NOTE 3: INCOME TAX (CONTINUED)

Income tax recognised in profit or loss.

The major components of tax expense are:	Consolidated	
	2019	2018
	$	$
Current tax	(925,000)	(745,000)
Total tax benefit	(925,000)	(745,000)

The prima facie income tax benefit on pre-tax accounting profit from operations reconciles to the income tax benefit in the financial statements as follows:

	Consolidated	
	2019	2018
	$	$
Net loss for the period	(8,720,039)	(6,204,278)
Prima Facie tax (benefit) on loss from ordinary activities before income tax at 27.5% (2018: 27.5%)	(2,398,010)	(1,706,176)
Add Tax effect of:		
Accounting gain on sale of subsidiary	-	(520,880)
Non-deductible expenses		
R&D Expenditure	584,770	470,977
Expenditure not allowed for income tax purposes	4,781	1,024,165
Research and development tax offset	(925,000)	(745,000)
Tax effect of temporary differences and tax losses not brought to account	1,551,440	731,914
Deferred Tax Asset Losses	257,019	-
Income tax benefit	(925,000)	(745,000)

The tax rate used in the above reconciliation is the corporate tax rate of 27.5% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in this tax rate since the previous reporting period.

Amounts recognised directly in equity

Unrecognised deferred tax balances of Australian income tax consolidated group:		
• Unrecognised deferred tax asset – revenue losses	9,317,468	9,011,764
• Unrecognised deferred tax asset – capital losses	1,709,337	1,709,337
• Unrecognised deferred tax asset – other	2,221,654	281,246
• Unrecognised deferred tax equity	105,703	31,148
• Unrecognised deferred tax liabilities	(878,971)	(716,281)
Net unrecognised deferred tax asset	12,475,191	10,317,214

NOTE 4: SEGMENT REPORTING

Accounting policy

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 of SUDA.

Description of segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and in determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings as the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

The Group has 2 main types of products and services by segment:

i. Suda: the pharmaceutical development segments and performs research and development to create new human pharmaceutical products by combining proven drugs with innovated, patented, delivery technologies.

ii. Malaria Research Company (MRC): pharmaceutical development segment for the treatment of malaria, i.e. ArTiMist® project.

Segment information

The following tables present revenue and profit information and certain asset and liability information regarding business segments for the years ended 30 June 2019 and 30 June 2018.

	Continuing Operations		Unallocated items	Consolidated
	SUDA	MRC		
30 June 2019	$	$	$	$
Revenue				
Sales to external customers	1,219,083	-	-	1,219,083
Inter-segment sales (i)	323,130	-	-	323,130
	1,542,213	-	-	1,542,213
Inter-segment sales eliminated				(323,130)
Total segment revenue				1,219,083
Segment net operating profit (loss) after tax	(1,465,797)	(6,639,364)	310,125	(7,795,036)
Interest revenue	30,804	-	-	30,804
Interest expense	(125,062)	-	-	(125,062)
Depreciation	(121,724)	-	-	(121,724)
Amortisation	(349,404)	-	-	(349,404)
Impairment	-	(6,276,758)	-	(6,276,758)
Segment assets	13,881,627	5,666,154	(974,985)	18,572,796
Inter-segment eliminations				(2,319,482)
Total assets				16,253,314

NOTE 4: SEGMENT REPORTING (CONTINUED)

	Continuing Operations		Unallocated items	Consolidated
	SUDA	MRC		
30 June 2019	$	$	$	$
Capital expenditure	(319,649)	-	-	319,649
Other assets	(1,176,275)	(341,922)	-	1,518,197
Segment liabilities	2,275,825	2,319,482	-	4,595,307
Inter-segment eliminations				(2,319,482)
Total liabilities				2,275,825
Cash flow information				
Net cash flow from operating activities	(2,473,189)	(37,669)	15,370	(2,495,488)
Net cash flow from investing activities	(1,042,396)	(341,922)	-	(1,384,318)
Net cash flow from financing activities	8,095,243	-	-	8,095,243

i. Intersegment revenue is recorded at amounts equal to competitive market prices charged to external customers for similar goods and is eliminated on consolidation.

	Continuing Operations		Discontinued Operation	Unallocated items	Consolidated
	SUDA	MRC	Westcoast		
30 June 2018	$	$	$	$	$
Revenue					
Sales to external customers	491,021	-	4,433,846	-	4,924,867
Inter-segment sales (i)	433,399	-	-	-	433,399
	924,420	-	4,433,846	-	5,358,266
Inter-segment sales eliminated					(433,399)
Total segment revenue					4,924,867
Segment net operating profit (loss) after tax	(6,049,486)	(45,130)	573,805	61,533	(5,459,278)
Interest revenue	2,529	-	2,606	-	5,135
Interest expense	(177,030)	-	(4)	-	(177,034)
Depreciation and amortisation	(98,460)	-	(25,113)	-	(123,573)
Segment assets	7,931,312	11,926,047	-	(635,061)	19,222,298
Inter-segment eliminations					(2,580,064)
Total assets					16,690,234

	Continuing Operations		Discontinued Operation	Unallocated items	Consolidated
	SUDA	MRC	Westcoast		
30 June 2018	$	$	$	$	$
Capital expenditure	(73,783)	-	(31,851)	-	(105,634)
Other assets	(455,950)	(388,383)	-	-	(844,333)
Segment liabilities	5,168,007	1,940,268	-	-	7,108,275
Inter-segment eliminations					(1,930,756)
Total liabilities					5,177,519
Cash flow information					
Net cash flow from operating activities	(2,322,784)	(24,791)	(200,455)	-	(2,548,030)
Net cash flow from investing activities	(487,863)	(388,383)	(1,552,589)	-	676,343
Net cash flow from financing activities	200,000	-	-	-	200,000

ii. Intersegment revenue is recorded at amounts equal to competitive market prices charged to external customers for similar goods and is eliminated on consolidation.

Other segment information

Revenue from external customers by geographical locations is detailed below. Revenue is attributed to geographical location based on the location of customers. The Company does not have external revenues from external customers that are attributable to any foreign country other than shown.

	Consolidated	
	2019	2018
	$	$
Australia	183,113	62,551
India	802,185	-
Europe	93,785	425,864
Singapore	140,000	-
	1,219,083	425,864
From discounted operations		
Australia	-	4,436,452
Total revenue	1,219,083	4,924,867

Segment net operating profit

The executive management committee meets on a monthly basis to assess the performance of each segment by analysing the segment's net operating profit after tax. A segment's net operating profit after tax excludes non-operating income and expense such as dividends received, fair value gains and losses, gains and losses on disposal of assets and impairment charges. Income tax expenses are calculated as 27.5% (2018: 27.5%) of the segment's net operating profit.

NOTE 4: SEGMENT REPORTING (CONTINUED)

Segment assets

In assessing the segment performance on a monthly basis, the executive management committee analyses the segment result as described above and its relation to segment assets. Segment assets are those operating assets of the entity that the management committee views as directly attributable to the performance of the segment. These assets include plant and equipment, receivables, inventory and intangibles and exclude available-for-sale assets, derivative assets, deferred tax assets, and pension assets.

Segment liabilities

Segment liabilities include trade and other payables and debt. The Group has a centralised finance function that is responsible for raising debt and capital for the entire operations. Each entity or business uses this central function to invest excess cash or obtain funding for its operations. The executive management committee reviews the level of debt for each segment in the monthly meetings.

The Group has a number of customers to whom it provides both products and services. The Group supplied a single external customer in the pharmaceutical development segment who accounted for 66% of external revenue (2018: 19%). The next most significant client accounts for 14% (2018: 12%) of external revenue.

NOTE 5: EARNINGS PER SHARE

Accounting policy

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

Basic earnings/loss per share

	Consolidated	
	2019	2018
	Cents per share	Cents per share
Basic loss per share (cents per share)	(0.32)	(0.45)
Basic loss per share from continuing operations (cents per share)	(0.32)	(0.49)
Diluted loss per share (cents per share)	(0.32)	(0.45)
Diluted loss per share from continuing operations (cents per share)	(0.32)	(0.49)

Basic earnings/loss per share and Diluted earnings/loss per share

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:

	Consolidated	
	2019	2018
	$	$
Loss	(7,795,039)	(5,459,278)
Loss from continuing operations	(7,795,039)	(6,033,083)

	Number	Number
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,464,536,813	1,221,660,754
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,464,536,813	1,221,660,754

NOTE 6: CASH AND CASH EQUIVALENTS

Accounting policy

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

	Consolidated	
	2019	2018
	$	$
Cash at bank and on hand	4,313,562	98,125

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one and seven months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Reconciliation to the Statement of Cash Flows:

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and at bank and investments in money market instruments, net of outstanding bank overdrafts.

Cash and cash equivalents as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	Consolidated	
	2019	2018
	$	$
Cash and cash equivalents	4,313,562	98,125

NOTE 6: CASH AND CASH EQUIVALENTS (CONTINUED)

Reconciliation of loss for the year to net cash flows from operating activities

	Consolidated	
	2019	2018
	$	$
Loss for the year	(7,795,039)	(5,459,278)
Profit on sale of discontinued operation	-	(573,805)
Share-based payment expense	56,543	5,640
Depreciation	121,724	98,460
Amortisation	349,404	59,000
Impairment of intangible assets	6,276,758	559,939
Write-off of obsolete stock / inventory write down	25,000	70,300
Write-off bad debts	-	72,499
Interest payment settled by issue of shares	112,875	-
Net loss on disposal of property, plant and equipment	-	1,818
Change in net assets and liabilities		
(Increase)/decrease in assets:		
Trade and other receivables	(330,136)	42,403
Prepayments	(39,865)	(72,499)
Inventories	52,562	29,313
Increase/(decrease) in liabilities:		
Trade and other payables	(1,356,981)	2,569,091
Provisions	31,667	49,089
Net cash from operating activities	(2,495,488)	(2,548,030)

NOTE 7: TRADE AND OTHER RECEIVABLES

Accounting policy

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are generally due for settlement within periods ranging from 30 days to 60 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Group in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Group.

The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the statement of profit or loss and other comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of profit or loss and other comprehensive income.

	Consolidated	
	2019	2018
	$	$
Trade receivables (i)	293,643	143,501
Allowance for expected credit losses	(97,773)	(97,773)
	195,870	45,728
R&D tax incentive receivable	925,000	745,000
	1,120,870	790,728

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.

	2019	2018
Ageing of past due but not impaired	$	$
30 – 60 days	22,935	30,816
60 – 90 days	38,234	-
90 – 120 days	-	-
120 days +	15,062	-
Total	76,231	30,816

Movement in the allowance for expected credit losses

Balance at the beginning of the year	97,773	97,773
Expected credit losses recognised on receivables	-	-
Balance at the beginning and end of the year	97,773	97,773

Expected credit losses

The Group applies the AASB 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due and also according to the geographical location of customers and to the credit worthiness of the customer.

The expected loss rates are based on the payment profile for sales over the past 48 months before 30 June 2019 and 30 June 2018 respectively as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding.

The Group has identified gross domestic product (GDP) and unemployment rates of the countries in which the customers are domiciled to be the most relevant factors and accordingly adjusts historical loss rates for expected changes in these factors. However, given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period.

Trade receivables are written off when there is no reasonable expectation of recovery. Failure to make payments within 180 days from the invoice date and failure to engage with the Group on alternative payment arrangements amongst others is considered indicators of no reasonable expectation of recovery.

On the above basis, the expected credit losses for trade receivables as at 30 June 2018 and 30 June 2019 was determined to be immaterial.

NOTE 8: INVENTORIES

Accounting policy

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition is accounted for as follows:

- Raw materials – purchase cost on a first-in, first-out basis; and
- Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

	Consolidated	
	2019	2018
	$	$
Raw materials – at lower of cost/net realisable value	45,409	97,971

Inventory write-downs and obsolete stock charged to cost of sales totalled $25,000 (2018: $70,300).

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

Accounting policy

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Land and buildings are measured at fair value less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

- Leasehold improvements 3 - 5 years
- Plant and equipment 2 - 5 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Impairment

The carrying values of plant and equipment are reviewed for impairment at each balance date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to approximate fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the statement of comprehensive income in the cost of sales line item. However, because land and buildings are measured at revalued amounts, impairment losses on land and buildings are treated as a revaluation decrement.

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Carrying value	Consolidated	
	Plant and equipment	Total
Gross carrying amount	$	$
Balance at 30 June 2017	701,166	701,166
Additions	105,634	105,634
Disposals	(239,818)	(239,818)
Balance at 30 June 2018	566,982	566,982
Additions	319,649	319,649
Balance at 30 June 2019	886,631	886,631
Accumulated depreciation and impairment		
Balance at 30 June 2017	469,087	469,087
Depreciation expense	123,572	123,572
Disposals	(195,122)	(195,122)
Balance at 30 June 2018	397,537	397,537
Depreciation expense	121,724	121,724
Balance at 30 June 2019	519,261	519,261
Carrying value: 30 June 2019	367,370	367,370
Carrying value: 30 June 2018	172,689	172,689
Cost	886,631	566,982
Accumulated depreciation and impairment	(519,261)	(394,293)
Net carrying amount	367,370	172,689

NOTE 10: INTANGIBLE ASSETS

Accounting policy

Intangible assets acquired separately

Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives when available for use. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

Capitalisation of internally developed project development

Distinguishing the research and development phases of a new project development and determining whether the recognition requirements for the capitalisation of development costs are met requires judgement. After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised costs may be impaired.

Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

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

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Impairment of tangible and intangible assets other than goodwill

The Group assesses at each balance date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each balance date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of

the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

	Patents	Development Costs	Total
	$	$	$
Gross carrying amount			
Balance at 1 July 2017	-	15,173,396	15,173,396
Additions	-	844,333	844,333
Amortisation	-	(59,000)	(59,000)
Impairment	-	(559,939)	(559,939)
Balance at 30 June 2017	-	15,398,790	15,398,790
Balance at 1 July 2018	-	15,398,790	15,398,790
Additions	132,358	1,385,839	1,518,197
Amortisation	-	(349,404)	(349,404)
Impairment	-	(6,276,758)	(6,276,758)
Balance at 30 June 2019	132,358	10,158,467	10,290,825

The Board assesses each project at balance date for impairment:

i. ArTiMist

The Company has taken into consideration the notice of denial for marketing approval received on 14 May 2019, assessed recoverable amount and has taken a conservative approach and recognised an impairment loss of $6,276,758. The carrying value of ArTiMist at reporting date was $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.

The recoverable amount has been determined based on fair value less costs to sell. The Company applied a discount rate to cash flow projections of 15%.

Impact of possible changes in key assumptions:

The Company has submitted an appeal against the TGA decision in August 2019. If the TGA does not grant the appeal, the Company will recognise a further impairment.

ii. ZolpiMist

The Company commenced amortising the carrying value on a straight-line basis from 1 January 2018 over 10 years. In relation to additional costs capitalised 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 (including SUD-001, SUD-002, SUD-003 and SUD-004).

The Company commenced amortising the carrying value on a straight-line basis from 1 July 2018 over the greater of 10 years or the life of the patent applicable to that project or the estimated life of licence agreements, where applicable.

NOTE 11: TRADE AND OTHER PAYABLES

Accounting policy

Trade payables and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

Employee leave entitlements

Wages, salaries, annual leave and sick leave

Liabilities accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave expected to be settled within 12 months of the balance date are recognised in other payables in respect of employees' services up to the balance date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Liabilities accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave not expected to be settled within 12 months of the balance date are recognised in non-current other payables in respect of employees' services up to the balance date. They are measured as the present value of the estimated future outflows to be made by the Group

	Consolidated	
	2019	2018
Current	$	$
Trade payables (i)	511,575	352,561
Sundry payables and accrued expenses	412,847	164,725
Legal settlement (ii)	387,936	1,254,000
Interest payable	-	40,650
	1,312,358	1,811,936
Non-current		
Legal settlement (ii)	910,353	1,316,000

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 the remaining payments payable in instalments by 31 December 2021. The amount due has not been discounted to present value and the effect of this is not considered material.

NOTE 12: BORROWINGS

Accounting policy

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised 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 borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the note. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

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

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

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the general policy on borrowing costs.

Finance lease assets are depreciated on a straight-line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

NOTE 12: BORROWINGS (CONTINUED)

	Consolidated	
	2019	2018
Current	$	$
Secured		
Convertible Notes	-	2,002,500
Leases	36,206	20,912
Total secured borrowings	36,206	2,023,412
Secured		
Leases	16,909	26,171
Total secured borrowings	16,909	26,171

Note i: As part of the rights issue, all the convertible noteholders redeemed their convertible notes and subscribed to the shortfall from the rights issue. The number of convertible notes on issue at 30 June 2018 was 2,002,500 and the total redemption amount, including a redemption premium and interest to redemption date, was $2,156,025.

Balance at beginning of period	2,023,412	1,802,500
Additional convertible notes	-	200,000
Lease liability	15,294	20,912
Interest and redemption premium on convertible notes	153,525	-
Redemption of convertibles notes inclusive of interest and redemption premium	(2,156,025)	-
Closing balance at end of period	36,206	2,023,412

NOTE 13: ISSUED CAPITAL

Accounting policy

Ordinary shares are classified as equity. 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. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a new business are not included in the cost of acquisition as part of the purchase consideration. .

	Consolidated	
	2019	2018
	$	$
3,556,371,635 (2018: 1,224,141,804) fully paid ordinary shares	67,385,981	57,204,713

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Movement in ordinary shares on issue

	2019		2018	
	Number	$	Number	$
Balance at beginning of year	1,224,141,804	57,204,713	1,219,858,520	57,138,713
Shares issued during the year			4,283,284	66,000
- Rights Issue and Placement (August 2018)	1,357,817,329	6,789,087	-	-
- Rights Issue and Placement (June 2019)	974,412,502	3,897,648	-	-
- Share issue costs	-	(505,467)	-	-
Balance at end of year	3,556,371,635	67,385,981	1,224,141,804	57,204,713

Share options

The Company has two share-based payment option schemes under which options to subscribe for the Company's shares have been granted to certain Directors, other Key Management and other employees, refer Note 15.

Movement in share options.

	2019		2018	
	Number	$	Number	$
Balance at beginning of year	29,000,000	0.0287	10,000,000	0.04
Share options issued during the year			19,000,000	0.0228
Share options lapsed during the year	(7,500,000)	0.0228	-	-
Share options (SUDOC) issued during the year (i)	678,908,634	0.0147	-	-
Share options (SUDOC) issued during the year (ii)	20,000,000	0.0147	-	-
Share options issued during the year (iii)	6,000,000	0.0073	-	-
Share options (SUDOD) issued during the year (iv)	487,206,121	0.015	-	-
Share options (SUDOD) issued during the year (v)	30,000,000	0.015	-	-
Balance at end of year	1,243,614,755	0.015	29,000,000	0.0287

i. Listed Options were issued as attaching under the rights issue and placement in July 2018. The options are listed (SUDOC) with an exercise price of 1.5 cents which was subsequently adjusted following the rights issue in June 2019 to 1.47 cents. The expiry date is 31 July 2020.

ii. Listed Options were issued in relation to part settlement of share issue costs to the broker for the July 2018 rights issue. The terms and conditions are as (i) above. Fair value at grant date was $40,000.

iii. Options issued under ESOP. For further details, see below.

iv. Listed Options were issued as attaching under the rights issue and placement in June 2019. The options are listed (SUDOD) with an exercise price of 1.5 cents and expiry date is 30 June 2021.

v. Listed Options were issued in relation to part settlement of share issue costs to the broker for the June 2019 rights issue. The terms and conditions are as (iv) above. Fair value at grant date was $30,000.

There were 1,243,614,755 (2018: 29,000,000) share options outstanding at the end of the year with a weighted average exercise price of $0.015 (2017: $0.0287) and a weighted average remaining contractual life was 538 days (2018: 814 days).

NOTE 13: ISSUED CAPITAL (CONTINUED)

The fair value of the equity-settled share options granted during the year related to an employee share option plan and is estimated as at the date of grant using the Monte Carlo Simulation model taking into account the terms and conditions upon which the options were granted or the Black-Scholes model.

	ESOP 2017	ESOP 2019	ESOP 2019 (note 1)
30 June 2019			
Number of options	19,000,000	6,000,000	40,000,000
Grant date	11 Dec 2017	31 Jan 2019	14 May 2019
Dividend yield (%)	0.00%	0.00%	0.00%
Expected volatility (%)	77.47%	159.1%	170.8%
Risk-free interest rate (%)	1.97%	0.99%	2.5%
Expected life of option (years)	3	3	4
Exercise price (cents)	2.28	0.73	0.5
Grant date share price (cents)	1.70	0.5	0.3
Fair value at grant date	51,388	12,446	70,038
Discount for lack of marketability	-	-	30%

Note 1: The company granted Paul Hopper 40,000,000 options subject to shareholder approval. The options have not been issued at balance date.

NOTE 14: RESERVES

Nature and purpose of reserves

Share based payments reserve

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to Note 15 for further details of these plans.

Minority interest acquisition reserve

This reserve is used to record the differences described in note 1(e) which may arise as a result of transactions with non-controlling interests that do not result in a loss of control.

NOTE 15: SHARE-BASED PAYMENT PLANS

Accounting policy

Equity settled transactions

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

There are currently two plans in place to provide these benefits:

i. the Employee Share Option Plan (ESOP), which provides benefits to directors and senior executives;

ii. the Tax Exempt Plan under which eligible employees may be issued up to $1,000 of shares, excluding senior executives and directors.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using the using a Monte Carlo Simulation model, further details of which are given in Note 13.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Suda Pharmaceuticals Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each balance date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest.

No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share, refer Note 5.

Share-based payment transactions:

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is either determined by an external valuer using a Binomial model, or internally using a Black-Scholes model, using the assumptions detailed in Notes 13.

Employee Share Option Plan (ESOP)

On 26 September 2017, the Directors adopted the following plans:

i. Employee Share Option Plan (Option Plan) under which Directors and executives and other employees may be offered the opportunity to be granted Options;

ii. Tax Exempt Plan under which eligible employees may be issued up to $1,000 of Shares

The vesting of Options under the terms of the Plans is dependent on both of the following performance conditions being satisfied:

i. Market capitalisation, and

ii. Continuous employment

The contractual life of each option granted is 3 years. Options can be settled by payment at the exercise price or a cashless exercise facility is available.

The expense recognised in the statement of comprehensive income in relation to share-based payments is disclosed in Note 2.

NOTE 15: SHARE-BASED PAYMENT PLANS (CONTINUED)

The following share-based payment arrangements were in place during the current period:

	Number	Grant date	Expiry date	Exercise price	Fair value at grant date	Vesting date
				$	$	
Options	11,500,000	11 Dec 2017	10 Dec 2020	2.28 cents	51,388	Subject to performance conditions
Options	6,000,000	31 Jan 2019	30 Jan 2022	0.73 cents	12,446	Subject to continuous employment
Options (note 1)	13,000,000	15 May 2019	14 May 2023	0.59 cents	27,192	15 May 2019
Options (note 1)	13,000,000	15 May 2019	14 May 2023	0.63 cents	3,489	14 May 2020
Options (note 1)	14,000,000	15 May 2019	14 May 2023	0.67 cents	1,014	14 May 2021

There has been no alteration of the terms and conditions of the above share-based payment arrangement since grant date.

The following table illustrates the number and weighted average exercise prices of and movements in share options, under the ESOP, issued during the year:

	2019		2018	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Outstanding at the beginning of year	19,000,000	0.0228	-	-
Granted during the year (note 1)	46,000,000	0.056	19,000,000	0.0228
Exercised during the year	-	-	-	-
Expired during the year	(7,500,000)	0.0228	-	-
Outstanding at the end of year	57,500,000	0.049	19,000,000	0.0228
Exercisable at the end of year	-	-	-	-

There were no share options outstanding at the end of the year.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

Note 1: Paul Hopper has been granted 40,000,000 options which are subject to shareholder approval. The options have not been issued as at date of this report.

NOTE 16: FINANCIAL INSTRUMENTS

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified at:

- amortised cost

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets to collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method.

Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments as well as listed bonds that were previously classified as held-to-maturity under IAS 39.

Impairment of financial assets

AASB 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaced AASB 139's 'incurred loss model'.

Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under AASB 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

NOTE 16: FINANCIAL INSTRUMENTS (CONTINUED)

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Level 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Level 2').
- 'Level 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade and other receivables and contract assets

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Group assess impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due.

Classification and measurement of financial liabilities

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from 2018.

The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

None of the Group's entities are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand operations, as well as to make routine expenditures such as tax and general administrative outgoings.

Gearing levels are reviewed by the Board on a regular basis in line with its target gearing ratio, the cost of capital and the risks associated with each class of capital.

Categories of financial instruments

		Consolidated	
		2019	2018
	Note	$	$
Financial assets			
Cash and cash equivalents	6	4,313,562	98,125
Trade and other receivables	7	195,870	45,728
		4,509,432	143,853
Financial liabilities			
Trade and other payables	11	1,809,864	3,127,936
Borrowings	12	53,114	2,049,583
		1,862,978	5,177,519

Financial risk management objectives

The Group is exposed to market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effect of these risks, by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by management on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, commodity prices and exchange rates. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency and commodity price risk including foreign exchange forward contracts to hedge the exchange rate and commodity price risk arising on its production.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

NOTE 16: FINANCIAL INSTRUMENTS (CONTINUED)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the balance date expressed in Australian dollars are as follows:

	Liabilities		Assets	
	2019	2018	2019	2018
	$	$	$	$
GBP	11,448	3,944	-	336
EUR	1,298,289	2,703,809	-	-
USD	15,895	26,528	108,703	47,039
	1,325,632	2,734,281	108,703	47,375

Foreign currency sensitivity analysis

The Group is exposed to GB Pounds (GBP) Euros (EUR) and US Dollar (USD) currency fluctuations.

The following table details the Group's sensitivity to a 5% increase and decrease in the Australian dollar against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. A positive number indicates an increase in profit or loss and other equity where the Australian Dollar strengthens against the respective currency. For a weakening of the Australian Dollar against the respective currency there would be an equal and opposite impact on the profit and other equity and the balances below would be negative.

	Consolidated	
	Profit	Equity
	$	$
Year ended 30 June 2019		
+/- 2% interest rates	10,000	(10,000)
+/- 5% in AUD / GBP	572	(572)
+/- 5% in AUD / EUR	64,914	(64,914)
+/- 5% in AUD / USD	(4,640)	4,640
Year ended 30 June 2018		
+/- 2% interest rates	(40,050)	40,050
+/- 5% in AUD / GBP	180	(180)
+/- 5% in AUD / EUR	135,190	(135,190)
+/- 5% in AUD / USD	(960)	960

This is mainly attributable to the exposure outstanding on USD, GBP and EUR currencies held at year end in the Group.

Interest rate risk management

The Company and the Group have minimised their exposure to interest rate risk as entities in the Group borrow funds at fixed interest rates.

The Company and Group's exposures to interest rate on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Credit risk management

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses publicly available financial information and its own trading record to rate its major customers.

The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The Group does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

NOTE 17: COMMITMENTS AND CONTINGENCIES

Property leases

The property leases are non-cancellable leases with either on a one-year term or a five-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require that minimum lease payments shall be increased by the change in the consumer price index (CPI). The leases allow for subletting of all lease areas.

IT service agreement

The IT service agreement is a non-cancellable 3-year agreement for a fixed amount.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	Consolidated	
	2019	2018
	$	$
Within one year	130,856	95,580
After one year but not more than five years	85,749	71,685
	216,605	167,265

Legal claim

HC Berlin Pharma AG - The Company entered into a settlement agreement with the Receiver of HC Berlin Pharma AG on 28 June 2018 for a settlement amount of €1,620,000 (approximately $2,570,000) payable in instalments up to 31 December 2021. Under the terms of the agreement, if the Company does not meet the payment for each instalment within 10 calendar days after the due date of the instalment date, then the total claim of €8,000,000 (approximately $12,960,000) plus interest

NOTE 17: COMMITMENTS AND CONTINGENCIES (CONTINUED)

and costs less amounts paid to date becomes due and payable. To reporting date, the Company has paid $1,271,711 in accordance with the settlement agreement.

NOTE 18: RELATED PARTY DISCLOSURE

The consolidated financial statements include the financial statements of SUDA Pharmaceuticals Limited and the subsidiaries listed in the following table.

	Country of incorporation	% Equity interest	
		2019	2018
Malaria Research Company Pty Ltd	Australia	100%	100%
Eastland CN Nominees Pty Ltd	Australia	100%	100%
Suda Europe Ltd	United Kingdom	100%	100%
SUD 18 Pty Ltd	Australia	100%	100%

SUDA Pharmaceuticals Limited is the ultimate Australian parent entity and ultimate parent of the Group.

Transactions with Key Management Personnel

Refer to Note 21 for details of transactions with key management personnel.

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms. Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash.

NOTE 19: PARENT ENTITY DISCLOSURES

Accounting policy

The financial information for the parent entity, SUDA, disclosed below has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the parent entity's financial statements. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

Share-based payments

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

Financial position

	2019	2018
	$	$
Assets		
Current assets	5,595,087	1,070,604
Non-current assets	8,286,540	6,860,708
Total assets	13,881,627	7,931,312
Liabilities		
Current liabilities	1,348,563	3,825,836
Non-current liabilities	927,262	1,342,171
Total liabilities	2,275,825	5,168,007
Equity		
Issued capital	67,385,981	57,204,713
Reserves: Share-based payments	899,117	772,574
Accumulated losses	(56,679,296)	(55,213,982)
Total equity	11,605,802	2,763,305

Statement of profit or loss and other comprehensive income

Total loss and total comprehensive loss	(1,465,314)	(6,630,478)

Guarantees

SUDA has not entered into any guarantees, in the current or previous financial year, in relation to the debts of its subsidiaries.

Contingent liabilities and commitments of the parent entity

For details on commitments, see note 17.

NOTE 20: EVENTS AFTER THE REPORTING PERIOD

On 23 September 2019, Mr Stephen Carter, Managing Director and CEO, resigned effective immediately. Mr Carter will provide consulting services to the company and assist in the transition to a new CEO. Mr Hopper will take the role as Executive Chairman on an interim basis.

Besides the event above there has been no additional matter or circumstance that has risen after balance date 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 in future financial periods.

NOTE 21: AUDITOR'S REMUNERATION (CONTINUED)

The auditor of SUDA is HLB Mann Judd.

	Consolidated	
	2019	2018
Auditor of the parent entity	$	$
Audit or review of the financial statements	56,000	56,000
Due diligence services	-	2,500
	56,000	58,500

NOTE 22: DIRECTORS AND EXECUTIVES DISCLOSURES

Details of Key Management Personnel

Directors

Paul Hopper	Non-Executive Chairman (appointed 15 May 2019, appointed Executive Chairman 23 September 2019)
Stephen Carter	Executive Director (resigned 23 September 2019)
David Phillips	Executive Director
David Simmonds	Non-Executive Director (appointed 27 March 2019)

Executives

Dr Carol Worth	Chief Technical Officer
Joseph Ohayon	Chief Financial Officer, Company Secretary
Andrew Curtis	VP, Business Development and Alliance Management (appointed 15 October 2018)
Nick Woolf	Chief Business Officer (resigned 24 July 2018 and effective 23 October 2018)

Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report.

NOTE 23: DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)

Other transactions and balances with Key Management Personnel

	Consolidated	
	2019	2018
	$	$
Key Management Personnel		
Mr Michael Stewart – consulting services	-	6,250
Mr Michael Stewart – interest on convertible notes	-	8,088
Mr Michael Stewart –finance fees on funding	-	35,784
Mr Michael Stewart –drawdown and repayment of finance facility	-	850,000
Mr Stephen Carter – interest on convertible notes	3,833	4,000
Mr Stephen Carter – interest on interim funding (note 2)	905	-
Mr Joseph Ohayon – interest on convertible notes	1,533	1,600
Mr Joseph Ohayon - interest on interim funding (note 2)	927	-
Mr David Phillips – consulting fees payable	10,000	14,000
Mr Andrew Curtis – consulting fees payable	32,866	-
Mr Nicholas Woolf – bonus	-	3,776
Mr Nicholas Woolf – interest on convertible notes	1,533	1,600
Balance on Convertible Notes		
Mr Michael Stewart	-	150,000
Mr Stephen Carter (note 1)	-	50,000
Mr Joseph Ohayon (note 1)	-	20,000
Mr Nicholas Wool (note 1)	-	20,000

Note 1: Convertible notes held by Stephen Carter, Joseph Ohayon and Nicholas Woolf were redeemed in July 2018 as outlined in the prospectus dated 29 June 2018.

Note 2: During the financial year, both Mr Carter and Mr Ohayon provided interim funding of $20,000 each to the Company which was repaid.

The aggregate compensation made to Directors and other key management personnel of the Group is set out below:

Short-term employee benefits	1,205,572	1,113,121
Share-based payments	44,092	11,280
Post-employment benefits	75,507	97,831
	1,325,171	1,222,232

DIRECTORS' DECLARATION

1. In the opinion of the directors of SUDA PHARMACEUTICALS Limited (the 'Company'):

    a. a. the accompanying financial statements and notes are in accordance with the Corporations Act 2001 including:

        i. giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the year then ended; and

        ii. complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements.

    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.

    c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2019.

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

Paul Hopper
Executive Chairman

Dated this 24 day of September 2019

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INDEPENDENT AUDITOR'S REPORT
To the members of Suda Pharmaceuticals Limited

Report on the Audit of the Financial Report

Qualified opinion

We have audited the financial report of Suda Pharmaceuticals Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, except for the effects of the matter described in the *Basis for qualified opinion paragraph*, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for qualified opinion

Included in the Group's intangible assets as at 30 June 2019 is the carrying value of ArTiMist of $5,338,148. The directors of the Company have advised us that, in their opinion, this is the recoverable amount of ArTiMist. We were unable to obtain sufficient appropriate audit evidence regarding the recoverable amount of ArTiMist, in order to form an opinion as to the recoverability of that asset. Consequently, we are unable to determine whether any further adjustment to the carrying value is necessary.

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for qualified opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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Key Audit Matter	How our audit addressed the key audit matter
Revenue from contracts with customers Refer to Note 2 of the financial report	
During the current year, the Group recognised significant revenue from contracts with customers in relation to licence and supply agreements and research and development projects. We have considered this to be a key audit matter as accounting for the transactions is important to the users understanding of the financial statements and required application of AASB 15 *Revenue from Contracts with Customers* from 1 July 2018.	Our procedures included but were not limited to the following: - We evaluated management's processes and key controls regarding revenue; - We ensured that recognition of revenue is consistent with the requirements of AASB 15; - We considered management's assessment of the status of the contracts with customers; and - We ensured that disclosures in the financial report were in accordance with AASB 15.
Carrying amount of intangible assets Refer to Note 10 of the financial report	
Included within the intangible assets balance of $10,290,825 at balance date are intangibles assets comprised of intellectual property acquired separately and internally generated intangibles for several projects with a carrying value of $4,952,677. The remaining balance of $5,338,148 is the subject of the qualification above. In accordance with AASB 138 *Intangible assets*, the Group capitalises acquisition costs of intellectual property acquired separately and accounts for costs incurred after recognition relating to the research phase by expensing such costs or capitalising the development phase costs when the recognition criteria contained in AASB 138 are satisfied. The balance of $4,952,677 includes the following: - an amount of $589,852 relating to an intangible asset which is not yet available for use. The evaluation of the recoverable amount of this asset is considered a key audit matter as it is based upon a value-in-use calculation which required significant judgement in verifying the key assumptions supporting the expected discounted future cash flows of that asset. - An amount of $4,362,825 relating to other projects which are available for use and which are being amortised. This amount is tested for impairment only if it is considered that there are impairment indicators present. This is considered to be a key audit matter because this asset represents a significant balance in the statement of financial position and the assessment of whether any impairment indicators existed involves considerable judgement.	Our procedures included but were not limited to the following: - We obtained an understanding of the key controls associated with the preparation of the models used to assess the recoverable amount of the intangibles; - We critically evaluating management's methodology in the value-in-use model and the basis for key assumptions such as discount rate; - We performed sensitivity analyses around the key inputs used in the cash flow forecasts that either individually or collectively would be required for assets to be impaired and considered the likelihood of such a movement in those key assumptions arising; - We reviewed the mathematical accuracy of the value-in-use model; - We compared the resulting value-in-use to the carrying value of the assets comprising the CGU; - We assessed the appropriateness of the disclosures included in the relevant notes to the financial report; and - We considered management's assessment of whether any impairment indicators existed.

HLB MANN JUDD
ADVISORY AND ACCOUNTING

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included within the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Suda Pharmaceuticals Limited for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

L Di Giallonardo

L Di Giallonardo
Partner

Perth, Western Australia
24 September 2019

ADDITIONAL SECURITIES EXCHANGE INFORMATION

The following information is current as at 6 September 2019:

1. Shareholding and Option holding

a. Distribution of Shareholders

Category (size of holding)	Number		
	Ordinary Shares	**Listed Options (SUDOC)**	**Listed Options (SUDOD)**
1 - 1,000	91	8	17
1,001 - 5,000	135	30	44
5,001 - 10,000	227	23	33
10,001 - 100,000	1,098	181	282
100,001 – and over	2,016	336	370
Total	3,567	578	746

b. The number of shareholdings held in less than marketable parcels is 1,883. The number of option-holdings held in less than marketable parcels is 363 (SUDOC) and 553 (SUDOD).

c. There were no substantial shareholders as at the reporting date.

d. Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares: Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Listed options: Listed options will only rank pari passu with existing Ordinary Shares on exercise of the Listed Options into Ordinary Shares.

e. 20 Largest Shareholders — Ordinary Shares

Rank	Name	Number of Ordinary Fully Paid Shares Held	% Held Of Issued Ordinary Capital
1	Kamala Holdings Pty Ltd	109,733,333	3.09
2	Mr Thomas McGellin + Ms Tanya Karal	57,885,764	1.63
3	Bamber Investments Pty Ltd	55,595,402	1.56
4	Scintilla Strategic Investments Limited	50,000,000	1.41
5	Mr James Richardson	43,920,088	1.24
6	Mr Steve Wicks	43,404,318	1.22
7	Mr Mark Duncan-Smith	41,383,430	1.16
8	J P Morgan Nominess Australia Limited	40,325,799	1.13
9	Ms Giovannia Gan	40,000,000	1.12
10	Mr Barry Lambert + Mrs Joy Lambert	40,000,000	1.12
11	Tadea Pty Ltd	36,166,667	1.01
12	Banlan Pty Ltd	35,503,292	1.00
13	Mr Peter Dunn	34,374,174	0.97
14	Somerset Corporation Pty Ltd	31,719,520	0.89
15	Weringa Nominees Pty Ltd	30,700,000	0.86
16	Onicas Investments Pty Ltd	30,000,000	0.84
17	Bill Brooks Pty Ltd	29,575,014	0.83
18	BNP Paribas Nominees Pty Ltd	28,174,813	0.79
19	Citicorp Nominees Pty Limited	28,022,309	0.79
20	Mr Brett Bussell + Mrs Jenelle Bussell	27,833,781	0.78

b. 20 Largest Option holders — SUDOC

Rank	Name	Number of Listed Options (SUDOC)	% Held Of Issued Listed Options (SUDOC)
1	Mr Russell Thomson	31,375,000	4.49
2	Mr Brett Bussell + Mrs Jenelle Bussell	30,178,826	4.32
3	Kamala Holdings Pty Ltd	28,650,000	4.10
4	Scintilla Strategic Investments Limited	25,000,000	3.58
5	Bamber Investments Pty Ltd	24,873,682	3.56
6	Ms Andgell Moffat	23,500,000	3.36
7	Mrs Margaret Paine	16,049,000	2.30
8	Mr Peter Paine	14,030,000	2.01
9	Mr Steve Wicks	13,239,841	1.89
10	Mr James Richardson	11,566,271	1.65
11	Mr Robert Bertolini + Mrs Sharon Bertolini + Mr John Bertolini	11,000,000	1.57
12	Mr Richard Parry	10,766,666	1.54
13	Mr Mark Duncan Smith	10,763,560	1.54
14	Foskin Pty Ltd	10,424,370	1.49
15	Wattlebrook Super Pty Ltd	10,000,000	1.43
16	Mrs Darah McQualter	10,000,000	1.43
17	Banlan Pty Ltd	10,000,000	1.43
18	Mr Russel Thomson	9,525,000	1.36
19	Mr Paul Wright	9,000,000	1.29
20	Mr Paul Taylor	8,216,668	1.18

c. 20 Largest Option holders — SUDOD

Rank	Name	Number of Listed Options (SUDOD)	% Held Of Issued Listed Options (SUDOD)
1	Gazump Resources Pty Ltd	33,900,000	6.55
2	Mr Barry Lambert + Mrs Joy Lambert	15,000,000	2.9
3	Kamala Holdings Pty Ltd	13,716,666	2.65
4	Scintilla Strategic Investments Limited	13,333,333	2.58
5	Rookharp Investments Pty Ltd	12,500,000	2.42
6	Zerrin Investments Pty Ltd	12,500,000	2.42
7	Chelsea Investments Pty Ltd	10,000,000	1.93
8	Termco Pty Ltd	10,000,000	1.93
9	Mr Ryan Rowe	10,000,000	1.93
10	CPS Capital No 3 Pty Ltd	9,000,000	1.74
11	Mr Thomas McGellin + Ms Tanya Karal	8,135,720	1.57
12	Mr Colin Joblin	7,982,711	1.54
13	Mt Mark Duncan-Smith	7,047,928	1.36
14	Mr James Bradley Richardson	6,250,001	1.21
15	Mrs Zi Juan Qi	6,250,000	1.21
16	Mr Barry John Wellby	6,250,000	1.21
17	Bamber Investments Pty Ltd	6,175,576	1.19
18	Mr John Bright	5,500,000	1.06
19	Comsec Nominees Pty Limited	5,333,333	1.03
20	Mr Robert Byrne + Mrs Michelle Bryne	5,333,332	1.03

2. The name of the company secretary is Joseph Ohayon.

ADDITIONAL SECURITIES EXCHANGE INFORMATION (CONTINUED)

The address of the principal registered office in Australia is Level 1, Unit 12, 55 Howe Street, Osborne Park, Western Australia 6017. Telephone (08) 6142 5555.

4. Registers of securities are held at the following addresses
   Advanced Share Registry: 110 Stirling Hwy, Nedlands, WA 6009

5. Stock Exchange Listing
   Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Securities Exchange Limited. The stock code is SUD.

6. Unquoted Securities
   10,000,000 unquoted options with an exercise price of $0.04 and 11,500,000 unquoted options under an ESOP with an exercise price of $0.024 at the reporting date. The Company has listed options. The stock codes are SUDOC and SUDOD.

7. Annual General Meeting
   The Annual General Meeting of the Company will be held at 10:30am (WST) on 12 November 2019 at The Perth Convention and Exhibition Centre, WA.

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SUDA
PHARMACEUTICALS LTD

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