

Alchemia

2015 Annual Report



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Letter from the Chair

This year was particularly challenging for Alchemia, as it saw the Phase III trial of HA-Irinotecan in metastatic colorectal cancer, the Company's lead asset, fail to meet its primary end point. The top-line trial result reported no significant difference between the control arm and the treatment arm of the study.

Upon learning of the top-line result of this trial in October last year, the Company immediately embarked on a strategic review of all of its assets and operations. This review included a detailed and thorough "for cause" analysis of the Phase III trial data, in order to understand the trial result and determine whether there was any residual value left in the HyACT technology which underpinned this trial. The analysis specifically focussed on the anomalous result observed in Russian patients, including the unprecedented performance of the control arm.

The for-cause data analysis of the Phase III trial did not provide a definitive explanation for the observed anomalous Russian patient results and, as such, Alchemia ceased the analysis and decided against pursuing discussions with the US Food and Drug Administration (FDA) concerning the outcome of the Phase III trial. As a result, the Company is no longer actively funding any further development of its oncology assets beyond its contractual commitments. Following the Phase III trial result and initial strategic review, the Company targeted the execution of a corporate transaction or partnership for HyACT. On 1 July 2015, Alchemia announced a conditional sale of its oncology subsidiary (Alchemia Oncology Pty Ltd) which owns the HyACT technology, to US biotechnology company, Panther Biotechnology Inc. (Panther). Subsequently, Panther defaulted on two of the material conditions precedent to the sale, and the transaction expired on 31 July 2015.

The strategic review prompted an immediate restructuring of the Company. The restructuring led to a significant reduction of employees and overheads, and consequently the operating cash burn of the Company fell significantly. In the latter part of this year, the Board was reduced from five to three directors, with the retirements of Santo Costa, Susan Kelley, and Tim Hughes, and the appointment of myself.

One of the many outcomes of the strategic review was the divestment of the VAST drug discovery technology, which was licensed to a private group of investors in July this year. The Company received an upfront payment as consideration, and an opportunity to earn downstream royalties on net revenues should the technology be successfully developed and commercialised.

Through-out the year, the Company continued to earn revenues from the sale of its generic anti-coagulant drug, fondaparinux, which is being manufactured and marketed by Dr. Reddy's Laboratories ("Dr. Reddy's", NYSE:RDY). Whilst these revenues continue to be a valuable source of cash for the company, the Company is experiencing a significant decline in these revenues in the current year versus the previous year as competition for anti-coagulants continues to increase in the US.

Fondaparinux has been the Company's lead asset for most of this year, and accordingly we have been focusing our efforts on securing and maximizing value of this asset going forward for our shareholders. Our efforts have included recent visits to Dr. Reddy's to perform due diligence on the profit share financials, their manufacturing processes and cost of goods sold. The Company has reviewed and sought advice on its contractual arrangements, and has explored opportunities for the sale and/or licensing of this asset to interested parties in an effort to maximise its market value. All of these activities were critical factors in determining the best path forward for this asset. On 25 September, Alchemia announced the sale of its worldwide intellectual property rights for fondaparinux to Dr. Reddy's for a cash payment of US\$17.5 million. The sale is subject to shareholder approval which will be sought at the Company's annual general meeting to be held on 10 November 2015.

At the end of the current financial year, Alchemia reported a sound financial position with net tangible assets of \$10.7 million, which equates to 3.3 cents per share. Net tangible assets includes cash reserves of \$5.2 million, and receivables of \$6.4 million due under the R&D Tax Incentive program and \$1.2 million for fondaparinux revenues for the quarter ended 30 June 2015. The Company is in the process of investigating returning its net assets, together with revenues earned from the pending sale of fondaparinux, to shareholders in the very near future.

On behalf of the board of directors, I sincerely thank our staff for their dedication and professionalism, and our shareholders for their long-term loyalty and support, throughout these extremely difficult and challenging times.



Ken Poutakidis
Chairman

Corporate Governance

Alchemia Limited is committed to adopting best practice governance policies and procedures such that shareholders' interests are best served. At a minimum we will ensure that all regulatory requirements are met and ethical standards maintained. Alchemia Limited considers and seeks to comply with all recommendations of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd Edition) (Principles and/or Recommendations) released in March 2014, to the extent it reasonably can. The Directors are responsible for the corporate governance practices of the Company.

This statement sets out the main corporate governance practices of the Company that the Directors, management and employees are required to follow. The layout of this report follows the Principles and Recommendations, as follows:

- Lay solid foundations for management and oversight (Principle 1)
 - Role of the Board of Directors
 - Board and executive appointments and re-elections
 - Diversity
 - Review of board and executive performance
- Structure the Board to add value (Principle 2)
 - Board composition
 - Board independence
 - Independent Chair
 - Nominations Committee
- Act ethically and responsibly (Principle 3)
 - Code of conduct
- Safeguard integrity in corporate reporting (Principle 4)
 - Audit and Risk Committee
 - Certifying financial reports
 - Audit governance
- Make timely and balanced disclosure (Principle 5)
 - Communicating with stakeholders
- Respect the rights of security holders (Principle 6)
 - Communicating with stakeholders
- Recognise and manage risk (Principle 7)
 - Risk management
 - Science and technology committee
- Remunerate fairly and responsibly (Principle 8)
 - Remuneration Committee

Comprehensive information about our current corporate governance policies can be found on the Company's website at www.alchemia.com.au

Role of the Board of Directors

The Alchemia Limited Board of Directors (the Board) is ultimately responsible for the success of the Company through setting its strategic goals, establishing resources and overseeing its management processes. Its aim is to create and deliver shareholder value by maximising the performance of our business.

The primary roles of the Board include:

- Formulate and establish the strategic direction of the Company and monitor its execution;
- Protect the interests of shareholders;
- Monitor and optimise business performance;
- Ensure that the Company has implemented adequate systems of internal controls together with appropriate monitoring of compliance activities;
- Appoint the Chief Executive Officer (CEO);
- Monitor performance of the CEO and senior Executives;
- Establish proper succession plans for management of the Company; and
- Approve external financial reporting by Alchemia Limited.

The division of responsibilities between the Board and management is set out in the Board Charter and in accordance with the approved framework of delegated authority to management. The executive team is responsible for ensuring that the Board is provided with quality, timely information to enable the Board to fulfil its responsibilities. A copy of the Board Charter is available on the Company's website.

The Company is compliant with Recommendation 1.1.

Board and Executive Appointments and Re-elections

Any director appointed to the board is interviewed by at least the Chair, and usually all other non-executive directors. Most director appointments are made with regard to external recommendations or feedback. All board appointments are subject to shareholder approval at the Company's annual general meeting as required by the Corporations Act 2001. The notice of meeting contains a detailed description of the director up for election/re-election, including their qualifications and skills and experience, in order for shareholders to be appropriately informed and vote on the appointment.

Every executive is employed under a formal contract for services. Details of these are contained within the Remuneration Report. Whilst Directors are not given a formal letter of appointment presently, each new director is given the opportunity to discuss the requirements of the board and the Company with each non-executive director prior to providing their consent to act as a director.

Corporate Governance (continued)

The Company Secretary is responsible for all governance matters, and reports directly to the Chair of the Board.

The Company is compliant with Recommendations 1.2 and 1.4 and partially compliant with Recommendation 1.3.

Diversity

Alchemia recognises that the talented and diverse workforce represents a key competitive advantage, and is committed to workplace diversity. Diversity includes, but is not limited to, gender, age, ethnicity and cultural background. The Board, in its commitment to diversity, has adopted a diversity policy in order to maximise the achievement of corporate goals. A copy of the diversity policy can be found on the Company's website at www.alchemia.com.au.

The company's key areas of focus in the context of diversity relate to women in leadership, age diversity and cultural diversity.

Prior to the announcement of the Phase III result on 27 October 2014, the Company had a fairly even proportion of males and females across all levels of the Company, as represented in the following table:

	Staff		Management		Board	
	F	M	F	M	F	M
	11	12	3	4	2	3
Total Staff:	23		7		5	
% Female:	47.8%		42.9%		40.0%	

Since the Phase III announcement, the number of employees and directors has significantly reduced as the Company downsized its operations, and the proportions at 30 June 2015 are as follows:

	Staff		Management		Board	
	F	M	F	M	F	M
	5	2	2*	0	1	3
Total Staff:	7		2		4	
% Female:	71.4%		100%		25%	

*The Executive Director position, held by a female, has been included in the Board numbers

The diversity policy and practices of the Company comply with Recommendation 1.5.

Review of Board and Executive Performance

The Board undertakes to regularly review its performance against appropriate measures. The review process involves a self-assessment requiring the completion and evaluation of detailed questionnaires on business and management matters. The results of this process are reviewed by the Board and used to establish new performance objectives.

There has not been a review of board performance for some time, and thereby the Company does not currently comply with Recommendation 1.6.

It is the Company's policy that a formal performance assessment is undertaken on all Executives, including the CEO, on an annual basis. The last review occurred in October 2014, and related to the year ended 30 June 2014. Since that time, six (including the CEO) out of seven members of the management team were either made redundant, were serving out notice periods, or had resigned during the year as a result of the Company downsizing its operations. Consequently, no formal performance assessments have occurred for the year ended 30 June 2015.

The Company complies with Recommendation 1.7.

Structure of the Board

Board Composition

In October 2014, the Company announced that its Phase III trial for HA-Irinotecan for metastatic colorectal cancer did not meet its primary end point. The Company immediately embarked upon a strategic review of all of its assets and operations. As a result of that review, the Company's operations have been significantly downsized, and certain assets were targeted for divesting. As a result of this, the board has been reduced from five to four members during the year. The Board was reduced further to the required minimum of three members on 10 July 2015.

The board composition, and changes to the board which occurred during the financial year ended 30 June 2015, are as follows:

- From 1 July 2014 to 10 June 2015 the Alchemia Limited Board was comprised of five Directors being S J Costa (Chair), N Drona, T Hughes, S Kelley and T Ramsdale;
- On 10 June 2015, S J Costa and S Kelley retired as directors, and T Hughes was elected as Chairman; and
- On 26 June 2015, K Poutakidis was appointed to the Alchemia Board as a Non-Executive Director.

Corporate Governance (continued)

Board Independence

Through-out the year, the board has been comprised of a majority of independent directors. Of the four board members at 30 June 2015, three (majority) are independent. In reaching this conclusion regarding director's independence, the Directors considered the following:

- T Ramsdale was appointed as Executive Director from 10 November 2014 until 30 June 2015, and consequently the directors do not consider her to be independent from 10 November 2014 onwards.
- In addition, T Ramsdale was a founder of the Company and has been a Board member since 2003. She was Chief Executive Officer of the Company until April 2007 at which time she resigned from that role to assume a non-executive directorship position with the Company. Notwithstanding this past association, the Board was satisfied that these prior positions did not affect her ability nor her willingness to operate independently as a director, which has been demonstrated through participation in robust and energetic board debate. Consequently, T Ramsdale was considered by the Board to be independent up until 10 November when she became an executive.

- K Poutakidis, N Drona, T Hughes, S Costa, and S Kelley do not have any previous association with the Company, nor do they hold material shareholdings in the Company, or any other relationships that are relevant to their independence. In addition, the length of service is less than five years. Accordingly, they are all considered independent.

The Board assesses director independence on an annual basis, or more often if it feels it is warranted, depending on disclosures made by individual Directors.

Director independence and length of service is detailed in the following table:

Details of each Director's skills and experience are set out in the Directors' Report.

Directors are subject to re-election by rotation at annual general meetings as stipulated in the Corporations Act, 2001 and the Company's constitution. There are no maximum terms for non-executive director appointments, however the length of tenure is considered when assessing director independence. Newly elected Directors must seek re-election at the first general meeting of shareholders following their appointment.

The structure of the board is compliant with Recommendations 2.3 and 2.4.

	Length of Service (to 30 June 2015)	1 July to 10 November 2014	10 November 2014 to 10 June 2015	10 June to 26 June 2015	26 June to 30 June 2015
K Poutakidis	< 1m	na	na	na	✓
N Drona	2y, 3m	✓	✓	✓	✓
T Ramsdale	12y	✓	✘	✘	✘
T Hughes	2y	✓	✓	✓	✓
S Costa	1y, 3m*	✓	✓	na	na
S Kelley	2y, 3m*	✓	✓	na	na
Total Independent		5 (100%)	4 (80%)	2 (67%)	3 (75%)
Total Non-Independent		(0%)	1 (20%)	1 (33%)	1 (25%)

Independent Chair

Both S Costa and T Hughes held the position of Chairman during the year, and are both considered by the Board to be independent. The Chairman runs the Board in such a manner as to facilitate the effective contribution of all Directors and promote constructive and respectful relations among the Board members and between Board and management. To ensure that the principles inherent in good Board practice are adhered to, the Chairman implements the following:

- Proper meeting procedure ensuring that all members of the Board are given a reasonable opportunity to put forward views and discuss issues in a constructive and robust environment. This ensures that effective communication and decision-making can be achieved.
- The requirement that detailed Board papers be prepared and distributed, ensuring that Board members are fully informed on relevant issues in a timely manner.

Corporate Governance (continued)

- The requirement that draft minutes of meetings be circulated within a reasonable period after each meeting. This ensures proper follow up and informed reporting of resolutions passed and issues discussed at Board meetings.
- If a potential conflict of interest arises, the Director concerned does not receive the relevant Board papers and leaves the Board meeting while the matter is being considered. Directors must advise the Board immediately of any interests that could potentially conflict with those of Alchemia.

The roles of Chairman and CEO (or equivalent) have been exercised by different individual's through-out the year, providing for clear division of responsibility at the head of the company. Their roles and responsibilities, and the division of responsibilities between them, are clearly understood and there is regular communication between them.

The structure of the board is compliant with Recommendation 2.5.

Board Inductions and Professional Development

The Company does not have a formal program for professional development of its directors, however every director is either actively involved in other Boards, including some within the same industry, or are actively consulting. This activity outside of the Company helps to ensure all directors are keeping up to date with topical issues, and that they develop and maintain the skills and knowledge needed to perform their role as directors effectively.

With the prior approval of the Chairman, each Director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as Directors.

To help Directors maintain their understanding of the business, to assess business performance, make informed decisions and discharge their duties effectively, the Board commits to ensuring the Directors have access to the information they need. Directors are briefed regularly by members of the Executive team. Directors also have access to other employees at all levels during inspections and in other meetings.

Directors receive comprehensive reports from management and have unrestricted access to company records and information. All Directors have direct access to the Company Secretary on all corporate governance matters.

The Company does not have a formal induction program for new directors. Rather, every new director is given the opportunity to meet with other non-executive directors individually.

The Company is partially compliant with Recommendation 2.6.

Board Committees

Alchemia's Board has established the following committees to assist in meeting its responsibilities:

- Nomination Committee;
- Remuneration Committee;
- Science & Technology Committee (until 5 June 2015); and
- Audit & Risk Committee.

These committees review matters on behalf of the Board and make recommendations for consideration by the entire Board. Copies of the charters of these committees can be accessed on the Company's website. Further details on the committees of the Board are outlined in this report.

Nomination Committee

The Nomination Committee comprises all members of the Board, the majority of whom are independent, and meets when necessary to consider and select candidates for the position of director. The Chair of the Nomination Committee is an independent director. The composition of the Nomination Committee, and details on the number of meetings, can be found in the Directors' Report. A copy of the Nomination Committee charter can be found on the Company's website.

The Nomination Committee structure and functions comply with Recommendation 2.1.

Board Skills Matrix

The Company does not maintain a formal matrix of Board skills and experience, however the diversity of experience, and assessment of any gaps in skills and experiences, are a key consideration for any appointment to the Board that is being contemplated. For the majority of the year, the Board was considerably diverse, with two females and three males, and skills across a variety of disciplines including pharmaceutical, biotechnology, medicine (oncology), clinical research organisations, investment banking, fund management, and law.

Whilst the Company does not formally comply with Recommendation 2.2, the intent behind this Recommendation is effectively complied with through practice.

Code of Conduct

The Board and management ensure that the business processes of Alchemia Limited are conducted with integrity and according to sound ethical principles. The Board has established formal codes of conduct in this regard for Directors, management and staff, copies of which are available on the Company's website.

The Company's code of conduct complies with the obligations in Recommendation 3.1.

Corporate Governance (continued)

Audit and Risk Committee

The Board has established an Audit and Risk Committee, which meets regularly throughout the year.

The Audit and Risk Committee comprised of three Directors during the current financial year ended 30 June 2015, as follows:

- T Hughes (Chairman until 9 July 2015);
- N Drona (appointed Chairman on 10 July 2015);
- T Ramsdale

Both T Hughes, and N Drona are considered to be independent and consequently the Committee was comprised of the majority of independent members. T Ramsdale held the position of Executive Director from 10 November 2014 to 30 June 2015, and consequently the Company did not comply with the recommendation that the Committee be comprised of solely non-executive directors, during this time frame only. In addition, T Hughes also occupied the position of Chair of the Board for one month, from 10 June to 9 July following the retirement of S Costa, and thus for a very short period the Company did not comply with the recommendation that the Committee be chaired by a board member who was not the chair of the board. On 10 July 2015, N Drona was appointed to Chair of the Committee and the Committee complied with all structural recommendations from that point onwards.

The members of the Audit and Risk Committee have significant financial and business backgrounds, expertise and qualifications. The full particulars of each member's relevant experience and qualifications, and attendance at meetings, are contained in this Annual Report. A copy of the charter of the Audit and Risk Committee can be found on the Company's website.

The appointment and review of existing audit arrangements is undertaken by the Audit and Risk Committee. The Audit and Risk Committee addresses issues surrounding the integrity of financial information presented to the Board and shareholders, including the review of audit engagements and controls.

The Audit and Risk Committee also reports to and advises the Board and makes recommendations in relation to policy and procedures, and the application of the principles of corporate governance. The committee addresses issues of proper corporate governance procedures and practices to ensure that the company maintains the highest integrity and best practice with respect to the Company's financial reporting.

The Audit and Risk Committee seeks to ensure the independence of the external auditor. It pre-approves any non-audit services to be performed by the audit firm. Such approval will not be given if the services might impair the auditor's judgement or independence.

The Company complies with Recommendation 4.1, except for a brief period with respect to its structure, as noted above.

Certifying Financial Reports

The Chief Executive Officer (CEO), or equivalent, and Chief Financial Officer (CFO) certify in respect of the half yearly financial results and the full yearly financial results that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and results and are in accordance with relevant accounting standards. The CEO and CFO are also required to confirm that this certification is founded on a sound system of risk management and internal control and that the Company's risk management and internal compliance systems have been operating efficiently and effectively during the whole financial year.

For the year ended 30 June 2015, these certifications were made by the Executive Director and Chief Financial Officer.

The Company complies with Recommendation 4.2.

Audit Governance

The Company's external audit services are provided by Ernst & Young. The Partner responsible for the audit was re-appointed in 2012. Under the terms of the engagement, the Partner will be required to rotate off the audit five years following appointment (that is, 2017). Reports prepared by the external auditor are submitted to the Audit and Risk Committee. It is the policy of the external auditor to provide an annual declaration of their independence to the Audit and Risk Committee.

The relationship with the external auditor is covered in the Audit and Risk Committee charter, which is available on our website.

The external audit partner in charge of the Alchemia Limited audit attends the annual general meeting of the Company and is available to answer shareholder questions relating to audit and accounting matters.

The Company complies with Recommendation 4.3.

Communicating with Stakeholders

The Board is committed to keeping shareholders and other legitimate stakeholders accurately informed in a timely manner of material developments that affect the Company. The Company has adopted a formal disclosure policy and adopts comprehensive procedures on continuous and periodic disclosure to ensure compliance with the ASX Listing Rules and Corporations Act obligations. A copy of the Company's disclosure policy can also be found on the Company's website.

Corporate Governance (continued)

All Company announcements, financial reports, presentations to analysts and other significant briefings are approved by the Board prior to release to the ASX, and are posted on the company's website. The Company Secretary is responsible for communications with the ASX. In addition, shareholders may elect to receive corporate communications electronically, via our share registrar.

By placing all relevant information on the Company's website, Alchemia Limited aims to enable broad access to Company information for all stakeholders and to facilitate shareholder participation at general meetings of the Company.

The Company's policies and procedures comply with Recommendations 5.1, 6.1, 6.2, 6.3 and 6.4.

Risk Management

Audit & Risk Committee

The Board's oversight of risk management is conducted through the Audit & Risk Committee. The Committee was chaired by an independent director, and had at least three members – the majority of which were independent, at all times during the current financial year. Further details on the Committee structure can be found under the heading Audit & Risk Committee earlier in this report. A copy of the Committee's charter can be found on the Company's website.

The Company's Audit & Risk Committee complies with Recommendation 7.1.

Approach to risk management

The Board, together with the Audit and Risk Committee, is responsible for satisfying itself that the Company's risk management systems are effective and, in particular, for ensuring that:

1. Strategic, operational and financial risks are identified;
2. Effective systems are in place to monitor and manage risks; and
3. Reporting systems, internal controls and arrangements for monitoring compliance with laws and regulations are adequate.

1. Risk identification

Management is required by the Board to carry out risk assessments of all specific management activities including strategic risk, operational risk, reporting risk, compliance and regulatory risk and funding risk. The effectiveness of the Company's efforts are benchmarked by management in accordance with Australian / New Zealand Standard for Risk Management (AS/NZS 4360 Risk Management) and the Committee of Sponsoring Organisations of the Treadway

Commission (COSO) risk framework and the Company's benchmark performance is reported to the Board.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which encompasses the Company's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk; and
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of KPIs of both a financial and non financial nature.

2. Effective systems to monitor and manage risks

In addition to maintaining appropriate insurance and other risk management measures, the Board has taken the following steps to address identified risks:

- Established policies and procedures in relation to treasury operations including the use of derivatives;
- Adopted standards and procedures in relation to health and safety matters;
- Implemented policies and procedures in relation to the protection of the Company's intellectual property; and
- Issued procedures requiring that significant capital and revenue expenditure is approved at an appropriate level of management or by the Board.

Identified risks are monitored by regular reports to the Board and, where appropriate, by management presentations to the Board and to the Audit Committee during the year. The Board determines the Company's risk profile and is ultimately responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. This oversight function is performed by the Audit and Risk Committee and its findings are reported to, reviewed and discussed by the Board. The Audit and Risk Committee has historically overseen an annual assessment of the effectiveness of risk management and internal compliance and control.

3. Risk reporting and internal control effectiveness

The tasks of undertaking and assessing risk management and internal control effectiveness are delegated by the Audit and Risk Committee to management through the CEO (or equivalent) and the CFO, including responsibility for the day to day design and implementation of the Company's risk management and internal control system. Management then reports to the Board on the Company's key risks and the extent to which it believes these risks are being managed and adequate systems are in place.

The Company's approach to risk management complies with Recommendations 7.1 and 7.3.

Corporate Governance (continued)

Risk management for the current financial year

During the current financial year, the Company embarked upon a comprehensive strategic review of all of its assets and operations following the announcement of the negative result of the Phase III trial for HA-Irinotecan. The risk of clinical trial failure was previously identified as a material risk to the Company's business. As part of its strategic review, the Board and management identified and assessed risks associated with potential available courses of action that were being considered. The assessment of these risks formed a critical part of the Company's decisions that were undertaken as a result of this strategic review.

The risk review complies with Recommendations 7.2.

For the purposes of assisting investors to understand better the nature of the risks faced by Alchemia Limited going forward, the Board has prepared a list of operational risks as part of these Principle 7 disclosures. However, the Board notes that this does not necessarily represent an exhaustive list and that it may be subject to change based on underlying market events:

- Change in market demand for fondaparinux which may affect future revenues;
- Fluctuations in interest rates and exchange rates, particularly the US dollar;
- Force majeure events by significant suppliers such as Dr Reddy's;
- Increasing costs of operations eg. compliance costs; and
- Molecule or clinical trial development delay or failure as it relates to out-licensed technologies (eg. VAST).

The Board does not consider the Company has any material exposure to environmental and social sustainability risks.

This risk assessment complies with Recommendation 7.4.

Science and Technology Committee

The Board had established a Scientific & Technology Committee (STC) which met when necessary to assist the Board to monitor and where appropriate, to advise the Board on the scientific strategies of the Group. This committee was disbanded on 5 June 2015 as the Group is no longer engaging in any scientific development. Up until then, the STC was comprised of two Directors, both of whom have significant pharmaceutical and biotechnology expertise and qualifications, as follows:

- S Kelley (Chairman); and
- T Ramsdale.

Remuneration Committee

The Board has established a Remuneration Committee, the objective of which is to meet at least two times per year. The Remuneration Committee undertakes the procedure for setting the Company's remuneration policies and establishing and reviewing remuneration for senior Executives and Non-Executive members of the Board.

The Remuneration Committee comprised the following Directors during the financial year ended 30 June 2015:

- S Costa - Chairman (10 November 2014 to 10 June 2015)
- T Ramsdale - Chairman (1 July 2014 to 10 November 2014)
- N Drona
- T Hughes
- S Kelley (until 10 June 2015)

The Remuneration Committee has an independent Chairman, and is made up of a majority of independent directors (all are independent with the exception of T Ramsdale). The Board is currently in the process of electing a new Chair upon the retirement of S Costa on 10 June 2015. Attendance at meetings during the year is set out in the Directors' Report. A copy of the Remuneration Committee charter can be found on the Company's website.

The Remuneration Committee complies with Recommendation 8.1.

Particulars concerning Directors' and Executives' remuneration and the Company's Employee and Officers' Share Option Plan are set out in the Directors' Report and in the notes to the financial statements.

The Company complies with Recommendation 8.2.

The Company has a share trading policy which is compliant with ASX Listing Rule 12.12. That policy prohibits staff from entering into hedging mechanisms or derivative instruments relating to any securities of the Company. A copy of the share trading policy can be found on the Company's website.

In addition, the Employee Share Option Plan specifies that an option holder may not, except with the approval of the Board of Directors (in its absolute discretion and which only will be exercised in exceptional circumstances), sell, transfer, assign, give or otherwise dispose of, in equity or in law, the benefit of the Options.

The Company complies with Recommendation 8.3.



Board of Directors and Company Secretary

Ken Poutakidis

Non-Executive Chairman (appointed to the Board 26 June 2015, and as Chairman 9 July 2015)

Ken Poutakidis was appointed to the Board of Alchemia as a non-executive director on 26 June 2015, and appointed as Chairman on 9 July 2015. Mr Poutakidis is currently a principal of Dinimus Capital, an advisory firm offering investment services to emerging industrial companies. Mr Poutakidis has over 15 years of experience spanning Corporate Finance and Management Consultancy across Australia and Asia. His expertise lies in capital raising, mergers & acquisitions, corporate advisory, asset divestment and strategy development. He also has sector expertise in healthcare, industrials, engineering and financial services. Prior to joining Dinimus, Mr Poutakidis worked at leading equities firms. He has successfully established and operated his own consultancy firm and held senior roles at major corporations across a range of sectors.

Ken is a member of Alchemia's Nominations Committee, Audit & Risk Committee, and the Remuneration Committee.

Nathan Drona

Non-Executive Director

Nathan Drona serves on the Board of Alchemia following a fifteen year career in international investment banking, most recently as Managing Director of Challiss in New York and Sydney. Nathan is experienced in corporate finance and has executed more than 25 global banking and M&A engagements in biotech related fields, leading to the award of the "Pharmaceutical Buy-Side M&A Advisor of the Year" by Frost & Sullivan in 2005. Nathan is currently a non-executive Director of Phosphagenics Limited (ASX: POH) and has been a board member of other public and private companies in Australia and North America. He holds a Master of Business Administration (Finance) from the University of Victoria, British Columbia.

Nathan is the chairman of Alchemia's Nominations Committee and the Audit & Risk Committee, and a member of the Remuneration Committee. Nathan previously served as Alchemia's interim Chairman from July 2013 to February 2014.

Tracie Ramsdale, PhD

Non-Executive Director

Tracie Ramsdale is one of the founders of Alchemia and led the Company's development as its General Manager and Chief Executive Officer from 1998 to 2007. Tracie joined the Alchemia Board in July 2003. During her tenure as CEO, Tracie led the development of fondaparinux and Alchemia's drug discovery technology. Prior to establishing Alchemia, Tracie was a Principal Investigator and Commercial Manager of the Centre for Drug Design and Development at the University of Queensland. Tracie is an adjunct Professor at the School of Chemical and Molecular Biosciences, University of Queensland, a member of the Australian Federal Government Advisory Council on Intellectual Property, and a Fellow of the Australian Academy of Technological Sciences and Engineering. Tracie holds a PhD in Biochemistry from the University of Queensland, a Master of Pharmacy from the Victorian College of Pharmacy and a Bachelor of Applied Science (Chemistry) from the Royal Melbourne Institute of Technology. She currently provides independent consulting advice to the biotechnology industry, academia and government.

Tracie is a member of Alchemia's Remuneration Committee, Audit & Risk Committee and the Nominations Committee.

Board of Directors and Company Secretary

Timothy Hughes, B.Sc. (Hons) B.A.(Hons) M.Nat.Res.

Non-Executive Director & Chairman (retired 8 July 2015)

Tim Hughes joined the Board of Alchemia in July 2013 and has over thirty years' experience in investment banking, funds management and as an institutional investor. His most recent roles were as Investment Counsel at NGS Super and as a commentator on economics and finance for a News Corporation paper. He previously spent thirteen years as a senior executive at Rothschilds where he was a board director and executive committee member. He has a strong track record in business development and strategic thinking and brings a substantial investor focus to the board.

Tim was appointed Chairman of the Board on 10 June 2015 following the retirement of Santo Costa. Prior to that, he was a non-executive director. Tim was also the chairman of Alchemia's Audit & Risk Committee and a member of the Remuneration Committee and the Nominations Committee up until he retired from the Board on 8 July 2015.

Santo Costa

Non-Executive Chairman (retired 10 June 2015)

Sandy Costa has been appointed as non-executive Chairman of Alchemia Ltd effective as of 1 March 2014. Over a 30 year period, Sandy held top executive positions across the life sciences industry including President and Chief Operating Officer of Quintiles Transnational Corporation where he oversaw the successful integration of numerous acquisitions as the company became the worldwide leader in providing services to the pharmaceutical and biotechnology industries. Under his leadership, the company's employee base increased from approximately 1,000 to 20,000. Sandy also held the position of Senior Vice President, Administration and General Counsel of Glaxo, Inc., where he sat on the company's Board of Directors and Executive Committee. Sandy is currently Of Counsel to the law firm Smith, Anderson, Blount, Dorsett, Mitchell & Jernigan in Raleigh, North Carolina. Sandy holds a B.S. in Pharmacy and a J.D. both from St. John's University, New York, and is a member of the North Carolina Bar, the New York Bar and the Ohio Bar.

Sandy was Chairman of Alchemia's Remuneration Committee and a member of the Nominations Committee and an ex officio member of the Audit & Risk Committee up until he retired from the Board on 10 June 2015.

Susan Kelley, MD

Non-Executive Director (retired 10 June 2015)

Susan served on the Board of Audeo Oncology through 2012 and has also served on the Board of Directors of ArQule, Inc. since April 2011. From 2001 to 2008, Susan was employed by Bayer Healthcare Pharmaceuticals and Bayer-Schering Pharma in Germany and the United States. Susan fulfilled the role of Vice President, Global Strategic Drug Development, Cancer and Metabolics from April 2001 to May 2002 and from May 2002 until June 2008 as Vice President, Global Clinical Development and Therapeutic Area Head-Oncology. From July 2008 to March 2011, Susan was Chief Medical Officer of the Multiple Myeloma Research Foundation/Consortium. Most recently, Susan has been an independent consultant to the pharmaceutical and biotechnology industries in the field of oncology drug development and strategy.

Susan was the chairman of Alchemia's Science & Technology Committee until 5 June 2015 when this committee was disbanded. Susan was also a member of the Remuneration Committee and Nominations Committee up until she retired from the Board on 10 June 2015.

Board of Directors and Company Secretary

Stephen Denaro CA

Company Secretary

Mr Stephen Denaro was appointed in February 2011 and has extensive experience in mergers and acquisitions, business valuations, accountancy services, and income tax compliance gained from positions as Company Secretary and Chief Financial Officer of various public companies, and with major chartered accountancy firms in Australia and the United Kingdom. He provides board and company secretarial services for a number of start-up technology and public companies.

Stephen has a Bachelor of Business in Accountancy, Graduate Diploma in Applied Corporate Governance, and is a member of the Institute of Chartered Accountants in Australia, and the Australian Institute of Company Directors.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

Your directors submit their report for the year ended 30 June 2015.

Directors

The names of Alchemia Limited's (Alchemia) directors in office during the financial year and until the date of this Report are as follows. Directors were in office for this entire period unless otherwise stated.

K Poutakidis – Chairman from 9 July 2015 (Appointed to the Board 26 June 2015)

N Drona

T Ramsdale

T Hughes – Chairman 10 June 2015 to 8 July 2015 (Retired from the Board 8 July 2015)

S Costa – Chairman to 10 June 2015 (Retired from the Board 10 June 2015)

S Kelley (Retired from the Board 10 June 2015)

Directors' qualifications, experience, special responsibilities and period in office are set out on pages 12–14 of this Annual Report.

Directors' relevant interest in Alchemia securities

As at the date of this report, the interests of the directors in the shares and options of Alchemia Limited were:

Director	Ordinary Shares No.	Options No.
K Poutakidis	–	–
T Ramsdale	1,303,819	191,000
N Drona	–	191,000

Secretary

Stephen Denaro

The Secretary's qualifications and experience are set out on pages 84–86 of this Annual Report.

Dividends

Alchemia Limited did not declare or pay any dividends during the financial year (2014: nil).

Principal activities

Alchemia Limited, established in 1995, is a biotechnology company developing new human therapeutics based on its proprietary drug discovery and synthesis technologies. During the current reporting period, the Company announced that its pivotal Phase III clinical trial of HA-Irinotecan in metastatic colorectal cancer (mCRC) failed to reach its primary endpoint of statistically significant improvement in Progression Free Survival (PFS) and also did not meet its secondary endpoint of an improvement in overall-survival (OS). Since the announcement of the above top line results, the Company has undertaken a strategic review of all of its assets and operations and provided an update to shareholders on 29 January 2015 and 10 June 2015. This report should be read in conjunction with those announcements. As a result of the strategic review, the Company's principal activities are likely to change going forward.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

Operating and Financial Review

The operating and financial review section of the directors' report is outlined in the following sections:

- Financial position
- Operating results for the year
- Review of operations

The Directors' comments form an integral part of this Directors' Report.

Financial Position

The Group ended the 2015 financial year with net current assets (current assets less current liabilities) of \$10.7 million, with an additional \$34k of contractual commitments not yet recognised.

Current assets includes cash, cash equivalents and short term cash deposits of \$5.1 million, receivables of \$8.1 million, and prepaid expenditure of \$0.6 million. The receivables balances is comprised of \$6.4 million expected to be received under the Australian R&D Tax Incentive Program, \$1.5 million of profit share income for the quarter ended 30 June 2015 to be received from Dr Reddy's, and \$0.2 million of other income. Offsetting the current assets of \$13.8 million, are current liabilities of \$3.1 million which includes \$0.8 million of payables to creditors and the Australian Taxation Office, and provisions of \$2.3 million to close out remaining contractual commitments. In addition, the Group has \$0.8 million of non-current assets comprising of deferred tax assets and property, plant and equipment.

The net tangible assets of \$11.5 million at 30 June 2015 ensures the Group is in a sound financial position, which will be further strengthened by receipt of any fondaparinux revenues going forward. The cash burn of the Group in FY 2016 is expected to be significantly reduced from FY 2015 given the VAST technology has been divested and the Group is no longer funding any development of its oncology assets. In addition, the Group has made significant resource and cost reductions in its corporate area.

Operating results for the year

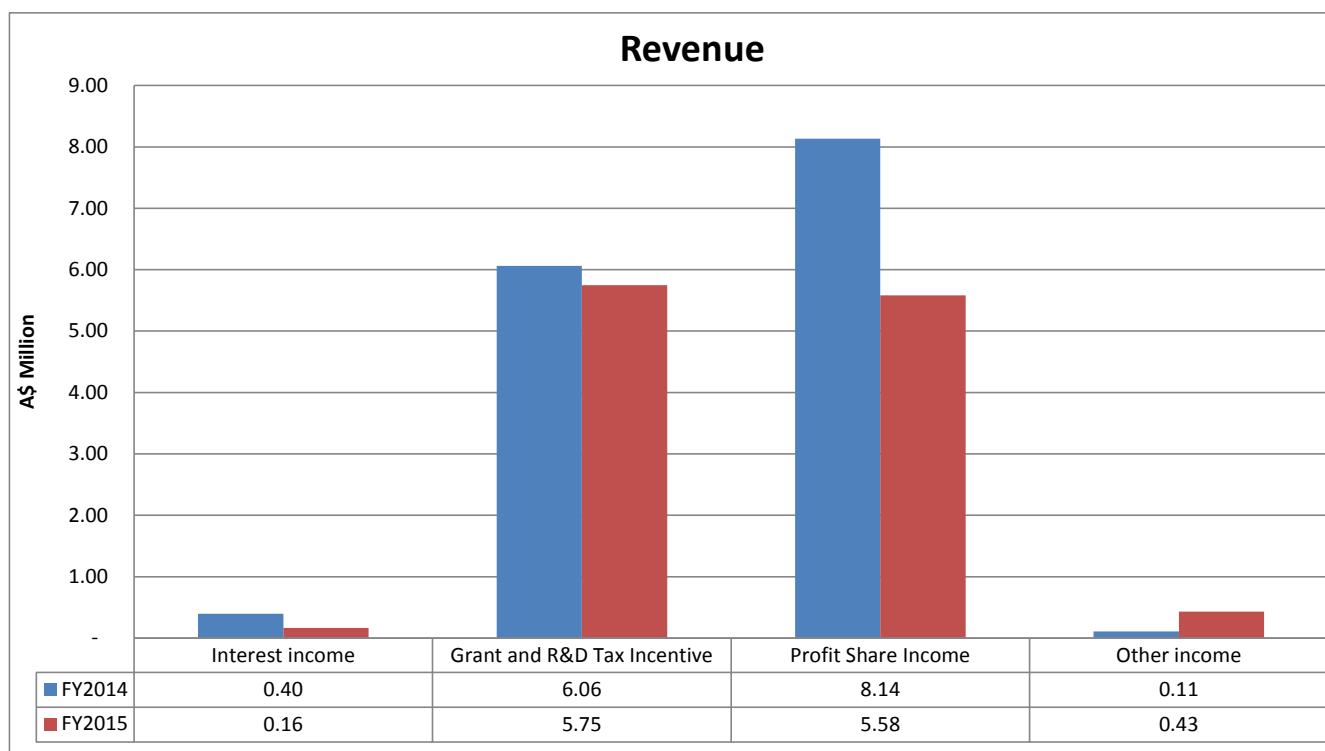
The Group reported a net loss of \$15.8 million for the 2015 financial year, an increase of \$8.9 million from its \$6.9 million loss in 2014. The net loss for the year includes impairment charges of \$12.7 million (2014: nil).

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

Revenue from continuing operations

Total revenue for the year was \$11.9 million, a decrease of \$2.8 million from the previous period (2014: \$14.7 million). The decrease in income was predominantly driven by a decrease of \$2.6m in profit share income from Dr Reddy's. The graph below provides information on categories of revenue for the current and previous financial years:

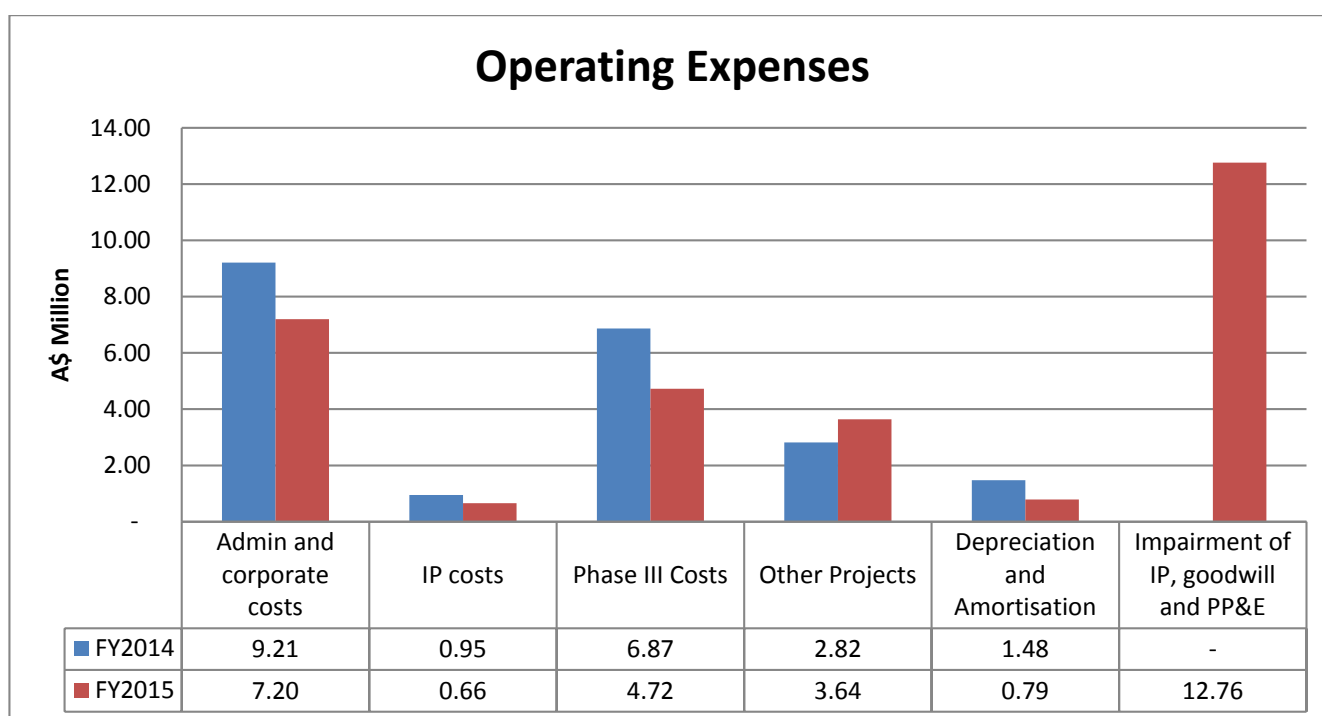


Operating expenses from continuing operations

Operating expenditure for the year was \$29.8 million, an increase of \$8.5 million over the corresponding period (2014: \$21.3 million). This increase in expenditure was mainly due to the impairment charge of \$12.7 million for the intangible assets associated with the HyACT technology which were fully impaired during the current financial year. Offsetting this impairment charge were reductions in Phase III costs of \$2.1 million and administration and corporate expenses of \$2.0 million, the latter as a result of our cost cutting program implementation following the Phase III trial result in October 2014. The graph below provides information on categories of operating expenses for the current and previous financial years:

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015



Cash and cash-flow

The consolidated cash, cash equivalents and short term deposits balances of the Group as at 30 June 2015 were \$5.1 million and have decreased by \$6.0 million since the previous corresponding period (2014: \$11.1 million).

Net cash outflows from operating activities in 2015 totalled \$6.2 million, an increase of \$4.6 million from the previous year (2014: \$1.6 million). The increase in net operating cash outflows was mainly due to a decrease in receipts from the fondaparinux profit share of \$4.1 million, grants and research and development incentives of \$2.6 million, and bank interest received of \$0.2 million. Partially offsetting this decrease in receipts, were reductions in cash payments for operational expenditures of \$2.3 million.

Review of operations

Alchemia has seen many changes to its operations, management and board in the last financial year as a result of the strategic review undertaken following the failed Phase III trial for HA-Irinotecan in metastatic colorectal cancer which occurred in October 2014. These changes are outlined in this report under the following sections:

- Generic fondaparinux
- HyACT® technology
- VAST™ drug discovery
- Focal Adhesion Kinase (FAK) inhibitors

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

Generic fondaparinux

Product information

Fondaparinux is a synthetic pentasaccharide containing the carbohydrate sequence within heparin which is thought to form the high affinity binding site for the anti-coagulant factor antithrombin III (ATIII). Fondaparinux is an indirect factor Xa inhibitor. Like the heparins, it mediates its effects indirectly through antithrombin III, but unlike the heparins, it is selective for factor Xa and hence is referred to as an indirect Factor Xa inhibitor. It is the only agent in this class currently on the market.

The fondaparinux product is an injectable anticoagulant drug used in the prevention and treatment of deep vein thrombosis (DVT) and pulmonary embolism (PE); it is mainly used in a hospital setting after major surgery such as knee and hip replacements.

The branded version of the drug, Arixtra, was launched in the US in 2003 by Sanofi, a year after the patent on the drug expired. The branded drug was protected by a further five year data exclusivity in the US. Following the merger of Sanofi with Aventis in 2004, the drug was sold to GlaxoSmithKline (GSK) which, like its predecessor, continued to invest heavily in clinical development of the drug.

Alchemia developed a proprietary manufacturing process for fondaparinux which it licensed to Dr. Reddy's Laboratories (Dr. Reddy's) in 2007. Under its agreement with Dr. Reddy's, Alchemia is entitled to receive 50% of the net profits from US sales of fondaparinux arising from Dr. Reddy's marketing of the product. In March 2009, following the expiry of the branded drug's data exclusivity period, Dr. Reddy's filed an Abbreviated New Drug Application (ANDA) for the approval of fondaparinux manufactured using Alchemia's proprietary process. This application was approved in July 2011 and sale of our drug in the US market commenced soon after.

Fondaparinux financial performance

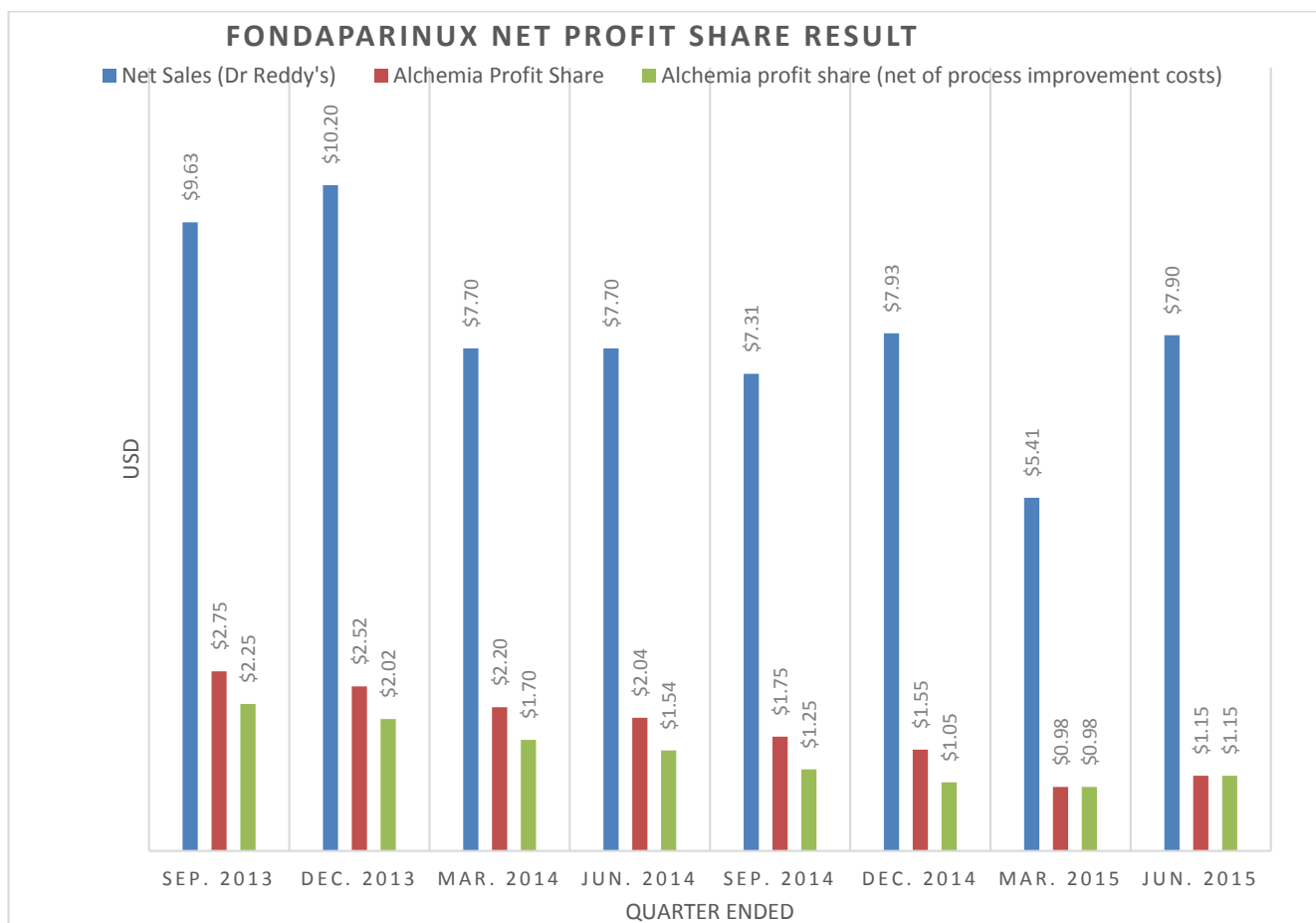
This year Alchemia received a share of net profit from the sale of fondaparinux by its marketing partner, Dr. Reddy's Laboratories (Dr. Reddy's) of US\$4.4 million (2014: US\$7.5 million). This net profit is after allowing for contractual contributions to process improvement costs of US\$1.0 million (2014: US\$2.0 million). The contractual contributions for process improvements ceased on 31 December 2014.

Included in the fondaparinux revenue for the year is an amount of US\$1.15 million for the June quarter profit share. This amount is comprised of the June quarter draft net profit share result of US\$1.64 million, less a deduction of \$0.49 million for a prior year sales return claim (US\$0.22 million) and a provision adjustment for potential future sales returns (US\$0.27 million). The provision adjustment of \$0.27 million has been made as a result of Dr. Reddy's advising that an additional provision of US\$1.1m is required to cover potential future sales returns, which they are proposing to recoup over four quarters commencing with the quarter ended 30 June 2015. Whilst the Company has deducted this amount for the purposes of finalising the financial result for the year ended 30 June 2015, the Company is currently disputing the methodology used by Dr Reddy's to estimate the sales return provision, and accordingly the proposed additional charge. The outcome of this dispute is unknown at this time.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

The table below outlines the total net sales for fondaparinux by Dr. Reddy's in the US, and the associated share of net profits received by Alchemia for the last two financial years:



Competitive landscape

The competitive landscape for fondaparinux changed when GSK launched an Authorized Generic (AG) of fondaparinux through Canadian generics company, Apotex, in August 2011, shortly after Dr. Reddy's ANDA was approved. An "authorised generic" is a product from a brand drug marketer (in this case GSK) which under US law, is authorised for sale through an "authorised" generic player (ie. Apotex). Authorised generics do not need approval through the ANDA route as the product has already been approved for marketing.

Since then, there have been a further two corporate transactions for GSK's fondaparinux. In July 2013, GSK sold its rights to the Arixtra brand and its Authorised Generic to Aspen Pharmacare (Aspen) – a large listed pharmaceutical company in South Africa. In September 2014, Aspen sold its US rights to fondaparinux (brand and AG) to Mylan, a US pharmaceutical company. Today, Mylan is selling both the generic and brand of fondaparinux through-out the US.

In addition to injectable fondaparinux, there are many other products that are approved for use in prevention and treatment of deep vein thrombosis (DVT) and pulmonary embolism (PE). Competing products include enoxaparin (an injectable low molecular weight heparin) marketed and sold under trade names which include Lovenox, Xaparin and Clexane. Enoxaparin is also being sold as a generic drug by Sandoz, Amphastar, and most recently Teva

Directors' Report

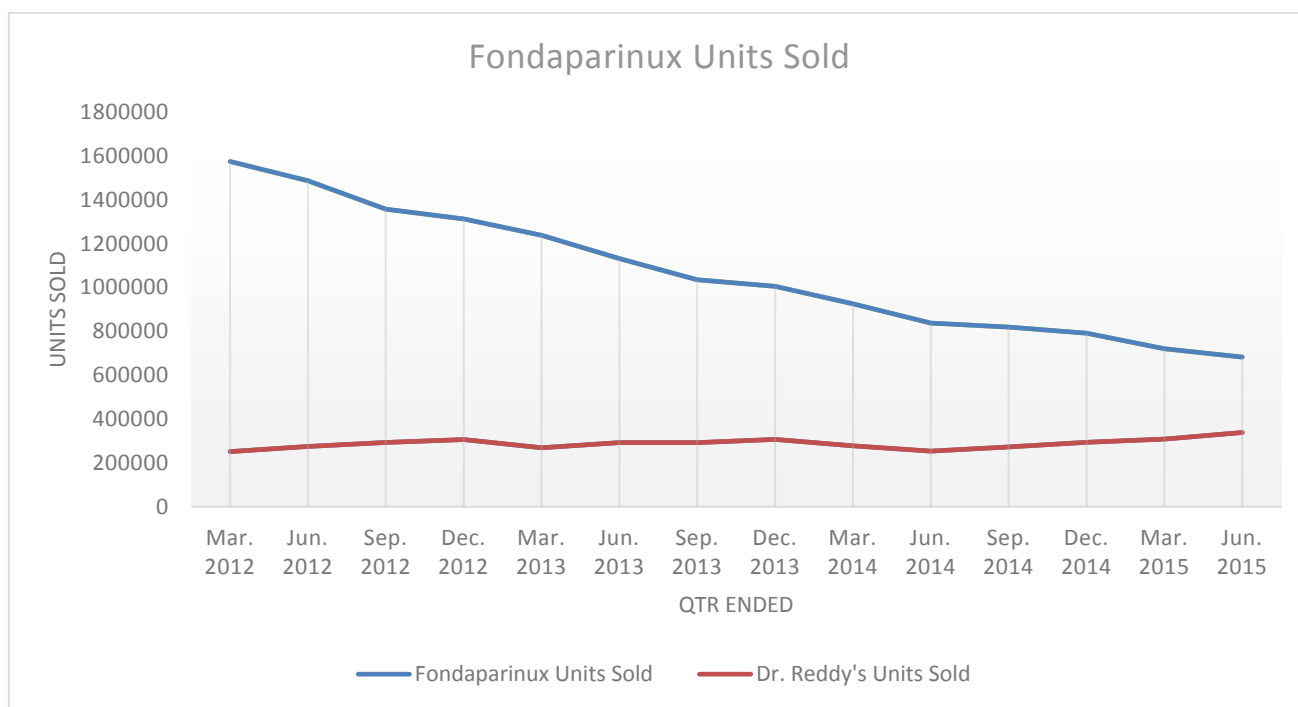
FOR THE YEAR ENDED 30 JUNE 2015

Pharmaceuticals. Competing products also include the new generation oral anticoagulant drugs, which are typically more expensive than fondaparinux however oral medication is often a form of drug delivery preferred by patients.

As highlighted in our strategic review on 29 January 2015, it should be noted that future revenues from fondaparinux are increasingly uncertain. The market for injectable anticoagulants is going through a period of substantial change and there is greater competition from novel oral drugs and the potential emergence of new entrants in the injectable market with another generic manufacturer having filed with the FDA for approval. As noted above, Mylan has recently purchased the US rights for the original drug and its authorised generic. It is still too early to predict what impact this latter factor might have on the dynamics in the US market, but Alchemia is monitoring these emerging market influences carefully with our commercial partner, Dr Reddy's.

Fondaparinux sales volume

The table below shows total fondaparinux units sold, together with Dr. Reddy's units sold, over the last three years:



Source: IMS

This graph illustrates the downwards sales trend fondaparinux is experiencing due to increased competition from enoxaparin and oral anticoagulants by way of example.

Despite the downwards trend of fondaparinux, Dr. Reddy's sales volumes have been increasing over the last financial year.

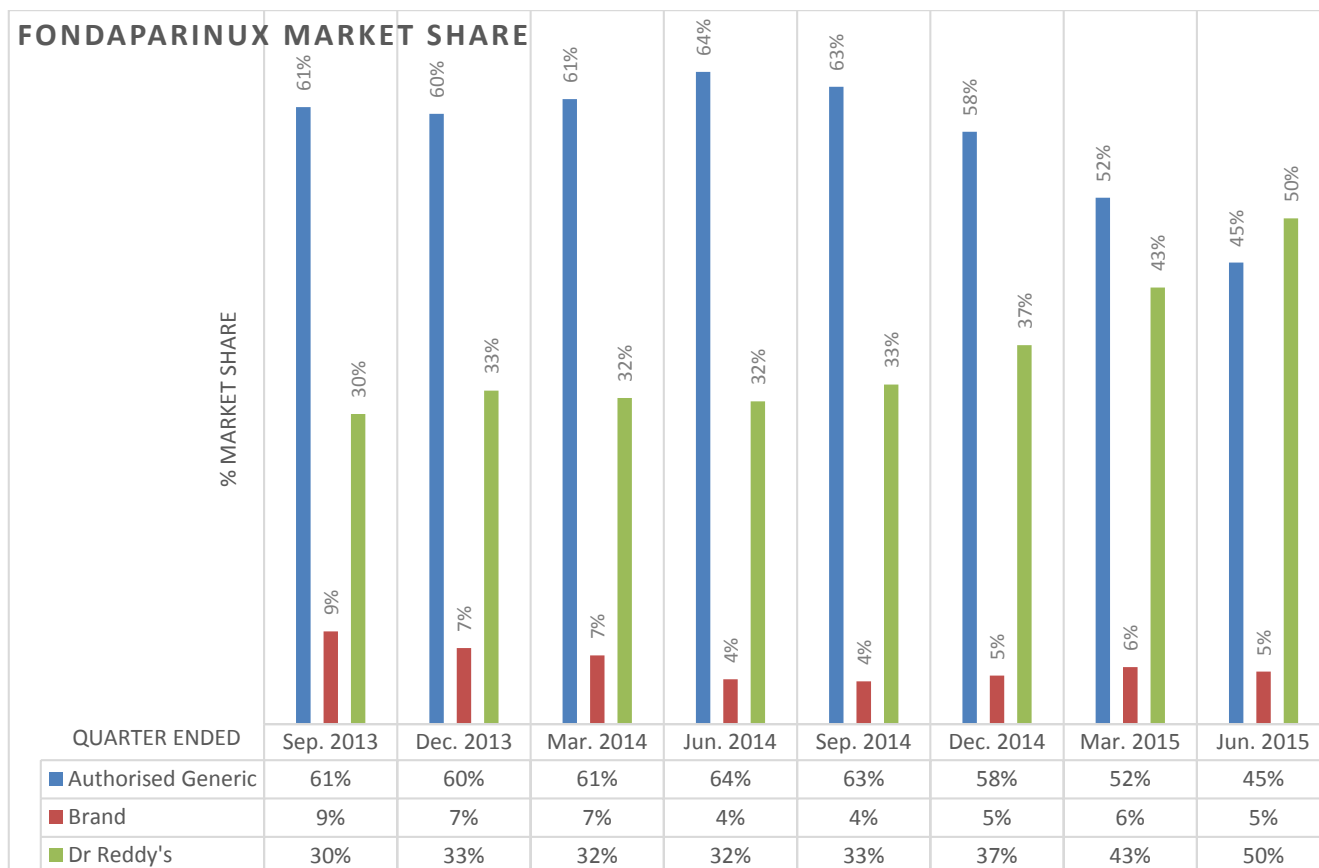
Fondaparinux market share

As of the quarter ending June 30 2015, Dr Reddy's has achieved a total market share of fondaparinux sales of 50% by volume (30 June 2014: 30%) (Source: IMS).

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

Following is a summary of total market share by volume, achieved by the Dr Reddy's in the US compared to sales of the brand and the authorised generic, both of which are now being marketed and sold by Mylan:



Data Source – IMS

Fondaparinux non-US

Dr Reddy's has rights to commercialise the product for other territories outside of the US which is subject to a separate licensing agreement with Alchemia. The largest non-US market is Europe, representing approximately 30% of worldwide fondaparinux sales, although pricing is expected to be significantly lower than in the US.

Dr Reddy's has also begun selling fondaparinux in India and Canada, however these territories are yet to return a profit. Commercialization of fondaparinux will principally focus on markets where Arixtra is already selling and where Alchemia's fondaparinux can be sold as a generic competitor.

HyACT® Technology

HyACT partnering or trade sale

As announced to the market in January 2015, following the Phase III trial result and initial strategic review, the Company targeted the execution of a corporate transaction or partnership for HyACT. On 1 July 2015, Alchemia announced a conditional sale of its oncology subsidiary (Alchemia Oncology Pty Ltd) which owns the HyACT technology, to US biotechnology company, Panther Biotechnology Inc. (Panther). This transaction was subject to a number of material conditions being met prior to completion.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

As at the date of this report, Panther has defaulted on two material conditions, namely the payment of operational expenses in the amount of USD150k, and the filing of its prospectus (Form-S1) with the US Securities and Exchange Commission (SEC) prior to the conclusion of the initial 30 day exclusivity period. Consequently, this transaction expired on 31 July 2015. The Group is currently pursuing outstanding amounts owed to it by Panther as a result of this termination.

Refer to note 28 "subsequent events after balance date" for further information on this transaction.

HA-Irinotecan Phase III Trial for mCRC

Phase III: top-line result

In October 2014, Alchemia announced that its lead clinical candidate HA-Irinotecan (HyACT-targeted Irinotecan), did not meet its primary endpoint of a statistically significant improvement in progression-free-survival (PFS) in the Phase III trial for the treatment of metastatic colorectal cancer (mCRC). Also, the trial did not meet its secondary endpoint of an improvement in overall-survival (OS). The results for the FOLF(HA)IRI arm were virtually identical to those of the control arm. However, for both endpoints the control arm (FOLFIRI) performed significantly better than has been observed in any previously reported clinical trial. The table below illustrates the top-line results of the Phase III trial:

Median PFS and OS (months)*		
ALL (n=415)	Independent Review of PFS (351 events)	Overall-survival (OS) (276 events)
FOLF(HA)IRI (n=207)	5.5 months (95% CI: 4.2, 5.9) (175e, 29c)	14.3 months (95% CI: 12.4, 16.8) (130e, 77c)
FOLFIRI (n=208)	5.5 months (95% CI: 4.3, 6.7) (176e, 31c)	14.4 months (95% CI: 12.4, 15.7) (146e, 62c)
Difference	0.0 months	-0.1 months
p-value	0.785	0.408
Hazard Ratio	0.97 (95% CI: 0.78, 1.20)	0.90 (95% CI: 0.71, 1.15)

**CRO generated data*
Key: e=event; c= censored CI = confidence interval

Phase III: post-hoc exploratory subset analyses

Since the announcement of the above top line results, Alchemia has further analysed the data in an attempt to determine potential reasons why the control arm on this study out-performed the historical clinical experience with this drug regimen. The purpose of these post-hoc analyses was to increase the Company's understanding of factors that may have contributed to the out-performance of the FOLFIRI control arm compared to historical experience and to determine whether there is still enough of a signal for proof-of-concept to warrant ongoing investment in additional clinical development of HA-I.

As announced in the January shareholder update, the trial outcome appeared to have been adversely impacted by some particularly anomalous data for patients treated in some of the clinical centers in Russia. With Russian patients accounting for around 40% of the total trial population, the Russian data had a major impact upon the overall trial outcome.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

Further analysis has highlighted that factors contributing to the outcome of the Phase III trial were not entirely restricted to Russia, and that other Eastern European sites collectively contributed to the unprecedented PFS and OS periods observed in Alchemia's pivotal study. The unexpected strong performance of the FOLFIRI control arm has been driven by a number of factors, in some instances acting as a sole contributing factor, and in a large majority of cases all of the below parameters collectively contributed to the outcome:

- Patients who had received one prior line of adjuvant therapy were randomised to the study which means they were not ideally representative of the required 2nd and 3rd line patients for which the trial protocol was designed. The inclusion of these patients did not technically contradict the protocol, but rather was determined by the judgement of the clinical trial investigators which often varies across different geographic territories.
- Eastern European patients did not receive the quantity or type of prior therapy that is typically used in Australia or Western European countries, therefore the tumours could have been sensitive to chemotherapy which can result in extended periods of PFS and OS.

The extensive subset analyses has highlighted some critical findings demonstrating that patients with tumours expressing high levels of CD44 had a clinically significant increase in both PFS and OS when treated with HA-Irinotecan versus the formulation of irinotecan currently used in the clinic. These data provide clinical proof-of-concept that the HyACT technology targets CD44. In addition there was strong evidence indicating that HA-Irinotecan was able to reduce tumour re-growth (prolong survival periods) and provide clinically significant increases in overall survival in patients who had tumours containing high levels of cancer stem cell markers. In addition, when treated with Alchemia's HA-Irinotecan, late stage, advanced colorectal cancer patients had significant increases in overall survival compared to patients on the control arm. All of these observations highlight that HA-Irinotecan and potentially other HyACT drugs could provide superior clinical outcomes to advanced cancer patients.

Phase III: trial close-out activities

As at the date of this report, all patients have completed therapy, and all clinical monitoring activities have ceased, including patient follow up for overall survival. To date, 85% of the clinical trial sites have been closed, and all sites are planned to be closed by 30 September 2015. All drug product supply and testing activities have ceased and associated contracts have been terminated. All outstanding contractual commitments for the modification and preparation of plant and equipment for product manufacturing were paid during the current financial year.

HA-Irinotecan for Small Cell Lung Cancer

This investigator-led Phase II clinical trial of HA-Irinotecan is being conducted in first- and second-line extensive small cell lung cancer (SCLC) and is investigating the safety and efficacy benefits of HA-Irinotecan/carboplatin compared with irinotecan/carboplatin.

As at the date of this report, 38 patients (out of 40) have been enrolled and preliminary experience suggests that HA-Irinotecan in combination with carboplatin is well-tolerated with clinical activity demonstrated in both first- and second-line SCLC patients. Preliminary biomarker investigations indicate that patients with CD44 positive tumours have superior response rates and demonstrate a longer time to tumour progression.

Alchemia has continued to provide modest support for this trial, largely through the supply of drug product, as this clinical trial activity can be viewed as providing further support regarding a potentially unique mechanism of action for the HyACT platform in ongoing partnering discussions. The investigators on the SCLC study have informed Alchemia that they intend to recruit the remaining 2 (5%) patients in calendar 2015, and publish the

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

study results in an oncology journal during calendar 2016. This publication could provide the first-in-man data demonstrating the specificity of the HyACT technology for CD44 positive tumours.

CHIME trial

HA-Irinotecan was also being tested in an investigator sponsored, Phase II trial, in combination with Merck Serono's leading therapeutic antibody, Erbitux® (cetuximab) in second-line mCRC patients ("CHIME" trial).

The CHIME trial was placed on hold following the announcement of our Phase III study results, with five patients enrolled at that time. The Company has now finalised discussions with the study investigator who has agreed that the trial will be suspended (no further recruitment of patients) until the conclusion of the ongoing acquisition discussions regarding Alchemia Oncology Pty Ltd.

HyACT Technology Information

HyACT is a platform technology that uses the non-toxic and naturally occurring carbohydrate, hyaluronic acid (HA) as a drug delivery vehicle for a wide range of currently approved anti-cancer therapeutics. When a chemotherapeutic drug or therapeutic antibody is formulated with HyACT, the proprietary formulation accumulates in the tumour microenvironment and promotes uptake of the drug into the tumour cells through a receptor targeted active internalisation mechanism. HyACT drugs bind to the activated HA receptor known as CD44 which initiates the rapid and increased internalisation of the HyACT anti-cancer drug, ultimately resulting in an improved anti-cancer activity. Because CD44 is highly expressed on a wide variety of cancer types, HyACT drugs have a broad potential. Importantly, the activated form of CD44 that binds HyACT drugs is not generally found in healthy tissue which means that the HyACT drugs are preferentially taken up by tumours instead of healthy organs. Another highly pertinent fact is that CD44 over-expression is often associated with more aggressive, metastatic tumours and it also acts as a marker for treatment-resistant cancer stem cells.

"Cancer stem cells," sometimes referred to as tumour-initiating cells, is a term used to describe a small subset of cells within the tumour that, although not actual stem cells, demonstrate some stem cell-like characteristics and are thought to be able to contribute to the growth of new tumours. The cancer stem cell population within a tumour is generally more resistant to chemotherapies, and their persistence after therapy is thought to be one of the key reasons for disease progression and treatment failure. We believe, based on preclinical evaluations of several HyACT drugs, that the CD44 receptor-based mechanism used by HyACT may also occur in these cancer stem cells, which in turn may mean that we can target the cancer stem cells with HyACT drugs and improve the effectiveness of currently used chemotherapeutics. This may also overcome treatment resistance within cancer which would ultimately provide a survival benefit to cancer patients.

VAST™ Drug Discovery

As part of the Company's strategic review, it was decided that the VAST technology asset would be divested. On 3 July 2015, Alchemia announced it had executed a deed of assignment to assign its VAST drug discovery technology (VAST) to VAST Biosciences Pty Ltd (VAST Biosciences). VAST Biosciences is a new private company funded by a group of high net worth investors for the purpose of developing and commercialising the VAST intellectual property going forward.

The VAST technology has enabled the world's first systematic road map towards developing drugs with high 3D complexity with improved selectivity and safety. Drugs developed with more 3D complexity deliver superior target selectivity and safety but are typically found serendipitously, and are therefore a rare event. VAST describes a proprietary chemistry platform that allows access to unique 3D molecular shapes, to a Diversity Scanning Array (DSA) of 14,000 3D probes, and to a suite of proprietary chemistries that provides unprecedented ability to

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

optimise these 3D VAST molecules towards into 3D drugs. The VAST technology is the subject of collaborative research partnerships with Astra Zeneca and two leading Australian research institutions, Institute of Molecular Bioscience, and Monash Institute of Pharmaceutical Sciences, for the discovery of new drug candidates against valuable therapeutic targets.

Focal Adhesion Kinase (FAK) Inhibitors

During this financial year, Alchemia has ceased all development activities for FAK and consequently the rights to this technology have been returned to Cancer Research UK.

FAK is a non-receptor tyrosine kinase which plays an important role in the development and spread of numerous malignancies and has therefore emerged as a promising target in cancer therapy. Inhibition of FAK has the potential to provide numerous therapeutic benefits to cancer patients by disrupting tumour development and metastasis, while overcoming chemo-resistance to a broad variety of currently used cytotoxic drugs.

Outlook

The 2016 financial year will see the Group focussing on maximising the value of fondaparinux revenue through its partner Dr. Reddy's. All available options of maximising the value of fondaparinux will be explored, including initiatives with Dr. Reddy's, contract review and renegotiation and/or monetising the asset.

As announced to shareholders previously, it is still a priority to return any excess profits to shareholders in the form of dividends or a capital distribution in the coming financial year.

Risk factors

Our business operates in the biotechnology industry and is subject to numerous risks and uncertainties. A risk assessment process is undertaken on a regular basis and provided to the Board when a specific risk event occurs. The risk assessment process considers both the likelihood of a risk occurring and the impact that the risk would have on the business should it occur. Where the rating assigned to a specific risk warrants it, action plans are established to mitigate both the likely occurrence of the risk and its potential impact on the business. Below is a discussion of the principal risks and uncertainties which director's consider to be material to the business in that they may have a significant effect on the financial condition, results of operations and/or reputation:

- dependency on the profits from the sale of fondaparinux to fund ongoing operating activities and any potential payment of dividends to shareholders;
- the receipt of the R&D Tax Incentive claimed in respect of the FY2015 tax year is a material item to our financial position and is subject to approval by AusInsudtry which has not yet occurred;

Significant events occurring after balance date

On 1 July 2015, the Group publicly announced it had executed a binding term sheet for the conditional sale of 100% of the outstanding share capital of its subsidiary – Alchemia Oncology Pty Limited (Alchemia Oncology) to a US biotechnology company – Panther Biotechnology Inc. (OTC PINK: PBYA) (Panther). Alchemia Oncology owns all of Alchemia's oncology assets, including the HyACT technology. The completion of this sale is subject to the satisfaction of several material conditions. On 3 August 2015, the Group publicly announced that Panther had failed to file its prospectus (Form-S1) by the end of the initial 30-day exclusivity period and therefore the binding term sheet had expired. The Group is currently pursuing outstanding amounts owed to it by Panther as a result of this termination.

On 3 July 2015, the Group publicly announced it had executed a deed of assignment to assign its VAST drug discovery technology (VAST) to VAST Biosciences Pty Ltd (VAST Biosciences). VAST Biosciences is a new private company funded by a group of high net worth investors for the purpose of developing and commercialising the

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

VAST intellectual property going forward. Refer note 28 to the financial statements for further information on these transactions. The Directors are not aware of any significant change in the state of affairs of the Group after the balance date that is not covered in this report.

Likely developments

The Group will continue to focus on maximising value from its lead asset, fondaparinux. This includes exploring opportunities to sell the asset, and maximising its revenues from the profit share agreement it has with its marketing partner, Dr Reddy's. The Group has discontinued development of its oncology assets, and will focus on divesting this asset.

Corporate structure

Alchemia Limited is a company limited by shares listed on ASX that is incorporated and domiciled in Australia. Alchemia Limited has prepared a consolidated financial report incorporating its direct 100% owned subsidiary Audeo Oncology, Inc. (incorporated and domiciled in USA) and its indirect 100% owned subsidiaries AOL, Audeo Discovery Pty Ltd and Alchemia Oncology Europe Pty Ltd.

Environmental regulations and performance

Alchemia's activities are subject to licences and regulations under environmental laws that apply in the jurisdiction of its operations. These licences specify limits for and regulate the management of discharges to stormwater run-off associated with the Company's activities, as well as the storage of hazardous materials. There has been no significant breach of the licence conditions or other environmental regulations.

Alchemia has in place an integrated environmental health and safety management system, which includes regular monitoring, auditing and reporting within the Company. The system is designed to continually improve Alchemia's performance and systems with training, regular review, improvement plans and corrective action as priorities.

Share Options

Details of options granted to key management personnel and exercised during the year are set out in the Remuneration Report section.

Insurance and indemnification of Directors and Officers

During the financial year, Alchemia paid premiums for insurance policies insuring any past, present or future Director, Secretary, Executive Officer of Alchemia against certain liabilities. In accordance with common commercial practice, the insurance policies prohibit disclosure of the nature of the insurance cover and the amount of the premiums.

Under the Alchemia constitution, every officer of Alchemia is indemnified (to the maximum extent permitted by law) out of the property of Alchemia against:

- 1) A liability to another person (other than Alchemia or a related corporate body) unless the liability arises out of conduct involving a lack of good faith;
- 2) liability for costs and expenses incurred by the person:
 - i) In defending proceedings, whether civil or criminal, in which judgement is given in favour of the person or in which the person is acquitted;
 - ii) In connection with an application in relation to such proceedings in which the courts grant relief to the person under relevant legislation.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the end of the financial year.

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 are as follows:

	Board		Committee					
	Held	Attended	Audit & Risk		Remuneration		Nominations	
			Held	Attended	Held	Attended	Held	Attended
S Costa ¹	39	38	5	1*	1	1	1	1
T Ramsdale	47	47	5	5	1	1	1	1
N Drona	47	46	5	5	1	1	1	1
S Kelley ²	39	37	2*	2	1	1	1	1
T Hughes	47	46	5	5	1	1	1	1
K Poutakidis ³	2	2	0	0	0	0	0	0

¹ Santo Costa retired on 10 June 2015

³ Ken Poutakidis appointed on 26 June 2015

² Susan Kelley retired on 10 June 2015

*Attended by invitation

Committee Membership

As at the date of this Report, the Company had an Audit & Risk Committee, Nomination Committee, Remuneration Committee and a Science & Technology Committee.

Members acting on the committees of the Board during the year were:

	Audit & Risk	Remuneration	Nomination	Science & Technology ¹
S Costa ²		✓	✓	
T Ramsdale	✓	✓(c) ⁴	✓	✓
N Drona	✓	✓	✓(c)	
S Kelley ²		✓	✓	✓(c)
T Hughes	✓(c) ³	✓	✓	

(c) Designates the chairman of the committee.

³ N Drona replaced T Hughes as Chair of the Audit & Risk Committee after the end of the financial year, on 9 July 2015.

¹ The Science and Technology Committee was disbanded on 5 June 2015.

⁴ Sandy Costa appointed as Chair of Remuneration Committee whilst Tracie Ramsdale held the position of Executive Director from 10 November 2014 to 30 June 2015

² S Costa and S Kelley resigned from the Board and all committees on 10 June 2015.

Tax Consolidation

The Company has not formed a tax consolidated group at 30 June 2015.

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available to the company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

Non-Audit Services

The following non-audit services were provided by the entity's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. Ernst & Young did not provide any non-audit services during FY2015 (2014: nil).

Remuneration Report (Audited)

This Remuneration Report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report, key management personnel (KMP) are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

Details of key management personnel (KMP) during the current year:

Directors

K Poutakidis	Chairman (Non-Executive) – appointed 9 July 2015; Director (Non-Executive) – appointed 26 June 2015
T Ramsdale	Director (Non-Executive); Executive Director – 10 November 2014 to 30 June 2015
N Drona	Director (Non-Executive)
T Hughes	Chairman (Non-Executive) – appointed 10 June 2015, retired 8 July 2015; Director (Non-Executive) – appointed 15 July 2013;
S Costa	Chairman (Non-Executive) – appointed 1 March 2014, retired 10 June 2015
S Kelley	Director (Non-Executive) – retired 10 June 2015

Executives

J Pilcher	Chief Financial Officer (appointed 1 September 2014)
T Brown	Chief Scientific Officer and Vice President – Oncology
W Meutermans	Vice President – Discovery (ceased 5 July 2015)
M West	Vice President – Intellectual Property and Technology Transfer (ceased 17 June 2015)
G Schepers	Vice President – Business Development (ceased 31 December 2014)
I Ahamed	Group Financial Controller (ceased being a KMP from 1 September 2014)
T Liquard	Chief Executive Officer (24 February 2014 to 10 November 2014)

Since the reporting date, Mr Ken Poutakidis replaced Tim Hughes as Chairman, who retired from the Board on 8 July 2015. In addition, Wim Meutermans ceased employment with the Group on 5 July 2015. There were no other changes in directors or KMP after the reporting date and before the date the financial report was authorised for issue.

Remuneration Committee

The Remuneration Committee of the board of directors of the Company is responsible for determining and reviewing remuneration arrangements for the directors and executives. The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality, high performing director and executive team.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

Remuneration policy

The Remuneration Committee is responsible for the remuneration strategies and initiatives and recommends the nature and amount of remuneration of directors, executives and employees in line with the principles articulated in the Alchemia remuneration policy.

The key principles are:

- Pay competitive salaries to recruit and retain staff with the right skills and experience;
- Reward individuals on the basis of performance so that higher levels of performance attract higher rewards;
- Align rewards of management to those of shareholders; and
- Manage and link the overall cost of remuneration to the ability of the company to pay.

Remuneration structure

The remuneration structure is in two parts:

- Fixed remuneration comprises base salary, superannuation and other minor benefits provided by the company; and
- Variable remuneration comprises incentives provided as both cash and equity.

Alchemia aims to set fixed remuneration at market levels for positions of comparable responsibility in both industry and academia, based on a formal job evaluation process. This fixed remuneration is supplemented by providing incentives (variable remuneration) to enable top performers to achieve further remuneration based on company performance, team performance and demonstrated individual superior performance.

The key features of incentives to executives & employees are tabled below and depend upon the role and responsibilities of the participant (Level 4 being most senior):

Staff Level	Bonus Entitlement (% of salary)	Bonus "Split"		Hurdles
		Cash	Shares	
Level 1	10%	50%	50%	<ul style="list-style-type: none">• 50% subject to positive TSR & comparator group;• 25% on achievement of operational objectives and team work;• 25% on achievement of conduct of duties above and beyond expectations.
Level 2	15%	33.3%	66.6%	
Level 3	20%	33.3%	66.6%	
Level 4	30%	20%	80%	

These performance measures were chosen as they represent the key drivers for the short-term success of the business and provide a framework for delivering long-term value.

Performance measure to determining vesting

Relative Total Shareholder Return (TSR) was selected as the Long Term Incentive (LTI) performance measure for the following reasons:

- TSR ensures an alignment between comparative shareholder return and reward for executives
- The relative measure minimises the effects of market cycles

Overall, the objective is to align incentives with performance by imposing weighted criteria on the employees' Bonus Entitlement, including:

- 25% of the Bonus Entitlement is payable on achievement of operational objectives and team key performance indicators (KPIs);
- 25% of the Bonus Entitlement is payable on achievement of conduct of duties above and beyond expectations;

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

- No bonus is payable regardless of the Company's TSR, if all team and individual KPIs are not met; and
- 50% of the Bonus Entitlement is payable if the TSR for the Company is positive and the Company achieves a TSR in the previous 12 months equal to at least the median of a Comparator Group of pre-agreed ASX listed biotech companies. Depending on the comparative performance, the award of shares may be nil, partial or fully allocated, as shown below:

Alchemia Limited TSR vs. comparator group	% Bonus Entitlement
< below median	0% of max entitlement
> above median	50% of max entitlement
3 rd quartile pro rata	50–100% of max entitlement (2% per % point above 3 rd quartile %)
4 th quartile	100% of max entitlement

The comparator companies for determination of the TSR are:

- Acrux Limited
- Avexa Limited
- Bionomics Limited
- Neuren Pharmaceuticals Limited
- Pharmaxis Limited
- Phosphagenics Limited
- Prana Biotechnology Limited
- Prima Biomed Limited
- Progen Pharmaceuticals Limited
- Starpharma Holdings Limited

The peer group chosen for comparison is the ASX pharmaceutical constituents at the start of the performance period. This peer group was chosen as it reflects the Group's competitors for capital and talent. For the year ended 30 June 2015, Alchemia had the lowest return of its peer group and therefore the bonus entitlement for the TSR portion based on the above methodology was nil.

The Board determines the composition of this peer group on an annual basis to ensure an appropriate mix of companies.

Incentives awarded

For the year ended 30 June 2015, there were no short term incentives paid to any of the key management personnel, due to the Company's lead asset HA-Irinotecan, failing to meet its primary end point in the Phase III clinical trial as reported in October 2014.

In addition to the above formal entitlements under the executive and employee incentive schemes, the Board may also allocate options under the Officers and Employees Share Option Scheme to executives. For the year 30 June 2015 1,000,000 options were granted as sign-on options (2014: 1,303,000). The Company has no plans to issue further options to executives and employees at the date of this report.

Relating rewards to performance

Alchemia Limited has operated as a listed public company since December 2003.

The following table indicates Alchemia Limited's performance and its relationship to executive remuneration. The Company is a development stage company which has not yet achieved profitability. Accordingly the most appropriate measure of companywide performance is considered to be Total Shareholder Return (TSR) and as the Company has not paid dividends TSR represents entirely capital appreciation of the Company's ordinary shares. For the year ended 30 June 2015, the TSR was -92.7%.

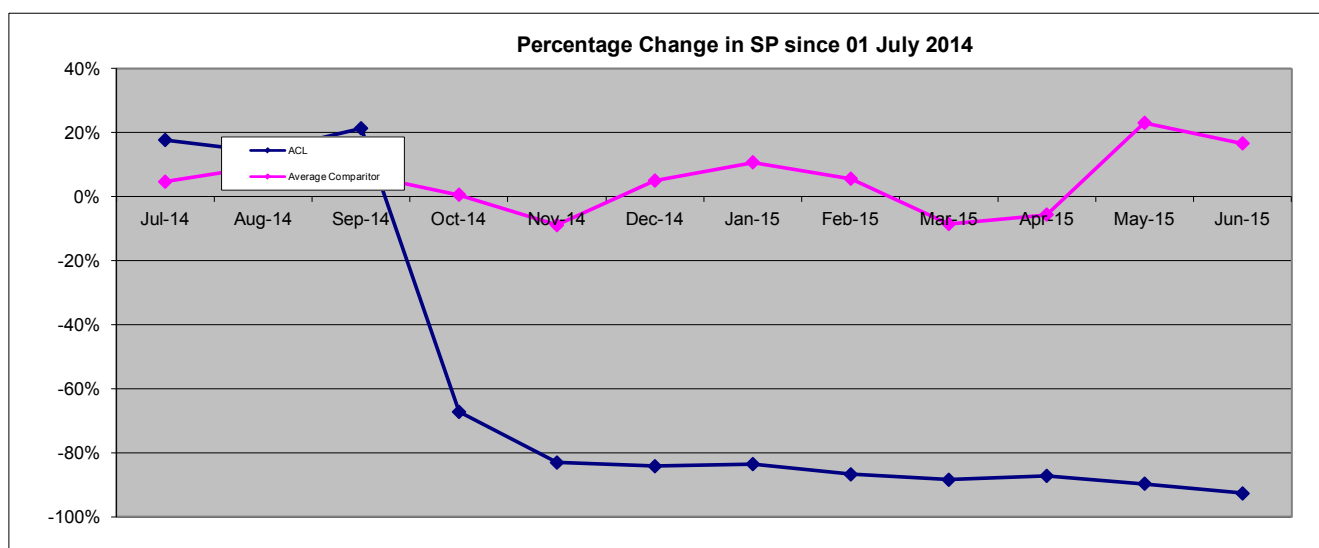
Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

The table and graph below is a reflection Company's lead asset HA-Irinotecan, failing to meet its primary end point in the Phase III clinical trial as reported in October 2014:

	2015	2014	2013	2012	2011
Average share price	\$0.232	\$0.512	\$0.440	\$0.432	\$0.639
Earnings per share	\$(0.049)	\$(0.020)	\$(0.016)	\$(0.062)	\$(0.070)
Percentile ranking of TSR against comparator group	11	2	8	8	7
% increase (decrease) in fixed remuneration	(7.77)%	(0.48)%	(21.35)%	1.09%	(6.34)%
% increase (decrease) in total remuneration	(19.49)%	11.05%	37.64%	6.12%	(18.88)%

Percentage monthly change in Alchemia Limited's share price vs comparator group for the year to 30 June 2015:



Alchemia Limited's closing share price at the end of each financial year since its initial listing are:

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
30 June	0.037	0.51	0.32	0.45	0.61	0.52	0.36	0.30	0.86	1.08	0.53	0.61

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

Remuneration of Non-Executive Directors

Shareholders approve the maximum aggregate remuneration for Non-Executive Directors. The Remuneration Committee considers the level of remuneration required to attract and retain Directors with the necessary skills and experience for the Alchemia Board. This remuneration is reviewed annually with regard to market practice, relativities and director duties and accountability. The most recent review occurred in June 2015, whereby non-executive directors' fees were reduced to be commensurate with the state of affairs of the Group and the effort required going forward.

Non-Executive Directors' fees are determined within an aggregate Director's fee pool limit, which is subject to approval by shareholders at general meetings. The maximum available aggregate remuneration approved for Directors is \$750,000, approved by shareholders on 10 November 2014. Prior to this, the maximum fee pool was \$500,000, approved by shareholders in 2007. The current annual fees are:

	Directors Fees per annum	
	1 July 2013 to 5 June 2015	From 5 June 2015
Non-executive Chairman	\$120,000	\$70,000
Non-executive Director	\$60,000	\$50,000
Chair of Audit & Risk, Nominations, and Remuneration Committees	\$10,000	-
Chair of Science & Technology Committee*	\$20,000	-

*The Science & Technology Committee was formally disbanded on 5 June 2015.

The sum of Directors' fees falls within the aggregate fee pool approved in 2014. There are no retirement allowances payable to Non-Executive Directors, however all Non-Executive Australian based Directors with the exception of Mel Bridges receive a superannuation guaranteed contribution.

In addition to the non-executive director fees above, the following amounts were paid to board members for consulting and/or executive services provided, which do not form part of the director fee pool:

FY 2015	Tracie Ramsdale	Executive Director*	\$200,000 pa
FY 2014	Nathan Drona	Consulting**	\$200,000

*Tracie Ramsdale performed the role of executive director from 10 November 2014 to 30 June 2015. During this time, she was paid an executive director fee only, at a rate of \$200,000 per annum.

**Nathan Drona was paid \$200,000 for consulting services provided in FY2014.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

Employment Contracts

Chief Executive Officer (CEO) – 24 February 2014 to 10 November 2014

Thomas Liquard was employed under an employment contract with no fixed expiry. His contract provided for a salary package of \$383,250 including superannuation and an annual performance based short term incentive of 30% of the remuneration package. The performance based incentive contained a maximum payout of 30% of annual salary package, and was assessed against individual and company performance and subject to annual review and Board approval. A maximum of 20% of the total payout under the performance based incentive entitlement is payable in cash, with the balance satisfied by the issue of shares. Under the terms of the contract, the company is required to give six months' notice of termination, or payment in lieu of notice.

The role of CEO was replaced with an Executive Director position, held by Tracie Ramsdale, from 10 November 2014 to 30 June 2015. This position was entitled to a base salary of \$200,000 per annum plus superannuation.

Other executives

Each of the Executives have a service contract with the company. The principal terms of each of these contracts are set out below:

Executives	Jenni Pilcher	Tracey Brown	Michael West	Wim Meutermans	Imran Ahamed	Goslik Schepers
Position	Chief Financial Officer	CSO and VP Oncology	VP IP & Technology Transfer	VP – Discovery	Group Financial Controller	VP – Business Development
Base salary	Base salary is subject to remuneration committee approval and reviewed annually in June					
Superannuation	Superannuation guaranteed contribution per legislation					
Incentive arrangements	*see below	Annual bonus of 30% of salary subject to the company achieving performance objectives and achievement of team & individual performance objectives				
Length of contract	No fixed term					
Notice period						
– by employee	Three months	Six months	Six months	Six months	Six months	Six months
– by company	Three months	Six months	Six months	Six months	Six months	Six months
Severance entitlement	Per legislation	Six months	Six months	Six months	Six months	Six months

*On 14 December 2014, the Company granted a short term incentive to the Chief Financial Officer of a maximum of 25% of salary upon achievement of the following milestones were met:

- Divestment of VAST technology (50% of entitlement payable)
- Divestment of Oncology assets (50% of entitlement payable)
- Sale of fondaparinux (50% of entitlement payable)
- Takeover of the Group (100% entitlement payable)

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

Remuneration of key management personnel

Table 1: Remuneration for the years ended 30 June 2014 and 30 June 2015

	Short term				Post-employment		Long term		Equity-based payments		Total	Performance related
	Salary & Fees	Cash Bonus	Non-monetary Benefits	Other	Superannuation Contributions	Retirement Benefits	Incentive plans	Long service leave	Options	Shares		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
Non-Executive Directors												
Ken Poutakidis – Chairman ₁												
2015	694	-	-	-	66	-	-	-	-	-	760	n/a
2014	-	-	-	-	-	-	-	-	-	-	-	n/a
Tracie Ramsdale ₂												
2015	151,250	-	-	-	14,369	-	-	-	9,404	-	175,023	n/a
2014	72,115	-	-	11,000	6,671	-	-	-	27,728	-	117,514	n/a
Nathan Drona												
2015	68,704	-	-	-	-	-	-	-	9,404	-	78,108	n/a
2014	100,000	-	-	200,000	-	-	-	-	27,728	-	327,728	n/a
Tim Hughes ₃												
2015	70,000	-	-	-	6,650	-	-	-	9,404	-	86,054	n/a
2014	65,577	-	-	-	6,066	-	-	-	27,725	-	99,368	n/a
Santo Costa ₄												
2015	113,424	-	-	-	-	-	-	-	-	-	113,424	n/a
2014	40,000	-	-	-	-	-	-	-	-	-	40,000	n/a
Susan Kelly ₄												
2015	65,626	-	-	-	-	-	-	-	9,404	-	75,030	n/a
2014	60,000	-	-	-	-	-	-	-	27,728	-	87,728	n/a
Nerolie Withnalls ₅												
2015	-	-	-	-	-	-	-	-	-	-	-	n/a
2014	2,241	-	-	-	-	-	-	-	-	-	2,241	n/a
Mel Bridges ₆												
2015	-	-	-	-	-	-	-	-	-	-	-	n/a
2014	5,583	-	-	-	-	-	-	-	-	-	5,583	n/a
Sub-total Non-Executive Director												
2015	469,698	-	-	-	21,085	-	-	-	37,616	-	528,399	n/a
2014	345,516	-	-	211,000	12,737	-	-	-	110,909	-	680,162	n/a

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

Table 1: Remuneration for the years ended 30 June 2014 and 30 June 2015 (continued)

	Short term				Post-employment		Long term		Equity-based payments		Total	Performance related
	Salary & Fees	Cash Bonus	Non-monetary Benefits	Other	Superannuation Contributions	Retirement Benefits	Incentive plans	Long service leave	Options	Shares		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
Executive Key Management Personnel												
Jenni Pilcher ⁷												
2015	239,808	-	-	-	22,782	-	-	-	33,825	-	296,415	11.41%
2014	-	-	-	-	-	-	-	-	-	-	-	na
Tracey Brown ⁸												
2015	225,430	-	-	-	22,393	-	-	4,928	4,931	-	257,682	1.91%
2014	225,428	10,290	3,170	-	21,463	-	-	5,566	105,615	41,159	412,691	38.06%
Wim Meutermans ⁸												
2015	214,695	-	-	-	21,311	-	-	(2,054)	3,036	-	236,988	1.28%
2014	214,693	9,627	-	-	20,354	-	-	5,040	63,743	38,507	351,964	31.79%
Mike West ⁹												
2015	208,915	-	-	107,347	19,654	-	-	(3,501)	3,461	-	335,876	1.03%
2014	214,693	9,223	4,534	-	19,820	-	-	5,047	73,970	36,893	364,180	32.97%
Imran Ahamed ⁹												
2015	180,019	-	-	92,500	16,711	-	-	-	3,055	-	292,285	1.05%
2014	185,000	8,444	-	-	16,581	-	-	1,432	72,350	33,777	317,584	36.08%
Goslik Schepers ¹⁰												
2015	108,688	-	-	-	10,431	-	-	-	2,978	-	122,097	2.44%
2014	190,132	7,658	-	-	17,071	-	-	3,443	32,151	30,631	281,086	25.06%
Thomas Liquard ¹¹												
2015	157,629	-	-	175,000	12,236	-	-	-	(17,034)	-	377,664	(5.21)%
2014	177,995	7,647	-	27,148	15,495	-	-	673	17,082	30,586	276,626	20.00%
Charles Walker ¹²												
2015	-	-	-	-	-	-	-	-	-	-	-	na
2014	268,771	-	-	175,000	38,172	-	-	-	-	-	481,943	0.00%
Sub-total executive KMP												
2015	1,335,183	-	-	374,847	125,518	-	-	(626)	34,203	-	1,869,125	1.83%
2014	1,476,712	52,889	7,704	202,148	148,956	-	-	21,201	364,911	211,553	2,486,074	25.32%
Total Remuneration												
2015	1,804,881	-	-	374,847	146,603	-	-	(626)	121,704	-	2,397,524	3.00%
2014	1,822,228	52,889	7,704	413,148	161,693	-	-	21,201	475,820	211,553	3,166,236	23.38%

1 Ken Poutakidis appointed to the board on 26 June 2015, and appointed to the role of Chairman 9 July 2015

2 Tracie Ramsdale performed an Executive Director role for the period 10 November to 30 June 2015, and was a non-executive director at all other times during the current and previous financial years

3 Timothy Hughes retired 8 July 2015

4 Santo Costa retired on 10 June 2015

5 Nerolie Withnall retired 4 July 2013

6 Mel Bridges retired 15 July 2013

7 Jenni Pilcher appointed 1 September 2014

8 Termination benefits to be earned in the next financial year have been provided for through a restructuring provision

9 Mike West and Imran Ahamed ceased employment 17 June 2015, termination benefits were paid in July 2015

10 Goslik Schepers ceased employment 19 December 2014

11 Thomas Liquard appointed 24 February 2014 and ceased employment 10 November 2014, on which date he forfeited his options and any previously recognised expense is shown as a negative remuneration item

12 Charles Walker ceased employment 24 February 2014. Upon cessation of employment, Charles Walker retained 468,166 options, which had a total remuneration value (calculated in accordance with AASB2 Share-based payments) of \$149k. This amount was expensed in full in FY2014.

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The amount included in Table 1 above, in respect of options under the share based payments component of remuneration, represents the amortisation over the expected life of the option of the fair value of the option at the date of grant. The fair value of the cash settled options is measured at the grant date using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the instruments were granted.

Table 2 given below discloses the number of share options granted to executives as remuneration during the current and prior financial years. Share options are options over ordinary shares in Alchemia Limited, do not carry any voting or dividend rights, and only can be exercised once the vesting conditions have been met until their expiry date.

Table 2: Compensation options: Granted and vested during the year

30 June 2015	Granted (No.)	Grant Date	Fair Value at grant date	Exercise price	Expiry Date	Vesting Date	Expiry Date	Vested (No.)	Vested (%)
Directors									
N Drona	-	-	-	-	-	-	-	191,000	100%
T Ramsdale	-	-	-	-	-	-	-	191,000	100%
S Kelley	-	-	-	-	-	-	-	191,000	100%
T Hughes	-	-	-	-	-	-	-	191,000	100%
Executives									
J Pilcher	600,000	9 Sep 14	\$0.1048 – \$0.1363	\$0.8795	9 Sep 19	31 Aug 15 – 31 Aug 17	9 Sep 19	-	-
J Pilcher	400,000	6 Jan 15	\$0.0000	\$0.25	5 Jan 20	5 Jan 16	5 Jan 20	-	-
T Brown	-	-	-	-	-	-	-	255,000	26.6%
M West	-	-	-	-	-	-	-	179,000	26.7%
W Meutermans	-	-	-	-	-	-	-	157,000	27.2%
I Ahamed	-	-	-	-	-	-	-	158,000	24.2%
G Schepers	-	-	-	-	-	-	-	154,000	50.7%
Total FY2015	1,000,000	-	-	-	-	-	-	1,667,000	
30 June 2014									
Directors									
N Drona	191,000	11 Nov 13	\$0.1944	\$0.7150	11 Nov 17	16 Sep 14	11 Nov 17	-	-
T Ramsdale	191,000	11 Nov 13	\$0.1944	\$0.7150	11 Nov 17	16 Sep 14	11 Nov 17	-	-
S Kelley	191,000	11 Nov 13	\$0.1944	\$0.7150	11 Nov 17	16 Sep 14	11 Nov 17	-	-
T Hughes	191,000	11 Nov 13	\$0.1944	\$0.7150	11 Nov 17	16 Sep 14	11 Nov 17	-	-
Executives									
T Liquard	133,000	26 Feb 14	\$0.1080	\$0.8866	26 Feb 19	26 Feb 15	26 Feb 19	-	-
T Liquard	133,000	26 Feb 14	\$0.1249	\$0.8866	26 Feb 19	26 Feb 16	26 Feb 19	-	-
T Liquard	134,000	26 Feb 14	\$0.1411	\$0.8866	26 Feb 19	26 Feb 17	26 Feb 19	-	-
C Walker*	468,166	11 Nov 13	\$0.3025	\$0.3368	11 Nov 17	14 Mar 14	11 Nov 17	468,166	100%
T Brown	255,000	30 Aug 13	\$0.1157	\$0.5935	30 Aug 18	30 Aug 14	30 Aug 18	-	-
M West	179,000	30 Aug 13	\$0.1157	\$0.5935	30 Aug 18	30 Aug 14	30 Aug 18	-	-
W Meutermans	157,000	30 Aug 13	\$0.1157	\$0.5935	30 Aug 18	30 Aug 14	30 Aug 18	-	-
I Ahamed	158,000	30 Aug 13	\$0.1157	\$0.5935	30 Aug 18	30 Aug 14	30 Aug 18	-	-
G Schepers	154,000	30 Aug 13	\$0.1157	\$0.5935	30 Aug 18	30 Aug 14	30 Aug 18	-	-
Total	2,535,166	-	-	-	-	-	-	468,166	100

*As per the Settlement and Deed of Release dated 24 February 2014, Mr Walker forfeited 1,319,334 options from the original 1,787,500 issued to him on 11 November 2013 and the terms of the option grant were modified to enable Mr Walker to exercise the right post employment. The expense relating to the total awards have been accelerated and recognised in profit and loss. Mr Walker is also bound not to dispose any shares he acquires upon exercise of these options until on or after the Group's press release of the results from the Phase III trial.

For details on the valuation of the options, including models and assumptions used, please refer to Note 22.

There were no alterations to the terms and conditions of options awarded as remuneration since their award date.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

Table 3: Options granted as part of remuneration during the year

	Value of options granted during the year \$	Value of options exercised during the year \$	Value of options forfeited during the year \$
J Pilcher	72,400	-	-
T Liquard	-	-	-*
Total	72,400	-	-

*Thomas Liquard forfeited 400,000 options upon his cessation of employment in November 2014. The share price at the time was \$0.092 and the options had an exercise price of \$0.887, hence the value of these options at the time of forfeiture was nil.

Table 4: Relative percentages of remuneration and performance awards

	% Fixed		% Short-term Incentive (STI)		% Options*		% STI Awarded	% STI Forfeited
	2015	2014	2015	2014	2015	2014	2015	2015
Directors								
K Poutakidis	100	na	-	na	-	na	na	na
S Costa	100	100	-	-	-	-	na	na
N Drona	88.0	91.5	-	-	12.0	8.5	na	na
T Ramsdale	94.6	76.4	-	-	5.4	23.6	na	na
S Kelley	87.5	68.4	-	-	12.5	31.6	na	na
T Hughes	89.1	72.1	-	-	11.9	27.9	na	na
Executives								
J Pilcher	88.6	na	-	na	11.4	na	-	100
T Brown	98.1	61.9	-	12.5	1.9	25.6	-	100
W Meutermans	98.7	68.2	-	13.7	1.3	18.1	-	100
M West	99.0	67.0	-	12.7	1.0	20.3	-	100
I Ahamed	99.0	63.9	-	13.3	1.0	22.8	-	100
T Liquard	105.2	80.0	-	13.8	(5.2)	6.2	-	100
G Schepers	97.6	74.9	-	13.6	2.4	11.4	-	100

*Includes a negative expense (write-back) of options that were forfeited during the year.

Table 5: Option holdings of key management personnel

Options over ordinary shares held in Alchemia Limited (number)

30 June 2015	Balance at Beginning of Period	Granted as Remuneration	Options Exercised	Options Forfeited	Balance at End of Period	Vested* at 30 June 2015
	1 July 2014				30 June 2015	Total
Directors						
T Ramsdale	191,000	-	-	-	191,000	191,000
N Drona	191,000	-	-	-	191,000	191,000
S Kelley	191,000	-	-	-	191,000	191,000
T Hughes	191,000	-	-	-	191,000	191,000
Executives						
T Liquard	400,000	-	-	(400,000)	-	-
J Pilcher	-	1,000,000	-	-	1,000,000	-
T Brown	957,250	-	-	-	957,250	957,250
M West	670,500	-	-	-	670,500	670,500
W Meutermans	578,250	-	-	-	578,250	578,250
I Ahamed	653,000	-	-	-	653,000	653,000
G Schepers	304,000	-	-	-	304,000	304,000
Total	4,327,000	1,000,000	-	(400,000)	4,927,000	3,927,000

*All vested options are exercisable.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

Table 6: Shareholding of key management personnel

Ordinary shares held in Alchemia Limited (number)

30 June 2015	Balance 1 July 14	Granted as Remuneration	Issued on exercise of options	Net change other	Balance 30 June 15
Directors					
T Ramsdale	1,303,819	-	-	-	1,303,819
Executives					
T Brown	523,815	34,249	-	-	558,064
W Meutermans	360,499	32,043	-	-	392,542
M West ⁽¹⁾	734,424	60,195	na	na	na
I Ahamed ⁽¹⁾	36,403	28,106	na	na	na
G Schepers ⁽¹⁾	240,142	25,489	na	na	na
T Liquard ⁽¹⁾	-	28,106	na	na	na
Total	3,199,102	208,188	-	-	2,254,425

¹ These executives ceased employment with the Company during the year and consequently they were not KMPS at 30 June 2015.

Shares issued on exercise of compensation options (Consolidated)

There were no shares issued on exercise of options granted as compensation during the period (2014: Nil).

End of remuneration report (audited).

Directors Report signed in accordance with a resolution of the directors.



Ken Poutakidis

Chairman

Signed at Melbourne on 28 August 2015



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Auditor's Independence Declaration to the Directors of Alchemia Limited

In relation to our audit of the financial report of Alchemia Limited for the financial year ended 30 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Winna Brown
Partner
28 August 2015

Statement of Financial Position

AS AT 30 JUNE 2015

	Note	CONSOLIDATED	
		2015	2014
		\$'000	\$'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	9	5,021	7,949
Short term deposits	10	117	3,117
Trade and other receivables	11	8,074	8,392
Prepayments		605	942
TOTAL CURRENT ASSETS		13,817	20,400
NON-CURRENT ASSETS			
Property, plant and equipment	12	162	307
Intangible assets and goodwill	13	–	13,404
Deferred tax assets	7e	653	20
TOTAL NON-CURRENT ASSETS		815	13,731
TOTAL ASSETS		14,632	34,131
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	14	780	3,522
Current tax liability	7f	62	135
Provisions	15	2,280	456
Deferred revenue		–	289
TOTAL CURRENT LIABILITIES		3,122	4,402
NON-CURRENT LIABILITIES			
Provisions	15	–	374
Deferred tax liability	7e	1	2,305
TOTAL NON-CURRENT LIABILITIES		1	2,679
TOTAL LIABILITIES		3,123	7,081
NET ASSETS		11,509	27,050
EQUITY			
Contributed equity	16	151,494	151,302
Reserves	17	5,680	5,597
Accumulated losses		(145,665)	(129,849)
TOTAL EQUITY		11,509	27,050

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

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2015

		CONSOLIDATED	
	Note	2015	2014
		\$'000	(restated) \$'000
Continuing operations			
Interest revenue		164	396
Profit share income		5,583	8,135
Grant revenue & R&D tax incentive refunds		5,746	6,061
Other income	6a	432	107
Total revenue		11,925	14,699
Research and development costs		(9,004)	(10,627)
Payroll and staff expenses	6b	(3,830)	(4,488)
Administration and corporate expenses		(2,077)	(2,280)
Depreciation and amortisation	6c	(787)	(1,475)
Onerous contracts expense	6d	(550)	-
Rent and occupancy expense		(544)	(531)
Business development		(114)	(470)
Share based payment expense		(83)	(1,442)
Impairment charge	6e	(12,764)	-
Loss from continuing operations before income tax		(17,828)	(6,614)
Income tax benefit	7a	2,937	262
Loss for the year from continuing operations		(14,891)	(6,352)
Discontinued operations			
Loss for the year from discontinued operations	18b	(925)	(572)
Loss for the year		(15,816)	(6,924)
Other comprehensive income		-	-
Total comprehensive loss for the year, net of tax, attributable to equity holders of the parent		(15,816)	(6,924)
Earnings per share (cents per share)			
- Basic earnings/(loss) per share (cents)	8	(4.9)	(2.1)
- Diluted earnings/(loss) per share (cents)	8	(4.9)	(2.1)
Dividends per share (cents)		-	-

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

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2015

Consolidated	Contributed equity \$'000	Accumulated losses \$'000	Reserves \$'000	Total equity \$'000
At 1 July 2013	151,149	(122,925)	4,155	32,379
Loss for the year	-	(6,924)	-	(6,924)
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	(6,924)	-	(6,924)
Cost of share based payment	-	-	1,442	1,442
Issuance of shares – executive and employee incentive plans shares	153	-	-	153
Total as at 30 June 2014	151,302	(129,849)	5,597	27,050
Loss for the year	-	(15,816)	-	(15,816)
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	(15,816)	-	(15,816)
Cost of share based payment	-	-	83	83
Issuance of shares – executive and employee incentive plans shares	192	-	-	192
Total as at 30 June 2015	151,494	(145,665)	5,680	11,509

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

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2015

		CONSOLIDATED	
	Note	2015	2014
		\$'000	\$'000
Cash flows from operating activities			
Receipts from grants & tax incentives		6,532	9,090
Receipts from profit share income		5,823	9,957
Payments to suppliers and employees		(18,851)	(21,170)
Other income received		154	116
Interest received		170	386
Net cash flows used in operating activities	19	(6,172)	(1,621)
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(2)	(249)
Proceeds from sale of equipment		115	-
Redemption of short term deposits		3,000	4,796
Net cash flows from investing activities		3,113	4,547
Cash flows from financing activities			
		-	-
Net increase/ (decrease) in cash and cash equivalents		(3,059)	2,926
Net foreign exchange difference relating to cash		131	(41)
Cash and cash equivalents at beginning of year		7,949	5,064
Cash and cash equivalents at end of year	9	5,021	7,949

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

1. CORPORATE INFORMATION

The financial report of Alchemia Limited (the “Company” or the “Parent”) for the year ended 30 June 2015 was authorised for issue in accordance with a resolution of the directors on 28 August 2015.

Alchemia Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of Alchemia Limited and its consolidated entities (the “Group”) are described in the Directors’ Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis.

Management has prepared an assessment of the Group’s ability to meet its debts as and when they fall due. This assessment includes forecasting committed expenditure and revenues expected to be received from fondaparinux and research and development incentive refunds. This assessment has demonstrated the Group has sufficient funds to meet the obligations of the Group as and when they fall due. In addition, there are no formal plans to liquidate or wind-up the Group. Accordingly, the Directors have prepared these financial statements on the going concern basis.

For the purposes of preparing financial statements, Alchemia Limited is a for-profit entity.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$’000) unless otherwise stated.

Significant changes in the current reporting period

During the current financial year the Company announced that its pivotal Phase III trial of HA-Irinotecan in the treatment of patients with metastatic colorectal cancer (mCRC) did not meet its primary endpoint of statistically significant improvement in progression-free survival (PFS). As a result, the Group has fully impaired its intellectual property and goodwill assets which relate to the HyACT platform technology, of which HA-Irinotecan is part of. Refer to note 13 for further information.

(a) Compliance with IFRS

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

(i) Changes in accounting policy and disclosures

The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2014:

- AASB 2014-1 *Amendments to Australian Accounting Standards*

The adoption of AASB 2014-1 has required additional disclosures in the segment note. Other than that, the adoption of this standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New accounting standards and interpretations

(i) Accounting Standards and interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2015. The Group does not believe that there will be a material financial impact to either the statement of comprehensive income or the statement of financial position once these accounting standards are adopted, with exception to AASB 9 and 15 which the Group is currently evaluating. These are outlined in the table below:

Reference & Title	Summary	Application date of standard*	Application date for Group*
AASB 9 – <i>Financial Instruments</i>	AASB 9 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.	1 January 2018	1 July 2018
AASB 15– Revenue from Contracts with Customers	AASB 15 <i>Revenue from Contracts with Customers</i> replaces the existing revenue recognition standards AASB 111 <i>Construction Contracts</i> , AASB 118 <i>Revenue</i> and related Interpretations. AASB 15 incorporates the requirements of IFRS 15 <i>Revenue from Contracts with Customers</i> issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB). AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments).	1 January 2017*	1 July 2017*

*The International Accounting Standards Board (IASB) in its July 2015 meeting decided to confirm its proposal to defer the effective date of IFRS 15 (the international equivalent of AASB 15) from 1 January 2017 to 1 January 2018. The amendment to give effect to the new effective date for IFRS 15 is expected to be issued in September 2015. At this time, it is expected that the AASB will make a corresponding amendment to AASB 15, which will mean that the application date of this standard for the Group will move from 1 July 2017 to 1 July 2018.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Alchemia Limited and its subsidiaries (the Group) as at 30 June each year. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies.

The financial statements of the subsidiaries are prepared for the same reporting period as Alchemia Limited, the parent company, using consistent accounting policies. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Investments in subsidiaries held by Alchemia Limited are accounted for at cost in the parent entity less any impairment charges.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors. Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services;
- Nature of the production processes;
- Type or class of customer for the products and services;
- Methods used to distribute the products or provide the services; and if applicable
- Nature of the regulatory environment;

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements. Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for “all other segments”.

(e) Foreign currency translation

(i) Functional and presentation currency

The Group's consolidated financial statements are presented in Australian dollars, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. As at 30 June 2015, the functional currency of the subsidiaries, with the exception of Audeo Oncology Inc., have been determined to be Australian dollars.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities are denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences arising on settlement or translation of monetary items are taken to the income statement.

(iii) Translation of group companies' functional currency to presentation currency

As at the reporting date, the assets and liabilities of Audeo Oncology Inc. are translated into the presentation currency of Alchemia Limited at the rate of exchange ruling at the reporting date and its statement of comprehensive income is translated at the weighted average exchange rate for the year. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(g) Trade and other receivables

Trade receivables, which generally have 0–30 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable.

(h) Investments and other financial assets

Investments and financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are categorised as loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Recognition and de-recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or been transferred.

- **Held-to-maturity investments**

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. All of the Group's term deposits are captured by this category and are carried at cost and are included in current assets.

- **Loans and receivables**

Loans and receivables including loans to subsidiaries and receivables from Dr Reddy's are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at the lesser of their carrying value or recoverable amounts. Any diminution in value is recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgmental inputs to a minimum.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If, in a subsequent year, the fair value of financial asset increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss.

(i) Property, plant and equipment

Plant and equipment is stated at historical 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. All other repairs and maintenance are recognised in profit or loss as incurred.

Asset class	Estimated life	Depreciation method
Leasehold improvements	6 years	Straight line
Plant and equipment	3 to 8 years	Straight line except for software which uses diminishing value method

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

De-recognition

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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. Operating lease incentives are recognised in the statement of comprehensive income as an integral part of the total lease expense

(k) Impairment of non-financial assets other than goodwill

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(l) Goodwill and intangibles

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired (see note 4 for methodology). The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level consistent with the methodology outlined for goodwill above. Such intangibles are not amortised.

The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefits from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use or more frequently when an indication of impairment arises during the reporting period.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Trade and other payables

Trade payables and other payables are carried at amortised cost due to their short term nature they are not discounted. They 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. These amounts are unsecured and are usually paid within 30 days of recognition.

(n) Provisions and employee benefits

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expect future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on the applicable corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Restructuring provisions

Restructuring provisions are recognised by the Group only when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline, and the employees affected have been notified of the plan's main features.

Onerous contracts

A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with the contract.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Share-based payment transactions

The Company provides benefits to employees (including key management personnel and contractors) in the form of share-based payment transactions, 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:

- The executive and staff incentive plan, which provides benefits to all employees; and
- The employee share option plan, which provides benefits to all employees and directors

Details of the executive and staff incentive plan are set out in the Remuneration Report.

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 measured at grant date takes into account market performance conditions only, and spread over the vesting period during which the employees becomes unconditionally entitled to the options.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Alchemia 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 conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the statement of comprehensive income is the product of: (i) the grant date fair value of the award; (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and (iii) the expired portion of the vesting period. This opinion is formed based on the best available information at balance date.

Equity-settled awards granted by Alchemia Limited to employees of subsidiaries are recognised in the parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. As a result, the expense recognised in Alchemia Limited in relation to equity-settled awards only represents the expense associated with grants to employees of the parent. The expense recognised by the Group is the total expense associated with all such awards.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are settled.

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. An additional 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Share-based payment transactions (continued)

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.

If an equity award is cancelled by forfeiture and the vesting conditions have not been met, any expense not yet recognised (i.e. unamortised) for that award, as at the date of forfeiture, is treated as if it had never been recognised. As a result, the expense recognised (i.e. amortised) on such cancelled equity awards are reversed from the accounts effective as at the date of forfeiture.

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

(p) Contributed equity

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.

(q) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest revenue

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Profit share income

Revenue is recognised on an accruals basis in accordance with the substance of the relevant agreement.

Grant revenue

Revenue is recognised as per note 2 (s).

(r) Income tax and other taxes

Current tax assets and liabilities 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 reporting date.

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Income tax and other taxes (continued)

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

- The deferred income tax liability arises from the initial recognition of goodwill or 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.
- The taxable temporary difference is associated with investments in subsidiaries and the timing of the reversal of the temporary differences 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.
- 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 tax assets is reviewed at each reporting 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 tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits 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 reporting date.

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.

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
- Receivables and payables 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Income tax and other taxes (continued)

Cash flows are included in the Cash Flow Statement 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.

(s) Government grants and R&D tax incentive refunds

Government grants, with the exception of research and development tax incentive refunds, are recognised as deferred revenue when the grant is received. Research and development tax incentive refunds are accrued for in the same period as the expenditure forming the basis of the refund and where there is reasonable assurance that the refund will be received and all attached conditions will be complied with.

When the grant relates to an expense item (eg. research and development grants), it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. It is not credited directly to shareholders' equity.

When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

The amounts shown in the statement of financial positions under the deferred revenue account represent grant funding received for which the related expenditure had not been incurred at the reporting date.

(t) Earnings per share

Basic earnings per share is calculated as net profit or loss attributable to members of the parent and divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit or loss attributable to members of the parent, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(u) Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Current versus non-current classification (continued)

A liability is current when:

- It is expected to be settled within the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(v) Non-current assets (or disposal groups) held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale or for distribution to equity holders of the parent if their carrying amounts will be recovered principally through sale or a distribution rather than through continuing use and a sale is considered highly probable in accordance with criteria specified in AASB 5. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement. Costs to sell are the incremental costs directly attributable to the sale or distribution, excluding the finance costs and income tax expense.

The non-current assets and disposal groups are classified as held for sale when the asset or disposal group is available for immediate sale or distribution in its present condition, and its sale is highly probable as evidenced by the following criteria:

- Management are committed to a plan to sell the asset
- Management have initiated an active program to locate a buyer and complete the sale plan
- The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value
- The sale should be expected to qualify for recognition as a completed sale within one year
- Actions required to complete the sale or distribution should indicate that it is unlikely that significant changes to the sale or distribution will be made or that the decision to sell or distribute will be withdrawn

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Assets and liabilities classified as held for sale or distribution are presented separately as current items in the statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations. The results of discontinued operations are presented separately in the income statement.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, cash and short-term deposits.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board, through the Audit and Risk Management Committee, reviews and agrees policies for managing each of these risks as summarised below. This includes the setting of limits of concentration risks with any one financial institutions, credit rate limits and future cash flow forecast projections.

All financial assets and liabilities have contractual maturities of less than six months.

Risk Exposure and Responses

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the income earned on the Group's cash and short term deposits of various deposit terms.

At 30 June 2015, the Group's cash and cash equivalents comprised of deposits on call and foreign currency accounts.

The Group's policy to manage its interest rate risk, given its dependence on cash and cash equivalents is to keep maturities short generally using 30-90 bank bills and short term money market facilities. The Group constantly analyses its interest rate exposure with respect to renewal of existing positions, alternative investment opportunities / facilities and whether to consider a mix of fixed and variable instruments.

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated as cash flow hedges:

	Consolidated	
	2015	2014
	\$'000	\$'000
Financial assets		
Term deposits	117	3,117
Cash and cash equivalents	5,021	7,949
	5,138	11,066
Financial liabilities	-	-
Net exposure	5,138	11,066

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk Exposure and Responses (continued)

Sensitivity analysis	Post tax Loss Higher/(Lower)		Equity (excluding accumulated losses) Higher/(Lower)	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Judgement of reasonably possible movements:				
Consolidated				
Interest rate strengthens +0.25% or 25 basis points (2014: +0.25% or 25 basis points)	(13)	(28)	-	-
Interest rate weakens -1% or 100 basis points (2014: -1% or 100 basis points)	51	111	-	-

The Group believes that the carrying amount approximates fair value because of their short term to maturity.

Significant assumptions used in the interest rate sensitivity analysis include:

- Reasonably possible movements in interest rates were determined based on economic forecaster's expectations.
- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date.

Foreign currency risk

The Group has transactional currency exposure. Such exposure arises from purchases by the Group in currencies other than the functional currency and through foreign currency receipts in the form of milestone, profit share or expense reimbursements under the Group's various collaborations. Generally the Group does not use financial instruments to hedge the foreign exchange exposure.

The Group maintains US dollar bank accounts to fund US denominated expenditures mainly relating to the Phase III clinical trial. At 30 June 2015 the consolidated balance of the USD bank accounts amounted to USD1.4 million (30 June 2014: USD1.3 million). In the near term, the Group will maintain a natural hedge for the final close out of USD contracts with the receipt of fondaparinux revenues which will also be USD denominated.

The Group also maintains a EUR bank account to fund EUR denominated expenditures mainly relating to product presentation. At 30 June 2015 the consolidated balance of the EUR bank account amounted to EUR0.013 million (30 June 2014: EUR0.6 million). In the future, it is not expected to have significant EUR currency requirements and the Group will determine the appropriate hedging strategy to limit the currency exposure.

Whilst Audeo Oncology is incorporated in the United States, the operations of its main subsidiary, Alchemia Oncology Pty Ltd ("AOL"), is currently based in Australia.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Group's exposure to foreign currency risk at the reporting date that are not designated in cash flow hedges was as follows:

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
Financial Assets		
Cash and cash equivalents – USD	1,814	1,430
Cash and cash equivalents – EUR	20	932
Total cash and cash equivalents	1,834	2,362
Financial Liabilities		
Trade and other payables – USD	940	1,036
Trade and other payables – EUR	–	859
Trade and other payables – GBP	47	–
Trade and other payables – CAD	6	–
Total Trade and other payables	993	1,895
Net exposure – USD	874	394
Net exposure – EUR	20	73
Net exposure – GBP	(47)	–
Net exposure – CAD	(6)	–
Net exposure	841	467

Based on the financial instruments held at 30 June 2015, had the Australian dollar strengthened/weakened by 10% against the above currencies, with all other variables held constant, the Group's post-tax loss for the year would have been (reduced)/higher by:

Sensitivity analysis	Post tax Loss Higher/(Lower)		Equity (excluding accumulated losses) Higher/(Lower)	
	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000
Consolidated				
AUD strengthens +10% (2014: +10%)	(76)	(29)	–	–
AUD weakens –10% (2014: –10%)	93	68	–	–

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk Exposure and Responses (continued)

Management believes the balance date risk exposures are representative of the risk exposure inherent in those financial instruments.

Significant assumptions used in the foreign currency exposure sensitivity analysis include:

- Reasonably possible movements in foreign exchange rates were determined based on a review of the historical movements and economic forecaster's expectations.
- The reasonably possible movement of 10% was calculated by taking the USD/EUR spot rate as at balance date, moving this spot rate by 10% and then re-converting the USD/EUR into AUD with the "new spot-rate".
- This methodology reflects the translation methodology undertaken by the Group.

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, short term deposits, trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

The Parent's exposure to credit risk for intercompany loans made to subsidiaries arises because those subsidiaries are still in a research and development stage, and are not expected to be cash flow positive for some time. The Parent's policy is to write down those balances to the extent such balances are not supported by cash and cash equivalents in the subsidiaries (see Note 27).

The Group does not hold any credit derivatives to offset its credit exposure.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trades and other receivables.

There are no significant concentrations of credit risk within the Group and financial instruments are spread amongst a number of financial institutions to minimise the risk of default of counterparties.

Liquidity risk

The Group's objective is to maintain a balance between continuity of project research utilising an optimal combination of equity funding, finance and operating lease commitments.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities.

The Group has no financial assets/liabilities due after twelve months.

The Group manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows and matching maturity profiles in financial assets and liabilities.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as to the extent management consider that it is probable that future taxable profits will be available to utilise those temporary differences. During the current year, a deferred tax asset has been recognized in the parent company, Alchemia Limited, for deductible temporary differences which are expected to be realised in the next income tax year only. These have been recognized on the basis of management's projections that this entity will have sufficient taxable income next year to utilise these deferred tax assets. The deferred tax assets recognized have been limited to one year only, on the basis that the entity's ability to generate taxable income beyond the next year is uncertain at this time as it largely relies on its revenues from fondaparinux which is marketed by our partner, Dr. Reddy's, and which are in decline. This entity has reported taxable income for the last two years, and therefore has recently demonstrated an ability to generate taxable income. The Group is not consolidated for tax purposes, so every entity is assessed individually.

Deferred tax assets for losses are not recognised for any entity in the Group because at this stage, it is not considered prudent until revenues are derived in sufficient amount from the sale of the Company's various technology platforms.

Taxation

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depends on management's estimates of future cash flows. These depend on estimates of future fondaparinux sales volumes, operating costs, capital expenditure, dividends and other capital management transactions.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of comprehensive income.

Impairment of goodwill and intangibles with indefinite useful lives

The Group determines whether goodwill and intangibles with indefinite useful lives are 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. Whilst there are a number of potential cash generating streams for Group, these all arise from the central technology platform HyACT and are inseparable from it at the time of acquisition. Accordingly, goodwill that arose from the acquisition of Meditech is attributed to the HyACT technology only and does not seek to arbitrarily allocate its value to the numerous potential commercial applications of this technology.

Impairment of intangibles with definite useful lives (patents)

The Group assesses impairment of intangibles with definite useful lives at each reporting date by evaluating conditions specific to the Group and to the particular intangibles that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves value in use calculations, which incorporate a number of key estimates and assumptions.

The periodic impairment review of intangibles (both with definite and indefinite lives) and goodwill, in the first instance is based upon an assessment of market changes in technology or cancer treatment protocols which would likely have a negative impact on the commercialisation of the Group's HyACT technology, making it potentially uncompetitive or redundant. To date there has been, to the best of management knowledge, no such adverse event and the Group continues to invest in the technology.

Share-based payment transactions

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

Discontinued operations

VAST drug discovery technology

On 3 July 2015, the Group publicly announced it had executed a deed of assignment to assign its VAST drug discovery technology (VAST) to VAST Biosciences Pty Ltd (VAST Biosciences). VAST Biosciences is a new private company funded by a group of high net worth investors for the purpose of developing and commercialising the VAST intellectual property going forward.

The Board considered the VAST technology to meet the criteria specified in AASB 5 to be classified as held for sale at 30 June 2015 for the following reasons:

- The VAST technology is available for immediate sale as at 30 June 2015 and can be sold/licensed or assigned in its current condition;
- As at 30 June 2015 the sale is "highly probable" given it completed on 3 July 2015;

Therefore, the operations of VAST have been classified as held for sale and a discontinued operation.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Alchemia Oncology Pty Ltd

On 1 July 2015, the Group publicly announced it had executed a binding term sheet for the sale of its 100% owned subsidiary, Alchemia Oncology Pty Ltd (Alchemia Oncology) to US biotechnology company, Panther Biotechnology Inc. (Panther).

The sale is subject to a number of conditions precedent with the more material including:

- payment of operational expenses (non-refundable);
- entry into definitive agreements fully documenting the terms agreed within the exclusivity period;
- Board and any necessary shareholder approvals of both parties for the transaction;
- Panther filing its prospectus with the SEC within 30 days of execution of the term sheet;
- Panther successfully raising funds and listing its shares to trade on NASDAQ within 120 days of the term sheet;
- no material adverse change occurring;
- representations and warranties being correct in all material respects; and
- any necessary regulatory and stock exchange approvals being obtained.

The satisfaction of the conditions above are not necessarily within the control of either party, and therefore completion of the sale on the terms agreed (or at all) is uncertain at this time. The Directors do not consider a transaction for HyACT as “highly probable” in accordance with AASB 5, and consequently the oncology/HyACT operation has not been disclosed as a discontinued operation or an asset held for sale as at 30 June 2015.

On 3 August 2015, the Group publicly announced that Panther had failed to file its prospectus (Form-S1) with the US SEC within the required 30 day exclusivity period, and that the term sheet expired on 31 July 2015. The Group is currently pursuing outstanding amounts owed to it by Panther as a result of this termination.

For more details on the discontinued operation refer to note 18.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

5. SEGMENT INFORMATION

The Group is organised into two separate business units for management reporting purposes. The business activities of Alchemia Limited at the reporting date comprised the commercialisation and improvements of its generic fondaparinux product. The business activities of Audeo Oncology, Inc. comprised the development and commercialisation of the HyACT platform, the oncology business and the VAST drug discovery platform. The VAST technology is disclosed as a discontinued operation and therefore is not included within this segment note.

Inter segment revenues, costs and statement of financial position items are eliminated on consolidation.

Business Segment	Fondaparinux		HyACT		Eliminations		Consolidated Total	
	2015	2014	2015	2014	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenues								
Inter-segment revenues		-		-		-		-
Other revenues	6,228	8,518	5,697	6,181		-	11,925	14,699
Total segment revenues	6,228	8,518	5,697	6,181		-	11,925	14,699
Depreciation and amortisation	(21)	(38)	(766)	(1,437)		-	(787)	(1,475)
Impairment of IP, goodwill & PP&E (*)	(7)	-	(12,757)	-		-	(12,764)	-
Payroll and staff expenses	(1,180)	(1,535)	(2,650)	(2,953)		-	(3,830)	(4,488)
Business development R&D costs	(63)	(363)	(8,941)	(10,264)		-	(9,004)	(10,627)
Administrative and corporate expenses	(1,676)	(1,399)	(401)	(881)		-	(2,077)	(2,280)
Rent and occupancy costs	(654)	(193)	(440)	(338)		-	(1,094)	(531)
Share based payment expense	(57)	(865)	(26)	(577)		-	(83)	(1,442)
Provision for intercompany loans	(8,786)	(9,066)	-	-	8,786	9,066	-	-
Segment profit/(loss) before tax	(6,216)	(4,941)	(20,398)	(10,739)	8,786	9,066	(17,828)	(6,614)
Consolidated entity loss from continuing activities							(17,828)	(6,614)
Income tax benefit							2,937	262
Consolidated loss							(14,891)	(6,352)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

5. SEGMENT INFORMATION (continued)

Business Segment	Fondaparinux		HyACT		Eliminations		Consolidated Total	
	2015	2014	2015	2014	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Other segment information								
Segment assets	7,804	12,421	8,981	22,827	(2,806)	(1,765)	13,979	33,483
Segment liabilities	1,713	1,968	28,297	24,210	(27,180)	(19,362)	2,830	6,816
Depreciation and amortisation	(21)	(38)	(766)	(1,437)		-	(787)	(1,475)
Other non-cash expenses	(57)	(865)	(26)	(577)		-	(83)	(1,442)
Cash flow information								
Net cash flow from (used in) operating activities	2,109	6,839	(8,281)	(8,460)	-	-	(6,172)	(1,621)
Net cash flow from (used in) investing activities	3,115	4,795	-	(9,308)	-	-	3,115	4,795
Net cash flow from financing activities	-	-	-	-	-	-	-	-
Capital expenditure	(2)	(7)	-	(242)	-	-	(2)	(249)

(*) the June 2014 income, asset and elimination amounts excludes the VAST expense and have been reclassified to be in line with the June 2015 presentation

Reconciliation of profit

	2015	2014
	\$'000	\$'000
Segment profit	(26,614)	(15,680)
Inter-segment provision (elimination)	8,786	9,066
Group profit/(loss)	(17,828)	(6,614)

Reconciliation of assets

	2015	2014
	\$'000	\$'000
Segment operating assets	16,785	35,248
Loans to controlled entities	(2,806)	(1,765)
Group operating assets	13,979	33,483

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

5. SEGMENT INFORMATION (continued)

Reconciliation of liabilities

	2015	2014
	\$'000	\$'000
Segment operating liabilities	30,010	26,178
Loans to controlled entities	(27,180)	(19,362)
Group operating liabilities	2,830	6,816

Geographic Information

	2015	2014
	\$'000	\$'000
Revenues		
Australia (includes interest, grant and other revenue)	6,342	6,564
United States (100% of profit share income from Dr Reddy's is from sales in the US)	5,583	8,135
Total revenues per consolidated statements of comprehensive income	11,925	14,699
Non-current assets		
Australia	815	13,731
Total non-current assets per consolidated balance sheets	815	13,731

6. OTHER INCOME AND EXPENSES

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
(a) Other income		
Rental income (sub-tenancy)	102	116
Gain on sale of fixed assets	121	-
Net foreign currency gains / (losses)	197	111
Other income / (expenses)	12	(120)
	432	107
(b) Payroll and staff expenses		
Wages and salaries	3,128	3,396
Defined contribution plan expense (superannuation)	267	261
Workers compensation costs	11	7
Annual leave provision	(23)	(41)
Long service leave provision	(74)	(34)
Payroll and Fringe Benefit Tax	151	176
Termination payments and related expenses	498	175
Other employee benefit expenses	(128)	548
	3,830	4,488

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

6. OTHER INCOME AND EXPENSES (continued)

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
(c) Depreciation and amortisation		
Depreciation of property, plant and equipment	124	149
Amortisation of patent	663	1,326
	787	1,475
(d) Onerous contracts charge		
Onerous contracts charge on property lease	550	-
	550	-
(e) Impairment charge		
Impairment of patents	6,954	-
Impairment of goodwill	5,787	-
Impairment of property, plant & equipment	23	-
	12,764	-

7. INCOME TAX

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
(a) Income tax expense		
The major components of income tax expense are:		
Current income tax on profits	62	135
(Increase) / decrease in deferred tax assets	(653)	41
(Decrease) / increase in deferred tax liabilities	(2,284)	(438)
Income tax expense/(benefit)	(2,875)	(262)
(b) Reconciliation of prima-facie income tax payable to income tax expense / (benefit)		
Profit/(loss) from continuing operations before income tax expense	(17,828)	(6,614)
Profit/(loss) from discontinued operations before income tax expense	(863)	(572)
	(18,691)	(7,186)
Tax at the Australian statutory income tax rate of 30% (2014: 30%)	(5,607)	(2,156)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
R&D grant income not assessable for income tax purposes	(1,920)	(1,960)
Share-based payments for employee share option plan	24	433
Entertainment	1	6
Impairment charge for goodwill	1,736	-
Research and development expenditure	4,209	4,511
Other	-	(34)
Sub-total	(1,557)	800

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

7. INCOME TAX (continued)

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
Sub-total	(1,557)	800
Temporary differences not recognised during the current year	(162)	(763)
Previously unrecognised temporary differences recognised in the current year	(653)	-
Prior year adjustment - over/under stated unrecognised tax losses	108	-
Utilisation of previously unrecognised tax losses	(517)	(299)
Unrecognised tax losses	(94)	-
Income tax benefit reported in the statement of comprehensive income	(2,875)	(262)
<i>Attributable to:</i>		
Income tax benefit - continuing operations	(2,937)	(262)
Income tax expense - discontinued operations	62	-
	(2,875)	(262)
<i>(d) Temporary differences for which no deferred tax has been recognised</i>		
Employee entitlements	222	166
Accruals and provisions	-	232
Onerous contract charge	168	-
Deferred depreciation for tax purposes	-	187
Section 40-880 costs	439	1,042
Patent costs	850	922
	1,679	2,549
<i>(e) Deferred tax balances</i>		
<i>Deferred tax assets</i>		
Employee entitlements	46	20
Accruals and provisions	15	-
Onerous contract charge	248	-
Deferred depreciation for tax purposes	126	-
Section 40-880 costs	185	-
Patent costs	33	-
	653	20
<i>Movement</i>		
Opening balance	-	61
Reversal of deferred tax assets	-	(61)
Recognition of previously unrecognised deductible temporary differences	653	-
Recognition of deferred tax assets to the extent of deferred tax liabilities	-	20
Closing balance	653	20
<i>Deferred tax liabilities</i>		
Unrealised foreign exchange gains	-	17
Deferred income	-	3
Interest receivable	1	-
Patents	-	2,285
	1	2,305

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

7. INCOME TAX (continued)

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
Movement		
Opening balance	2,305	2,743
Write-off of deferred tax liability recognised as part of a business combination as a result of impairment of intangible assets acquired	(2,285)	-
Reversal of temporary taxable differences	(20)	(438)
Recognition of taxable temporary differences in the current year	1	-
Closing balance	1	2,305
(f) Current tax liabilities		
Income tax payable on current year taxable income for Audeo Discovery Ltd	62	135
	62	135

(g) Unused tax losses

The Group has tax losses arising in Australia that are available indefinitely for offset against future taxable profits of the companies in which the losses arose, subject to satisfying the relevant income tax loss carry forward rules:

	2015	2014
	\$	\$
Alchemia Limited	67,216,910	69,336,800
Alchemia Oncology Pty Ltd	70,905,191	70,949,013
Total	138,122,101	140,285,813
Potential deferred tax benefit not recognised	41,436,630	42,085,744

8. EARNINGS PER SHARE

	2015	2014
Loss per share	(4.9)	(2.1)

Basic earnings per share amounts are calculated by dividing the net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

	2015	2014
	\$'000	\$'000
Net loss used in calculating basic and diluted earnings per share	15,816	6,924
Number of Shares		
Weighted average number of ordinary shares used in calculating basic earnings per share:	324,629,342	324,306,593

The options are non-dilutive as the Group is in losses.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

9. CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
Cash at bank and on hand	1,877	2,449
Cash on call deposits	3,144	5,500
	5,021	7,949

Cash on call deposits are made for varying periods of between one day and three months, depending on the immediate cash requirement of the Group, and earn interest at the respective cash on call deposit rates.

10. SHORT TERM DEPOSITS

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
Short term deposits*	117	3,117
	117	3,117

*Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

11. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
Research and development tax incentive refund receivable	6,399	6,667
Fondaparinux profit share receivable	1,507	1,618
Other receivables	168	107
	8,074	8,392

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. As at 30 June 2015, there were no receivables balances that were past due (30 June 2014: \$nil).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

12. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
Leasehold improvements		
At cost	1,607	1,607
Accumulated depreciation	(1,607)	(1,607)
Net carrying amount	-	-
Plant and equipment		
At cost	6,255	8,598
Accumulated depreciation/impairment cost	(6,093)	(8,291)
Net carrying amount	162	307
Total property, plant and equipment		
At cost	7,862	10,205
Accumulated depreciation and amortisation	(7,700)	(9,898)
Total written down value	162	307
Reconciliations		
Plant and equipment		
Carrying amount at start of period	307	426
Additions	2	249
Disposals - cost	(2,345)	-
Disposals - accumulated depreciation	2,345	-
Capital in progress	-	(219)
Impairment charge	(23)	-
Depreciation expense	(124)	(149)
Carrying amount at period end	162	307

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

13. INTANGIBLE ASSETS AND GOODWILL

	CONSOLIDATED		
	Patents	Goodwill	TOTAL
	\$'000	\$'000	\$'000
At 1 July 2014	7,617	5,787	13,404
Impairment charge	(6,954)	(5,787)	(12,741)
Amortisation expense	(663)	-	(663)
Net carrying amount at 30 June 2015	-	-	-
Cost (gross carrying amount) at 1 July 2014	18,330	5,787	24,117
Accumulated amortisation	(11,376)	-	(11,376)
Accumulated impairment charge	(6,954)	(5,787)	(12,741)
Net carrying amount at 30 June 2015	-	-	-
At 1 July 2013	8,943	5,787	14,730
Amortisation expense	(1,326)	-	(1,326)
Net carrying amount at 30 June 2014	7,617	5,787	13,404
Cost (gross carrying amount) at 1 July 2013	18,330	5,787	24,117
Accumulated amortisation	(10,713)	-	(10,713)
Net carrying amount at 30 June 2014	7,617	5,787	13,404

The patents and goodwill arose from the acquisition of Meditech (now Alchemia Oncoogy Pty Limited - "AOL") and represents the allocation of the excess of the purchase price over the net tangible assets of AOL. As part of the "fair value" accounting associated with the acquisition, Alchemia recognized the value of the patents and associated IP of Meditech at \$18.3 million. The goodwill balance resulted from the requirement on an acquisition to recognise a deferred tax liability, calculated as the difference between the tax effect of the fair value of the acquired assets and liabilities and their tax bases. These patents have been amortised on a straight line basis over the remaining lives of the patents of between 8 to 20 years. The patents relate entirely to the intellectual property attached to AOL's HyACT technology and active research and development programs based on that technology.

Accounting standards require that all intangible assets with indefinite useful lives, such as goodwill, be tested for impairment, at least annually by comparing their carrying value with their recoverable amount. The standard further requires that goodwill be allocated to each "cash generating units" within AOL. Whilst there are a number of potential cash generating streams all arise from the central technology platform HyACT and are inseparable from it at the time of acquisition. Accordingly, the Company attributes the goodwill to HyACT and does not seek to arbitrarily allocate its value to the numerous potential commercial applications of that technology. For the purpose of testing this goodwill for impairment, any of the related deferred tax liabilities recognised on acquisition that remain at balance date are treated as part of the relevant CGU.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

13. INTANGIBLE ASSETS AND GOODWILL (continued)

Impairment trigger

On 27 October 2014, the Company announced to the market that its pivotal Phase III clinical trial of HA-Irinotecan in metastatic colorectal cancer (mCRC) failed to reach its primary endpoint of statistically significant improvement in Progression Free Survival (PFS) and also did not meet its secondary endpoint of an improvement in overall-survival (OS). Since the announcement of the above top line results, Alchemia has further analysed the data in an attempt to determine potential reasons why the control arm on this study out-performed the historical clinical experience with this drug regimen and the findings were communicated to the market in our investor update on 29 January 2015.

The failure of the pivotal trial presented an indicator of impairment of the HyACT intellectual property acquired and associated goodwill and consequently triggered a formal assessment of the recoverable amount of these intangible assets as at 31 December 2014 in accordance with AASB 136.

Recoverable amount and impairment losses

In assessing the recoverable amounts of the intangible assets the directors have considered the failed phase III trial of its lead asset, the market capitalisation of the Company in comparison to its net tangible assets and off-balance sheet value of fondaparinux, the future investment required to further create value in the HyACT technology, and the Company's cost of capital. In consideration of these factors, and in accordance with accounting standards, the directors have assessed the recoverable amount of the HyACT patents and associated goodwill to be nil as at 30 June 2015. Consequently, the Group has recognised impairment losses of \$6.9 million for HyACT Patents and \$5.8 million for goodwill. The recoverable amount of intangible assets and goodwill has been determined using fair value less costs of disposal. The fair value measurement is categorised within the level 3 hierarchy under AASB13 Fair Value Measurement.

Future value

As per AASB136, an entity is required to assess at the end of each reporting period whether a previously impaired asset is no longer impaired. If there are indicators present which suggest the asset is no longer impaired to the same extent, the entity shall reassess the recoverable amount. Any increase in the recoverable amount (limited to the asset's recoverable amount prior to impairment) is recognised immediately as a gain in the profit and loss, except for goodwill. In the case of goodwill, the asset is permanently impaired.

Deferred tax liability

In addition, the impairment of the HyACT intangible asset resulted in the winding down of the deferred tax liabilities that arose from the acquisition of Meditech. The write back of the deferred tax liability produced an income tax benefit of \$2.3 million in the current year's statement of comprehensive income.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

14. TRADE AND OTHER PAYABLES *

	Note	CONSOLIDATED	
		2015	2014
		\$'000	\$'000
Trade creditors	(i)	309	1,633
Other creditors	(ii)	471	1,889
		780	3,522

Terms and conditions relating to the above financial instruments:

- (i) Trade creditors are non-interest bearing and are normally settled on 30 day terms.
- (ii) Other creditors are non-interest bearing and have an average term of 30 days.

**Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.*

15. PROVISIONS

	Onerous Lease Contract	Premises Make-good	Research & Development Contract	Employee Leave Entitlements	Restructuring	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
CONSOLIDATED						
At 1 July 2014	-	275	-	555	-	830
Provided for/(Utilised) during the year	550	-	561	(127)	466	1,450
At 30 June 2015	550	275	561	428	466	2,280
Current 2015	550	275	561	428	466	2,280
Non-current 2015	-	-	-	-	-	-
	550	275	561	428	466	2,280
Current 2014	-	-	-	456	-	456
Non-current 2014	-	275	-	99	-	374
	-	275	-	555	-	830

Onerous lease contract

In August 2012, the Group entered into a non-cancellable operating lease of the premises at Eight Mile Plains, Brisbane. The lease term was through to 31 July 2016. As a result of the divestment of the VAST technology, and the significant downsizing in activities which occurred after the Phase III oncology trial negative result, it is intended that the Group vacate these premises in the near term. A provision has therefore been recorded for the remaining lease costs from 1 July 2015 through to the lease expiry 31 July 2016.

Premises make good

The operating lease contract referred to above, includes a cost of making good the premises upon termination of the lease which is capped at \$275k. This cost has been fully provided for. Alchemia Limited has provided a bank guarantee of \$110,000 in respect of this amount to the lessor.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

15. PROVISIONS (continued)

Research & development contract

The Group entered into a Clinical Research Services Agreement with PSI CRO AG, or PSI, an international clinical trial management company. Pursuant to this agreement, PSI has been managing and coordinating the HA-Irinotecan Phase III clinical trial. The contractual amount payable to PSI is a fixed fee of US\$10.7 million, payable upon achievement of certain milestones. This contract is able to be terminated by providing 30 days' notice and paying all outstanding costs incurred up to the date of termination. As at 30 June 2015, the Group has determined that the costs incurred by PSI under this contract exceed the remaining milestone payments. Therefore, the remaining milestones have been fully provided for despite the fact they have not yet occurred. In addition, the Group is obliged to reimburse PSI for out-of-pocket expenses and third party vendor costs as and when these are incurred.

Restructuring

Following the announcement of the Phase III for HA-Irinotecan negative trial result in October 2014, the Group implemented a restructuring plan across the entire Group. During this financial year, several staff have been made redundant in accordance with this plan. As at 30 June 2015, a further five staff have been made redundant but have not yet been paid their entitlements. These have been provided for in full.

Employee leave entitlements

Annual leave and long service leave, to the extent it is payable upon termination, has been fully provided for in accordance with applicable federal and state employment law. Associated on-costs, such as payroll tax, have also been provided for.

16. CONTRIBUTED EQUITY

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
(a) Ordinary shares		
Issued and fully paid	151,494	151,302

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Movements in ordinary shares on issue	No of Ordinary Shares	\$'000
At 1 July 2013	324,043,819	151,149
Shares issued to employees under the bonus scheme	366,384	153
At 1 July 2014	324,410,203	151,302
Shares issued to employees under the bonus scheme	313,418	192
At 30 June 2015	324,723,621	151,494

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

16. CONTRIBUTED EQUITY (continued)

(b) Capital Management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

17. RESERVES

	CONSOLIDATED		
	Options Reserve - employee related	Options Reserve - non employee related	Total
	\$'000	\$'000	\$'000
At 1 July 2013	3,651	504	4,155
Share based payments	1,308	134	1,442
At 30 June 2014	4,959	638	5,597
Share based payments	83	-	83
At 30 June 2015	5,042	638	5,680

Nature and purpose of reserves

Options reserve

Non-Employee Options

There was no expense recognised in the 30 June 2015 financial statements in respect to non-employee options (2014: \$134,250).

Share options

The Company has a share based payment option scheme under which options to subscribe for the Company's shares have been granted to certain executives and other employees (refer to Note 22).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

18. DISCONTINUED OPERATIONS

VAST technology

(a) Description

On 27 October 2014, the Group publicly announced that its Phase III trial for HA-Irinotecan in metastatic colorectal cancer did not meet its primary end point. Following that, the Group undertook a strategic review of all of its assets, including a post-hoc subset analysis of the Phase III data in order to better understand the trial results. On 29 January 2015, the Group publicly announced that as a result of its strategic review, it would target the execution of a corporate transaction for the VAST technology by June 30, 2015, for which Alchemia had engaged Evolution Life Sciences as strategic advisor for the VAST transaction.

On 3 July 2015, the Group publicly announced it had executed a deed of assignment to assign its VAST drug discovery technology (VAST) to VAST Biosciences Pty Ltd (VAST Biosciences). VAST Biosciences is a new private company funded by a group of high net worth investors for the purpose of developing and commercialising the VAST intellectual property going forward. The technology is therefore fully assigned to VAST Biosciences as of 3 July 2015 and the Group no longer owns any rights to this technology as at that date. The VAST technology have been classified as a discontinued operation accordingly, and is no longer disclosed as an operating segment within note 5.

(b) Financial performance and cash flow information

The results for VAST for the year are presented below:

	2015	2014
	\$'000	\$'000
Revenue	1,044	1,104
Expenses	(1,907)	1,676
Operating income	(863)	(572)
Finance costs	-	-
Impairment loss recognised on the measurement to fair value less costs to sell	-	-
Loss before tax from discontinued operations	(863)	(572)
Income tax benefit	(62)	-
Loss for the year from discontinued operations	(925)	(572)

The net cash flows incurred by VAST are as follows:

	2015	2014
	\$'000	\$'000
Operating cash (outflows)	(1,040)	(681)
Net cash (outflows)	(1,040)	(681)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

18. DISCONTINUED OPERATIONS (continued)

(c) Earnings per share from discontinued operations

The earnings per share for VAST is as follows:

	2015	2014
	\$	\$
Basic earnings/(Losses) per share from discontinued operations	\$0.003	\$0.002
Diluted earnings/(Losses) per share from discontinued operations	\$0.003	\$0.002

19. CASH FLOW STATEMENT RECONCILIATION

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
Net loss after tax	(15,816)	(6,924)
Adjustments for		
Fair value of stock based compensation and bonus shares issued	275	1,595
Depreciation & amortisation	787	1,475
Impairment charge	12,764	-
Net foreign exchange differences relating to cash	(131)	41
Gain on sale of fixed assets (net of proceeds receivable)	(115)	-
Changes in assets and liabilities		
Decrease/(Increase) in trade and other receivables	318	4,332
Decrease/(Increase) in other current assets	337	(263)
Decrease/(Increase) in other non-current assets	-	235
Decrease/(Increase) in deferred tax assets	(633)	41
Increase/(Decrease) in deferred revenue	(289)	(205)
Increase/(Decrease) in trade and other payables	(2,742)	(1,458)
Increase/(Decrease) in current tax liabilities	(73)	-
Increase/(Decrease) in current provisions	1,824	22
Increase/(Decrease) in deferred tax liabilities	(2,304)	(438)
Increase/(Decrease) in non-current provisions	(374)	(74)
Net cash used in operating activities	(6,172)	(1,621)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

20. RELATED PARTY DISCLOSURE

(a) Subsidiaries

The consolidated financial statements include the financial statements of Alchemia Limited and its direct/indirect subsidiaries listed in the following table:

Name	Country of Incorporation	% of Equity interest held by the consolidated entity	
		2015	2014
<i>Direct subsidiaries</i>			
Audeo Oncology Inc.	United States of America	100%	100%
<i>Indirect subsidiaries</i> ⁽ⁱ⁾			
Alchemia Oncology Pty Ltd	Australia	100%	100%
Audeo Discovery Pty Ltd	Australia	100%	100%
Alchemia Oncology Europe Pty Ltd	UK	100%	100%

During the current financial year, Alchemia Limited's investment in Audeo Oncology Inc was fully impaired due to the Phase III trial for HA-Irinotecan failing to meet its primary end point in October 2014.

(i) Audeo Oncology owns 100% of these subsidiaries.

(b) Ultimate Parent

Alchemia Limited is the ultimate parent of the Group as it indirectly owns 100% of issued capital of AOL and Audeo Discovery Pty Ltd.

(c) Key management personnel (KMP)

Details relating to KMP, including remuneration paid, are included in note 21.

(d) Transactions with directors

The following table sets out the amount of fees paid or payable to directors for consultancy services provided to the consolidated entity during the financial year:

	2015	2014
<i>Director</i>	\$'000	\$'000
T Ramsdale ⁽ⁱ⁾	129	10
N Drona ⁽ⁱⁱ⁾	-	200

(i) From 10 November 2014 to 30 June 2015 Tracie Ramsdale was employed as an executive director, to replace the CEO who left the Company on 10 November 2014. In 2014, Tracie Ramsdale provided consulting services for a specific project.

(ii) The board unanimously resolved to make a one-off payment to Nathan Drona in recognition of the considerable time and effort that he provided the CEO and management of the company during part of his tenure as interim chairman from July to December 2013.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

21. KEY MANAGEMENT PERSONNEL

(a) Compensation for key management personnel

	CONSOLIDATED	
	2015	2014
	\$	\$
Short-term employee benefits	1,804,881	2,120,969
Post-employment benefits	146,603	161,693
Termination benefits	374,847	175,000
Other long-term benefits	(626)	21,201
Equity-based payment	71,819	687,373
Total compensation	2,397,524	3,166,236

(b) Option holdings of key management personnel

30 June 2015	Balance at Beginning of Period	Granted as Remuneration	Options Exercised	Options Forfeited/ Expired Cancelled	Balance at End of Period	Not Exercisable	Exercisable
Directors	764,000	-	-	-	764,000	-	764,000
Executives	4,661,166	1,000,000	-	(400,000)	5,261,166	1,000,000	4,261,166
Total	5,425,166	1,000,000	-	(400,000)	6,025,166	1,000,000	5,025,166

Share options held by key management personnel under the Employee and Officers Option Plan to purchase ordinary shares have the following expiry dates and exercise prices:

Issue date	Expiry date	Exercise price	2015	2014
			Number outstanding	Number Outstanding
27-May-11	26-May-16	\$0.742	630,000	630,000
14-Mar-13	14-Mar-18	\$0.337	2,260,000	2,260,000
30-Aug-13	30-Aug-18	\$0.594	903,000	903,000
11-Nov-13	11-Nov-17	\$0.337	468,166	468,166
11-Nov-13	11-Nov-17	\$0.715	764,000	764,000
10-Feb-14	26-Feb-19	\$0.887	-	400,000
10-Sep-14	09-Sep-19	\$0.8795	600,000	-
06-Jan-15	05-Jan-20	\$0.25	400,000	-
Total			6,025,166	5,425,166

Refer to note 22 for further details on the plan.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

21. KEY MANAGEMENT PERSONNEL (continued)

(c) Shareholding of key management personnel (consolidated)

Ordinary shares held in Alchemia Limited (number)

30 June 2015	Balance 1 July 2014	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2015
Directors	1,303,819	-	-	-	1,303,819
Executives	1,895,283	208,188	-	(1,152,865)*	950,606
Total	3,199,102	208,188	-	-	2,254,425

*Shares held by executives who have ceased employment with the Company during the year.

22. SHARE-BASED PAYMENT PLAN

Recognised share-based payment expenses

The expense recognised from employee services received during the year is shown in the table below:

	Note	CONSOLIDATED	
		2015	2014
		\$'000	\$'000
Expenses arising from equity-settled share-based payment transactions	17	83	1,442

Types of share-based payment plan

Employee Share Option Plan, 'ESOP'

An Employee and Officers Option Plan has been established where Alchemia Limited may, at the discretion of the Board, grant options over the ordinary shares of Alchemia Limited to Directors, Executives, contractors and employees of the consolidated entity. The options, issued for nil consideration, are exercisable any time two to three years after the issue date and expire four to five years after the issue date.

The exercise of the options is not subject to any performance conditions other than the employee remaining in the employ of the Company at the date of exercise. The options cannot be transferred and will not be quoted on the ASX.

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

	2015		2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	9,349,666	0.48	5,500,500	0.39
- granted	1,000,000	0.63	5,168,500	0.59
- forfeited	(637,000)	(0.71)	(1,319,334)	(0.50)
Balance at end of year	9,712,666	0.48	9,349,666	0.48
Exercisable at end of year	8,712,666	0.46	5,500,500	0.39

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

22. SHARE-BASED PAYMENT PLAN (continued)

Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding as at 30 June 2015 is 2.58 years (2014: 3.43 years)

Range of exercise price

The range of exercise prices for options outstanding at end of the year was \$0.25 – \$0.8795 (2014: \$0.28 – \$0.8866).

Weighted average fair value

The weighted average fair value of options granted during the year was \$0.0724 (2014: \$0.1494).

Options held as at the end of the reporting period

The following table summarises information about options held as at 30 June 2015:

Number Issued	Grant date	Vesting date	Exercise Price	Expiry Date
630,000	27 May 2011	26 May 2012	\$0.742	26 May 2016
400,000	28 Nov 2011	28 Nov 2012	\$0.329	16 Aug 2017
8,000	09 Mar 2012	08 Mar 2013	\$0.280	08 Mar 2017
110,000	03 Oct 2012	03 Oct 2013	\$0.555	03 Oct 2017
4,180,000	14 Mar 2013	14 Mar 2014	\$0.337	14 Mar 2018
1,552,500	30 Aug 2013	30 Aug 2014	\$0.594	30 Aug 2018
600,000	11 Nov 2013	11 Nov 2014	\$0.588	11 Nov 2016
764,000	11 Nov 2013	11 Nov 2014	\$0.715	11 Nov 2017
468,166	11 Nov 2013	14 Mar 2014	\$0.337	11 Nov 2017
200,000	09 Sept 2014	09 Sep 2015	\$0.8795	09 Sep 2019
200,000	09 Sept 2014	31 Aug 2016	\$0.8795	09 Sep 2019
200,000	09 Sept 2014	31 Aug 2017	\$0.8795	09 Sep 2019
400,000	06 Jan 2015	05 Jan 2016	\$0.25	05 Jan 2020
<u>9,712,666</u>				

Option pricing model

Equity-settled transactions

The fair value of the equity-settled share options granted under the ESOP is estimated as at the date of grant using a Black-Scholes option pricing model taking into account the terms and conditions upon which the option were granted. The model takes into account the share price volatilities and co-variances of the Company, and excludes the impact of any estimated forfeitures related to the service-based vesting conditions on the basis that management has assessed the forfeiture rate to be zero.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

22. SHARE-BASED PAYMENT PLAN (continued)

The following table lists the inputs to the model used for the year ended 30 June 2015 and 30 June 2014.

30 June 2015

	10 Sep 2014	6 Jan 2015
Expected volatility (%)	38%	18%
Risk free interest rate (%)	2.82%–2.94%	2.15%
Expected life of options (years)	3.0–4.0	3.0
Dividend yield (%)	0%	0%
Option exercise price (\$)	0.8795	0.25
Weighted average share price at grant date (\$)	0.62	0.092

30 June 2014

	30 Aug 2013	11 Nov 2013	26 Feb 2014
Expected volatility (%)	55%	55%	39%
Risk free interest rate (%)	2.69%	2.88%	2.95%–3.18%
Expected life of options (years)	3.0	2.4	3.0–4.0
Dividend yield (%)	0%	0%	0%
Option exercise price (\$)	0.5935	0.5935–0.7150	0.8866
Weighted average share price at grant date (\$)	0.4150	0.63	0.62

The expected volatility for the options granted on 6 January 2015 was determined with reference to the historical volatility of the Company's share price since the Phase III trial result was announced in October 2014 up to the date of grant. This assumption was made on the basis it would be a more appropriate predictor of future volatility given the significant changes in the company's operations and activities since the phase III result was announced. The volatility of all other options grants were determined using the 12 month historical average of the Company's share price.

23. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

	CONSOLIDATED	
Note	2015	2014
	\$'000	\$'000
Employee Benefits		
Current		
The aggregate employee benefit liability is comprised of:		
Accrued wages, salaries, bonus and on-costs	10	417
Annual and long-service leave provisions	428	456
Redundancy provisions (current)	466	–
	904	873
Non-current		
Annual and long-service leave provisions (non-current)	–	99
Total Benefits	904	972

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

24. EXPENDITURE COMMITMENTS

(a) Capital expenditure commitments

There were no capital expenditure commitments as at 30 June 2015 and 2014.

	Note	CONSOLIDATED	
		2015	2014
		\$'000	\$'000
(b) Lease expenditure commitments			
<i>Operating leases (non-cancellable):</i>			
Minimum lease payments			
- not later than one year		34	447
- later than one year and not later than five years		-	490
Aggregate lease expenditure contracted for at reporting date		34	937

The operating leases are in respect of the lease of the premises in Brisbane and office equipment. In FY2015, the lease payments for the premises in Brisbane have been fully provided for and are not shown as a commitment.

	Note	CONSOLIDATED	
		2015	2014
		\$'000	\$'000
(c) R&D Project commitments:			
- not later than one year		-	200
- later than one year and not later than five years		-	-
Total commitments		-	200

The Group has entered into agreements with certain organisations for ongoing research and clinical trials. As at 30 June 2015, all remaining contractual commitments have been fully provided for and recorded on the balance sheet.

(d) Novozymes Biopharma DK royalty agreement

The Group entered into a royalty agreement with Novozymes in July 2009 whereby the Group is committed to pay Novozymes a 1.0% royalty on the net sales from any HA-Irinotecan product and a 0.5% royalty on net sales of any other product containing HA developed under the HyACT patents in return for Novozymes having funded a portion of the Phase II clinical trials of HA-Irinotecan. If Novozymes is capable of supplying HA to the Group's specifications and the Group does not use them as its supplier for HA, the Group is committed to pay a 2.0% royalty on the net sales from any HA-Irinotecan product and a 1.0% royalty on net sales of any other product containing HA. Subject to certain termination events, including breach of the agreement by the other party, certain insolvency events relating to the other party or if it becomes unlawful for the other party to perform under the agreement, this agreement will remain in effect until the expiry of the last of Group's relevant HyACT patents. As of 30 June, 2015, the latest date on which any of the Group's relevant HyACT patents expire is 25 March 2025.

25. CONTINGENT ASSETS AND LIABILITIES

There are no other contingent assets or liabilities as at 30 June 2015.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

26. AUDITORS' REMUNERATION

	CONSOLIDATED	
	2015	2014
	\$	\$
The auditor of the Group is Ernst & Young. Amounts received or due and receivable by the auditor of the company for:		
• an audit or review of the financial report of the entity and any other entity in the consolidated entity	80,000	120,000
• other assurance related services in relation to the entity and any other entity in the consolidated entity	-	-
	80,000	120,000

27. PARENT ENTITY DISCLOSURE

	PARENT	
	2015	2014
	\$'000	\$'000
Current assets	7,147	13,081
Non-current assets	657	55,409
TOTAL ASSETS	7,804	68,490
Current liabilities	1,713	1,274
Non-current liabilities	1	299
TOTAL LIABILITIES	1,714	1,573
Contributed equity	151,494	151,302
Reserves	5,680	5,597
Accumulated losses	(151,084)	(89,982)
TOTAL EQUITY	6,090	66,917
Total comprehensive income/(loss) attributable to equity	(61,102)	(4,941)

The non-current assets of the parent represents its investment in Audeo Oncology Inc. This investment represented the value of the oncology assets acquired in 2006. At 30 June 2015, this investment has been fully impaired, and written down to nil, as a result of the oncology Phase III trial failing to meet its primary end point in October 2014. Refer note 13 for further information.

There are no guarantees entered into by the parent entity in relation to the debts of its subsidiaries as at 30 June 2015 and 2014.

There are no contingent assets and liabilities and capital expenditure commitments as at 30 June 2015 and 2014.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

28. SUBSEQUENT EVENTS

(a) Conditional sale of Alchemia Oncology Pty Ltd

1 July 2015

The Group publicly announced it had executed a binding term sheet for the conditional sale of 100% of the outstanding share capital of its subsidiary – Alchemia Oncology Pty Limited (Alchemia Oncology) to a US biotechnology company – Panther Biotechnology Inc. (OTC PINK: PBYA) (Panther). Alchemia Oncology owns all of Alchemia's oncology assets, including the HyACT technology. On this date, Alchemia entered into an initial 30-day exclusivity period with Panther, which was to be automatically extended for an additional 90 days provided that Panther files its prospectus (S-1) with the SEC prior to the conclusion of the initial exclusivity period.

The financial terms of the deal are outlined below:

- Panther common stock (Nasdaq listed) equal to US\$15 million
- US\$1 million cash, upon the potential commencement of a new Phase III trial;
- mid-single digit royalties on world-wide net sales of HYACT products; and
- reimbursement of certain pre-approved operational costs incurred by Alchemia Oncology during the exclusivity period up to sale completion, including all oncology staff employment costs, up to a maximum of US\$300,000, and non-refundable.

The material conditions precedent included:

- Panther filing its prospectus with the SEC within 30 days and successfully raising funds and listing its shares to trade on NASDAQ within 120 days of the term sheet;
- payment of operational expenses (non-refundable);
- entry into definitive agreements fully documenting the terms agreed within the exclusivity period;
- Board and any necessary shareholder approvals of both parties for the transaction;
- no material adverse change occurring;
- representations and warranties being correct in all material respects; and
- any necessary regulatory and stock exchange approvals being obtained.

3 August 2015

The Group publicly announced that Panther had failed to file its prospectus (Form-S1) with the US SEC by the end of the initial exclusivity period and therefore the binding term sheet effectively expired on 31 July 2015. The Group is currently pursuing outstanding amounts owed to it as a result of this termination.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

28. SUBSEQUENT EVENTS (continued)

(b) Assignment of VAST drug discovery technology

On 3 July 2015, the Group publicly announced it had executed a deed of assignment to assign its VAST drug discovery technology (VAST) to VAST Biosciences Pty Ltd (VAST Biosciences). VAST Biosciences is a new private company funded by a group of high net worth investors for the purpose of developing and commercialising the VAST intellectual property going forward.

The terms of the assignment to VAST Biosciences include:

- an upfront payment of \$100,000;
- a tiered royalty stream, whereby Alchemia is entitled to 10% of net revenues received under the existing collaboration agreements (mentioned above) and 5% of net revenues received from any other sources;
- Vast Biosciences assuming liability for any transaction fees that may become due and payable to Evolution Life Science Partners – an investment bank engaged by Alchemia as strategic advisor to assist with securing an investment and/or partner to accelerate the development of the VAST technology.

Net revenues includes any milestone payments, royalties on net sales, or other revenues that may be received by VAST Biosciences generated by the VAST technology. The higher royalty rate applicable for any products arising from the existing collaboration agreements is in recognition of the historical investment made by Alchemia into these programs.

As a result of this transaction, Alchemia will not be incurring any further expenditure on VAST beyond 30 June 2015.

There are no other items, transaction or event of a material or unusual nature which have occurred since the year end.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Alchemia Limited, I state that:

1) In the opinion of the Directors:

(a) The financial statements, notes, and the additional disclosures included in the directors report and designated as audited, of the Company are in accordance with the *Corporations Act 2001*, including:

I. Giving a true and fair view of the Company's financial position as at 30 June 2015 and of their performance for the year ended on that date; and

II. Complying with Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001; and

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2; and

(c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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 period ending 30 June 2015.

On behalf of the Board

A handwritten signature in black ink, appearing to be 'Ken Poutakidis', written in a cursive style.

Ken Poutakidis
Chairman

Signed at Melbourne on 28 August 2015

Independent auditor's report to the members of Alchemia Limited

Report on the financial report

We have audited the accompanying financial report of Alchemia Limited, which comprises the balance sheet as at 30 June 2015, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

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

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

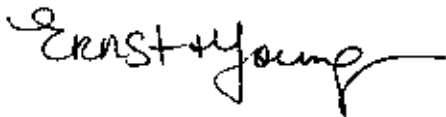
- a. the financial report of Alchemia Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2015. 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.

Opinion

In our opinion, the Remuneration Report of Alchemia Limited for the year ended 30 June 2015, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Winna Brown
Partner
Brisbane
28 August 2015

Shareholder Information

Distribution of Equity Securities

Distribution of holders of equity securities as at 18 September 2015 are as follows:

Range	Ordinary Shares			Unlisted Options		
	No. of Securities	%	No. of Holders	No. of Securities	%	No. of Holders
100,001 and more	268,143,484	82.6	316	8,931,916	92.0	20
50,001 – 100,000	20,748,124	6.4	276	572,750	5.9	8
10,001 – 50,000	26,531,065	8.1	1,109	190,000	2.0	4
5,001 – 10,000	5,134,156	1.6	661	18,000	0.1	2
1,001 – 5,000	3,582,877	1.1	1,362	–	–	–
0 – 1,000	583,915	0.2	1,483	–	–	–
Total	324,723,621	100	5,207	9,712,666	100	34

Number of holders of less than a marketable parcel of shares is 3,752.

Voting Rights

The voting rights attaching to each class of equity securities are:

- i. Ordinary shares
On a show of hands, every member present at a meeting, in person or by proxy, shall have one vote and upon a poll each share shall have one vote.
- ii. Options
No voting rights.

Substantial Shareholders

Holders of substantial holdings of ordinary shares in the Company and the number of shares in which they and their associates have a relevant interest as at 18 September 2015 are as follows:

Shareholder	No. of Securities in which a Relevant Interest is Held
Allan Gray Australia Pty Limited and its related bodies corporate	56,755,167
Sandon Capital Pty Ltd	42,932,484
National Nominees Ltd as Custodian for Australian Ethical Smaller Companies Trust	20,776,887
Hunter Hall Investment Management Limited (and associated entities)	25,896,569
Armada Trading Pty Ltd (and its relevant associated entities)	16,502,217

Shareholder Information (continued)

Twenty Largest Shareholders of Quoted Securities

Shareholder	Ordinary Listed Securities	
	No. of Securities	% of Holders
Top 20 holders	179,287,976	55.21
Balance of share register	145,435,645	44.79
Total issued capital	324,723,621	100

The names of the 20 largest shareholders of each class of equity security as at 18 September 2015 are listed below:

Shareholder	No. of Securities	% held
Citicorp Nominees Pty Limited	41,235,672	12.7
One Managed Invt Funds Ltd	31,425,696	9.68
National Nominees Limited	15,227,295	4.69
HSBC Custody Nominees (Australia) Limited	13,865,028	4.27
Armada Trading Pty Limited	12,919,974	3.98
J P Morgan Nominees Australia Limited	10,355,320	3.19
Ms Linlin Li	10,000,000	3.08
Jagen Pty Ltd	8,610,464	2.65
Lekon Global Pty Ltd	6,000,000	1.85
California Capital Equity LLC	5,854,719	1.8
Ms Aiping Zhang	5,100,000	1.57
Pinwillow Pty Ltd	3,759,100	1.16
Maxlen Nominees Pty Ltd	2,292,730	0.71
Erdnarp Enterprises Pty Limited	2,268,323	0.7
Mrs Gillian Karen Nes & Mr Ronald Nes	2,006,645	0.62
Pindari Nominees Pty Ltd	2,003,800	0.62
Heather Fleming Andrews & Peter Ronald Andrews	2,000,000	0.62
Trina Investments Pty Ltd	1,642,009	0.51
Ms Rella Itin	1,436,508	0.44
Mr Lazar Itin	1,284,693	0.4
Total	179,287,976	55.21

Corporate Directory

ABN 43 071 666 334

Website

www.alchemia.com.au

Directors

Mr K Poutakidis
Mr N Drona
Dr T Ramsdale

Company Secretary

Mr S Denaro

Registered Office

3 Hi-Tech Court, Brisbane Technology Park
Eight Mile Plains Qld 4113, Australia

Principal Place of Business

3 Hi-Tech Court, Brisbane Technology Park
Eight Mile Plains Qld 4113, Australia
Phone: +61 7 3340 0200

Share Register

Link Market Services, Locked Bag A14, Sydney South NSW 1235
Telephone: 1300 554 474
Facsimile: (02) 9287 0303; Facsimile: (02) 9287 0309 (for proxy)
Email: registrars@linkmarketservices.com.au
Internet: www.linkmarketservices.com.au

Stock Exchange Listing

Alchemia Limited is listed on the Australian Securities Exchange (ASX) with the code: ACL

Solicitors

Allens
Melbourne
Australia

McCullough Robertson
Brisbane
Australia

Bankers

Westpac Bank
Garden City
Australia

Auditors

Ernst & Young
Australia

**Brisbane Head Office
Alchemia Limited**

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