Alchemia Limited
ABN 43 071 666 334

Final ASX Report For the year ended 30 June 2012

(Previous corresponding period: Year ended 30 June 2011)

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## 30 June 2012 Final ASX Report

Results for announcement to the Market		% Change	\$'000
Revenue from continuing operations	decrease	45.1% to	726
Net loss for the year	increase	12.3% to	(15,083)
Net loss for the year attributable to members of parent	increase	12.3% to	(15,083)
Dividends			
Interim dividend			_
Final dividend			-
Consolidated accumulated losses	Current period		Previous
		correspo	nding period
		Year ended 3	30 June 2011
	\$'000		\$'000
Accumulated losses at the beginning of the	(103,072)		(89,642)
financial period			
Net loss attributable to members	(15,083)		(13,430)
Accumulated losses at the end of the financial	(118,155)		(103,072)
period			
Earnings per share (EPS)			
Basic EPS	Loss 6.2 cents	Lo	oss 7.0 cents
Diluted EPS	Loss 6.2 cents	Lo	oss 7.0 cents
Weighted average number of ordinary shares	242,209,502		191,424,576
outstanding during the period used in the			
calculation of the Basic EPS			
NTA backing			
Net tangible asset backing per ordinary share	2.9 cents		0.7 cents

## Comments by directors

The Group reported a net loss of \$15.1 million for the 2012 financial year, up from \$13.4 million in 2011.

Please refer to the "Operating and Financial Review" in the directors' report for a detailed explanation and analysis of the Group's performance for the 12 months ended 30 June 2012.

### ABN 43 071 666 334

Website: www.alchemia.com.au

### **Directors**

M Bridges - Chairman

P Smith - Managing Director and Chief Executive Officer

C Montagner (Resigned 22 November 2011)

T Ramsdale N Withnall

### **Company Secretary**

Stephen 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: (02) 8280 7111

Facsimile: (02) 9287 0303; Facsimile: (02) 9287 0309 (for proxy)

Email: <u>registrars@linkmarketservices.com.au</u> Internet: <u>www.linkmarketservices.com.au</u>

### Stock Exchange Listing

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

### Solicitors

Corrs Chambers Westgarth

Brisbane

Australia

McCullough Robertson Lawyers

Brisbane

Australia

**Bankers** 

Westpac Bank

Garden City

Australia

#### **Auditors**

**Ernst & Young** 

Australia

Your directors submit their report for the year ended 30 June 2012.

#### **Directors**

The names of Alchemia Limited's 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.

Mel Bridges (Chairman)
Pete Smith (Managing Director and Chief Executive Officer)
Carlo Montagner (Resigned 22 November 2011)
Tracie Ramsdale
Nerolie Withnall

Directors' qualifications, experience, special responsibilities and period in office are set out in the section of this report entitled "Board of Directors" on page 83.

### 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:

	Number of Ordinary Shares	Options
M Bridges	739,258	<del>-</del>
P Smith	1,285,503	1,000,000
T Ramsdale	1,303,819	_
N Withnall	_	_

### Secretary

### **Stephen Denaro**

The Secretary's qualifications and experience are set out in the management profiles section of this report entitled "Senior Management" on pages 79–80.

### **Dividends**

Alchemia Limited did not declare or pay any dividends during the financial year (2011: nil).

### **Principal activities**

Alchemia Limited (the "Company" or the "Parent"), established in 1995, is a biotechnology company developing new human therapeutics based on its proprietary drug discovery, drug targeting and synthesis technologies.

### Operating and Financial Review

### **Review of operations**

The financial year to June 2012 in many ways should be viewed as a landmark year in the development of Alchemia Limited and its consolidated entities ("Alchemia" or the "Group"), and certainly one where the Group was able to drive forward a number of plans and programs.

As we prepare for the receipt of our first profits from sales of fondaparinux and for the demerger and listing of Audeo Oncology Inc. ("Audeo Oncology"), we are well positioned to deliver outcomes and value to shareholders. Highlights of the year include:

- **July**: Approval of generic fondaparinux by the US Food and Drug Administration and the subsequent launch by our global marketing partner Dr Reddy's Laboratories ("Dr Reddy's")
- **September**: Initiation of recruitment to an investigator-sponsored clinical study of HA-Irinotecan vs irinotecan in Extensive Stage Small Cell Lung Cancer
- November: Successful completion of an oversubscribed \$16m fundraising to sophisticated US and Australian investors
- **November**: Announcement of proposed plans to demerge and list Alchemia's oncology assets as a separate company
- December: Successful completion of a Share Placement Plan to shareholders raising \$5m
- January: Recruitment of first patient to the pivotal Phase III clinical trial of HA-Irinotecan in 2<sup>nd</sup> line metastatic colorectal cancer
- February: Grant of further US patents protecting the process for synthesizing generic fondaparinux
- April: Filing for approval of fondaparinux in the EU by Dr Reddy's through the EMA mutual recognition process
- June: Incorporation of Audeo Oncology, Inc in the US, in preparation for the demerger of Alchemia Limited's oncology assets.

The approval and successful launch of generic fondaparinux in the US in the first half of the financial year is a major achievement for the company and testament to the huge effort of many people in Alchemia, Dr Reddy's and the many other companies with whom we have worked and collaborated over the years. It proved to be an exceptionally challenging project both at the technical level and at the corporate level as we grappled with a protracted review time with the regulatory authorities. While the delays did not aid the development of the company, the support of our shareholders and the ongoing dedication of our staff have ensured that the value we perceive across all of our programs has been preserved. At the Annual General Meeting in November 2011 we said that Alchemia was, at last, on the front foot. The excellent progress made since that meeting speaks for itself and considerable advances are anticipated for the current financial year.

We believe that HyACT is a broadly applicable platform technology that has the potential for enhancing the efficacy of a range of anti-cancer drugs in a number of different cancer indications.

We expect our VAST small molecule drug discovery technology, will give us the ability to research and develop new anti-cancer drug candidates. Currently this technology has been deployed in several collaborations with pharmaceutical companies, including Amgen, Inc and Genentech Inc., and research institutes, including the University of Queensland, the Institute of Molecular Biology, Brisbane, the Monash Institute of Pharmacological Science and the Walter and Eliza Hall Institute, exploring its capability and application in non-cancer therapeutic areas. These collaborations are exploiting the chemistry and molecular diversity offered by the VAST technology and diversity scanning array by addressing known targets in an innovative way.

### Operational performance and highlights for the year:

### Generic Fondaparinux

Fondaparinux is an anticoagulant drug used in the prevention and treatment of deep vein thrombosis (DVT) and pulmonary embolism (PE); it is mainly used 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 patents on the drug expired. Sanofi had used all of the patent life of the drug working out how to make it at scale. Following the merger of Sanofi with Aventis, the drug was sold to GlaxoSmithKline which, like its predecessor, continued to invest heavily in clinical development of the drug. The protection from generics was not from patents but the incredible complexity of the synthesis of the active molecule. In March 2009, our partner, Dr Reddy's, filed an Abbreviated New Drug Application (ANDA) for the approval of fondaprinux manufactured using Alchemia's proprietary process.

Fondaparinux was approved in July 2011 and almost immediately Dr Reddy's started to ship product. Shortly thereafter, GSK launched an Authorized Generic (AG) through Apotex. An AG does not need to go through an approval process as it is simply a rebadged version of the branded drug. Alchemia receives 50% of profits from the sales of fondaparinux in the territory after certain development costs have been recouped by our partner. We expect to start receiving profits from fondaparinux in the second half of financial year 2013 following the repayment of those costs under the terms of our agreement. Market share in the retail segment of the market has been strong with Dr Reddy's now commanding a 41% share of prescriptions and dollars sold. Market share in the hospital segment is expected to increase through the year.

Application for approval in the European Union was filed with the European Medicines Agency (EMA) in April 2012, shortly after the expiry of 10 years of data exclusivity. Approval times in the EU are generally shorter than in the US and launch is anticipated sometime in the calendar year 2013. Dr Reddy's also has rights to commercialize fondaparinux outside of North America under the terms of our 'Rest of World' agreement. Commercialization will principally focus on markets where Arixtra is already selling and where our fondaparinux can be sold as a typical generic drug.

Chemists at Alchemia and at Dr Reddy's continue to focus on optimizing the synthetic route for fondaparinux in order to maximize profitability. This, along with the exploitation of the hospital sector in the US and new markets should result in a pattern of increasing receipts by Alchemia.

### HyACT Technology:

Each of our current product candidates combines HyACT with a known anti-cancer drug. HyACT uses hyaluronic acid, or HA, which delivers additional drug to the tumor and promotes uptake of the drug into the tumor cells. HyACT binds to the activated receptor CD44, a naturally occurring HA receptor, which has been shown in numerous studies to be present in high levels in many prevalent solid tumor cancer types but, more importantly, is generally not activated in healthy tissue. CD44 over-expression is associated with more aggressive, metastatic tumors and is also a marker for treatment-resistant cancer stem cells. "Cancer stem cells," sometimes referred to as tumor-initiating cells, is a term used to describe a small subset of cells within the tumor that, although not actual stem cells, demonstrate stem cell-like characteristics. Cancer stem cells are generally more resistant to current chemotherapy regimens than cancer cells, 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 studies, that the CD44 receptor-based mechanism has the potential for improving the effectiveness of drugs combining HyACT with an anti-cancer drug, which we refer to as HyACT-targeted drugs. In preclinical studies, HyACT-targeted drugs delivered at least double the dose of anti-cancer drug to the tumor when compared with the drug alone. Our in vitro studies have shown that HyACT significantly increases drug uptake into cancer cells. Finally, preclinical studies have also shown HyACT-targeted chemotherapies are more potent than the original drug at killing cancer stem cells and other CD44-expressing cells.

Our lead product candidate is HyACT-targeted irinotecan, or HA-Irinotecan, for the treatment of mCRC. Irinotecan, which is marketed in major markets by Pfizer as Camptosar, is an off-patent chemotherapy drug widely used in the treatment of mCRC. In a 76 patient, randomized Phase II clinical trial of HA-Irinotecan compared with irinotecan alone, HA-Irinotecan was able to double the time it took for patients' tumors to grow (also known as progression free survival, or PFS) in mCRC patients. After having consultations with the U.S. Food and Drug Administration, or FDA and the EMA, we commenced a pivotal Phase III clinical trial testing HA-Irinotecan in patients with mCRC in November 2011. Recruitment and enrolment of patients for the clinical trial was initially slow, but is currently on track and we have increased the number of trial sites. This trial is designed to recruit 390 irinotecan-naïve, second and third line patients and will directly compare HA-Irinotecan with irinotecan alone, in both cases as components of the FOLFIRI chemotherapy regimen (leucovorin, 5-fluorouracil and irinotecan).

In addition, a Phase II clinical trial of HA-Irinotecan in SCLC started recruitment in September 2011. This investigator-sponsored trial will examine the clinical benefits of HA-Irinotecan compared with irinotecan alone, as well as the direct effect of HA-Irinotecan on cancer stem cells and other aggressive cancer cell populations through analysis of tumor biopsies. The objective of this Phase II trial is to demonstrate that, by targeting the CD44 receptor on cancer stem cells, HA-Irinotecan may enhance the killing of the cancer stem cell and cancer cell populations, which may ultimately translate into increased patient survival. We are participating in this investigator-sponsored trial primarily because of the potential to further validate the HyACT technology and the data on HA-Irinotecan's activity on cancer stem cells that it may provide. We currently do not intend to pursue further clinical trials or commercialization of HA-Irinotecan for the treatment of SCLC.

### VAST™ Drug Discovery:

The VAST technology is based on high throughput, synthetic chemistry on pyranose scaffolds and comprises an array of compounds, which due to their rigidity and high chirality (compound shape), can enable the systematic exploration of new drugs. In 2009, we completed the synthesis of a diversity scanning array, or DSA, a suite of approximately 14,000 pyranose-based compounds that systematically arrange typical binding groups in a broad range of possible three-dimensional orientations. This array has the ability to identify the shape and functional requirements of molecules that modulate a target.

We expect VAST small molecule drug discovery technology will give us the ability to research and develop new anti-cancer drug candidates. This technology has been deployed in several collaborations with pharmaceutical companies, including Amgen, Inc. and Genentech Inc., and research institutes, including the University of Queensland, the Institute of Molecular Biology, Brisbane and Monash Institute of Pharmacological Science and the Walter and Eliza Hall Institute exploring its capability and application in non-cancer therapeutic areas. These collaborations are exploiting the chemistry and molecular diversity offered by the VAST technology and diversity scanning array, or DSA, by addressing known targets in an innovative way. We plan to initiate programs to study inflammation pathways associated with cancer stem cells and cancer metabolism with a target involved in HA synthesis. These programs are intended to make use of the selectivity and compound efficiency of the VAST technology. Our VAST programs are run on a business model designed to limit our cash expenditures through the use of partnerships and, if and when available, government grants. These programs include the allosteric modulation of family B G-protein coupled receptors for chronic obstructive pulmonary disease and type II diabetes, as well as opioid receptor agonists and ion channel inhibitors for pain.

#### **Performance Indicators**

Management and the Board monitor the Group's overall performance, from its implementation of the mission statement and strategic plan through to the performance of the Group against operating plans and financial budgets.

The Board, together with management, have identified key performance indicators (KPIs) that are used to monitor performance. Key management and the Board monitor KPIs on a regular basis.

### **Dynamics of the Business**

Whilst the Group recorded revenues for the 2012 financial year, these were due to the receipt of grants and interest income. However, the Group is not yet profitable. Alchemia Limited expects to be in receipt of revenues from the sale of its generic fondaparinux in the US from the beginning of financial year 2013 from its marketing partner Dr Reddy's. Whilst the development cost have already been recouped by Dr Reddy's in accordance with the agreement, the amount of royalties will not be known until late August/early September 2012 and then will be subject to audit. As a result of the uncertainty over the quantum of revenue which will be earned, no revenues have been accrued in the 2012 financial year.

Until the first receipt of royalties from the sale of generic fondaparinux, the Group remains dependent on funding from equity markets and through collaborative and out-licensing deals. The Group ended the 2012 financial year with a consolidated cash balance of \$14.0 million.

### Operating Results for the Year

The Group reported a net loss of \$15.1 million for the 2012 financial year, up from \$13.4 million loss in 2011.

Total income for the period was \$0.7 million, down by \$0.6 million from the previous period (2011: \$1.3 million). This decrease was driven predominantly by lower grant income received from the Queensland State Government under the Smart State Innovation Fund for the Company's collaboration with (i) Monash Institute of Pharmaceutical Science to discover new drug candidates for G-Protein coupled receptors (NIRAP) and (ii) University of Queensland to discover novel opioid analgesics with reduced side effects (RIPP). Interest income was down on the corresponding period due to lower cash balances in interest bearing term deposits.

Operating expenditure of \$16.2 million was slightly higher than the corresponding period (2011: \$15.1 million). The 2012 expenditure represents funding of ongoing research and development programs together with \$5.7 million on the HA-Irinotecan Phase III trial.

Other expenses include the impact of foreign exchange movements. In the current period the Group recognised a \$0.4 million exchange gain arising from the exchange movement on the US dollar bank accounts and foreign currency denominated payables.

The consolidated cash position of the group over the reporting period has seen a net increase in cash balances, from \$5.6 million as at 30 June 2011 to \$14.0 million as at 30 June 2012 due to capital raising activities in November and December 2011, which raised \$20 million (net) through the issue of 88 million shares. Net cash outflows from operating activities in the current year, which totalled \$11.8 million, was slightly up from last year's \$11.1 million.

The Group has an established treasury function responsible for tracking and monitoring the Group's cash position against forecasts. This allows management to proactively accelerate or decelerate programs based upon its cash position and anticipated changes, through financing or other activities, in that position.

### Significant Events After the Balance Date

On 6 July 2012, Audeo Oncology filed its registration statement with the Securities and Exchange Commission of the United States in preparation of its Initial Public Offering on the NASDAQ Securities exchange.

Concurrent with its IPO, Audeo Oncology will complete its demerger from Alchemia Limited where shares of Audeo Oncology will be distributed to Alchemia Limited's shareholders in a 1 (Audeo Oncology share): 37 (Alchemia Limited share) basis. The following transactions will also be consummated prior to or concurrently with the demerger:

- (i) Seven employees of Alchemia Limited will be transferred to Audeo Oncology including the CEO and the CFO who will transfer upon completion of the demerger. Audeo Oncology will assume the legal liability of leave entitlements of these personnel that will be transferred, totalling approximately \$223,000.
- (ii) Any remaining net amounts due to or from Alchemia Limited will be settled in cash.

On 21 August 2012, the Board of Directors adopted the transition services agreement. Under the agreement, Alchemia Limited may request that Audeo Oncology provide certain accounting, payroll, management, investor relations, office facilities, intellectual property management and administrative services to Alchemia Limited following the demerger. Under the agreement, Alchemia Limited must pay a monthly service charge and secondment fee and reimburse out of pocket expenses in return for the services.

On 21 August 2012, the Board of Directors of Audeo Oncology adopted the 2012 Equity Incentive Plan (the "Stock Plan"). The Stock Plan provides for the award of grants of incentive stock options, nonstatutory stock options, restricted stock, restricted stock units, stock appreciation rights, performance units and, performance shares of Audeo Oncology's common stock. Awards can be made to employees, outside directors, and consultants of Audeo Oncology and will be subject to terms within each award agreement.

On 21 August 2012, Audeo Discovery Pty Ltd entered into an exclusive technology licence agreement with Alchemia Limited for the development of the VAST technology. This agreement requires Audeo Discovery to fund the development of such technology with a minimum amount of AUD\$500,000 and commits to pay Alchemia Limited 5% royalties on net sales, if any, in the future based on Audeo Discovery's successful development of the products. Because the achievement of this milestone is neither probable nor reasonably estimable, the Company has not recorded a liability on its balance sheet for any such contingencies. The timing and the amount of royalty payments in the future are not certain. Audeo Discovery may immediately terminate the agreement by written notice if an insolvency event occurs in relation to Alchemia Limited, and either party may terminate for a material breach of the agreement that is not cured within a specified number of days. Four employees of Alchemia Limited who worked on the VAST technology transferred to Audeo Discovery in August 2012. Audeo Discovery has assumed the legal liability of leave entitlements for these employees totalling \$87,000.

The Directors are not aware of any significant change in the state of affairs of the company after the balance date other than what is covered in this report.

### Likely developments

Any further information on likely developments in the operations of the consolidated entity and the expected results of operations has not been included in this report because the Directors believe it would result in unreasonable prejudice to the consolidated entity.

#### Corporate structure

Alchemia Limited (the "Company" or the "Parent") 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 subsidiaries Alchemia Inc. (incorporated and domiciled in USA) and Audeo Oncology (incorporated and domiciled in USA) and its indirect 100% owned subsidiaries AOL and Audeo Discovery Pty Ltd.

The Group was restructured on 28 June 2012, whereby the Company capitalised all of the loans outstanding from AOL for new ordinary shares of AOL. The Company subsequently transferred all of its shares in AOL to Audeo Oncology in return for 7.5 million ordinary shares of Audeo Oncology.

### 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:

- b) 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;
- c) 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' 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:

Member	Member Board of			Meetings of Committees								
	Directors' Meetings		Audit & Risk		Remuneration		Nominations		Due Diligence			
	Held	Attended	Held Attended		Held	Attended	Held	Attended	Held	Attended		
M Bridges	10	9	4	4	1	1	1	1	2	1		
P Smith	10	10	4	4	l	-	1	1	2	1		
C Montagner <sup>1</sup>	2	1	1	1	1	1	1	1	-	1		
T Ramsdale	10	10	4	4	1	1	1	1	2	2		
N Withnall	10	9	4	4	-	_	1	1	2	1		

<sup>&</sup>lt;sup>1</sup> C Montagner resigned on 22 November 2011.

### Committee membership

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

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

	Audit & Risk	Remuneration	Nomination	Due Diligence
M Bridges	✓	✓	✓ (c)	✓
P Smith	X	X	✓	✓
C Montagner <sup>1</sup>	✓	√(c) <sup>3</sup>	✓	✓
T Ramsdale	√2	√(c) <sup>4</sup>	✓	✓
N Withnall	✓ (c)	<b>√</b> 5	✓	✓

Note: (c) Designates the chairman of the committee.

### Significant changes in state of affairs

The directors are not aware of any significant change in the state of affairs of the Company after the balance date that is not covered in this report.

#### **Employees**

As at 30 June 2012, Alchemia and its subsidiaries had a total of 21 employees (2011: 20 employees).

### **Corporate Governance**

Details of Alchemia's corporate governance policies and procedures including information about Board Committees are set out in the section of this report entitled "Corporate Governance".

### Tax consolidation

The Company has not formed a tax consolidated group at 30 June 2012.

#### 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.

<sup>&</sup>lt;sup>2</sup> T Ramsdale appointed as member of audit & risk committee on 22 November 2011.

<sup>&</sup>lt;sup>3</sup> C Montagner was chairman of remuneration committee until his resignation on 22 November 2011.

<sup>&</sup>lt;sup>4</sup> T Ramsdale appointed as chairman of remuneration committee on 22 November 2011.

<sup>&</sup>lt;sup>5</sup> N Withnall appointed as member of remuneration committee on 22 November 2011.

### 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 received or are due to receive the following amounts for the provision of non-audit services:

	2012	2011
Australian scheme of arrangement	\$53,400	
Total	\$53,400	

### Auditor's Independence and Non-Audit Services

The directors received the following declaration from the auditor of Alchemia Limited:



111 Eagle Street Brisbane QLD 4000 Australia GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333 Fax: +61 7 3011 3100 www.ey.com/au

# 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 2012, 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

Ernst-young

Winna Brown Partner Brisbane

21 August 2012

### 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

#### **Directors**

M Bridges Chairman (Non-Executive)

P Smith Managing Director and Chief Executive Officer

C Montagner (Resigned 22 Nov 2011)

T Ramsdale

N Withnall

Director (Non-Executive)

Director (Non-Executive)

#### **Executives**

C Walker Chief Financial Officer S Denaro Company Secretary

T Brown Vice President - Preclinical Development
W Meutermans Vice President - Drug Development

M West Vice President – Intellectual Property and Technology Transfer

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.

### 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:

Staff Level	Bonus Entitlement	Bonus	"Split"	Hurdles		
	(% of salary)	Cash	Shares	• 50% subject to positive TSR &		
Level 1	10%	50%	50%	comparator group;		
Level 2	15%	33.3%	66.6%	<ul> <li>25% on achievement of operational</li> </ul>		
Level 3	20%	33.3%	66.6%	objectives and team work;		
Level 4	30%	20%	80%	25% on achievement of conduct of		
				duties above and beyond		
				expectations.		

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 TSR was selected as the 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;
- No bonus is payable regardless of the Company's Total Shareholder Return (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 :					
<below median<="" td=""><td>0% of max entitlement</td></below>	0% of max entitlement				
> above median	50% of max entitlement				
3 <sup>rd</sup> quartile pro rata	50-100% of max entitlement				
	(2% per % point above median)				
4th quartile	100% of max entitlement				

The comparator companies for determination of the TSR are:

- Acrux Limited;
- Avexa Limited:
- Bionomics Limited;
- Biota Holdings Limited;
- Neuren Pharmaceuticals Limited;
- Pharmaxis Limited;
- Phosphagenics Limited;
- Prana Biotechnology Limited;
- Prima Biomed Limited;
- Progen Pharmaceuticals Limited; and
- 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.

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

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

For the year ended 30 June 2012, the details of the entitlement and award of incentive payments to the Chief Executive Officer and key management personnel (KMP) executives were as set out below.

	Incer	ntive
	Awarded	Forfeited
Director:		
Peter Smith	80%	20%
Chief Executive Officer		
Key management personnel - Executives:		
Charles Walker	80%	20%
Chief Financial Officer		
Tracey Brown	80%	20%
Vice President - Oncology		
Wim Meutermans	80%	20%
Vice President - Drug Development		
Michael West	80%	20%
Vice President - Intellectual Property and Technology Transfer		

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 employees who have demonstrated exceptional performance in a year. For the year 30 June 2012 690,000 options were granted (2011: nil).

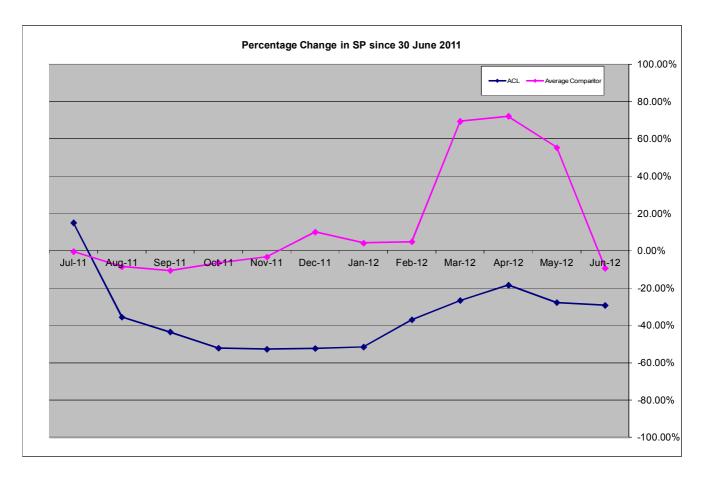
## Relating rewards to performance

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 company wide 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.

	2012	2011	2010	2009	2008
Average share price	\$0.432	\$0.639	\$0.606	\$0.224	\$0.647
Percentile ranking of TSR against	8	7	5	7	18
comparator group					
% increase (decrease) in fixed	1.09%	(6.34%)	(2.95%)	1.53%	3.01%
remuneration					
% increase (decrease) in total	6.12%	(18.88%)	(2.14%)	4.27%	(11.35%)
remuneration					

Percentage monthly change in Alchemia Limited's share price vs comparator group for the year to 30 June 2012:



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

	2012	2011	2010	2009	2008	2007	2006	2005	2004
30 June	0.45	0.61	0.52	0.36	0.30	0.86	1.08	0.53	0.61

### 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.

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 \$500,000, approved by shareholders in 2007.

The sum of Directors' fees falls within the aggregate fee pool approved in 2007. Consulting fees paid to Carlo Montagner and Tracie Ramsdale for services to the Company in addition to his/her role as non executive director are not considered to form part of this aggregate pool. No additional fees are paid to Directors for participating on Board committees. There are no retirement allowances payable to Non-Executive Directors, however all Non-Executive Directors with the exception of Mel Bridges receive a superannuation guarantee contribution that is currently nine percent of their fees.

### **Employment Contracts**

### **Chief Executive Officer**

Peter Smith is employed under an employment contract with no fixed expiry. His contract provides for a salary package of \$408,704 including superannuation. In addition there is an annual performance based short term incentive of 30% of his package. The salary is subject to annual review and Board approval. The performance based incentive, which has a maximum payout of 30% of annual salary package, is 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 his existing contract, the company is required to give six months notice of termination, or payment in lieu of notice.

### Other executives

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

Executives	Charles Walker	Tracey Brown	Michael West	Wim Meutermans					
Position	Chief Financial	VP Oncology	VP IP &	VP Discovery					
	Officer		Technology						
			Transfer						
Base salary	Base salary is sub	ject to remuneratio	n committee appro	val and reviewed					
	annually in June								
Superannuation	Su	Superannuation guarantee contribution of 9%							
Incentive	Annual bonus of	Annual bonus of 30% of salary subject to the company achieving							
arrangements	performance obje	ectives and achieven	nent of team & indi	vidual performance					
	objectives	objectives							
Length of contract	No fixed term	No fixed term	No fixed term	No fixed term					
Notice period									
– employee	Six months	Six months	Six months	Six months					
- termination by	Six months	Six months	Six months	Six months					
company									

Remuneration of key management personnel and the five highest paid executives of the Company and the Group Table 1: Remuneration for the year ended 30 June 2011 and 30 June 2012

		Short	term		Post em	oloyment	Long	term	Equity-base	d payments	Total	Performance related
· <del></del>	Salary & Fees	Cash Bonus	Non monet ary Benefits	Other	Superannuation Contributions	Retirement Benefits	Inceptive plans	Long service leave	Options	Shares		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
Non-	Executive Direc	tors										
Mel Bridges - Chair	man											
2012	90,000	0	0	0	0	0	0	0	0	0	90,000	n/a
2011	90,000	0	0	0	0	0	0	0	0	0	90,000	n/a
Carlo Montagner 1												
2012	27,000	0	0	0	2,430	0	0	0	0	0	29,430	n/a
2011	54,000	0	0	0	4,860	0	0	0	0	0	58,860	n/a
Tracie Ramsdale												
2012	54,000	0	0	60,000	4,860	0	0	0	0	0	118,860	n/a
2011	54,000	0	0	60,000	4,860	0	0	0	0	0	118,860	n/a
Nerolie Withnall												
2012	54,000	0	0	0	4,860	0	0	0	0	0	58,860	n/a
2011	54,000	0	0	0	4,860	0	0	0	0	0	58,860	n/a
Sub-total Non-	-Executive Dire	ctor										
2012	226,000	0	0	60,000	12,150	0	0	0	0	θ	297,160	n/a
2011	252,000	0	0	60,000	14,580	0	0	0	0	0	326,580	n/a
Executive Dire	ector											
Pete Smith												
2012	372,917	8,391	0	0	35,787	0	0	6,047	45,757	33,563	502,462	17.46%
2011	361,487	8,130	0	0	33,983	0	0	4,276	0	32,522	440,398	9.23%
Other Key Man	agement Person	inel										
Tracey Brown												
2012	217,535	4,895	6,568	0	21,367	0	0	5,529	17,433	19,578	292,905	14.31%
2011	210,867	9,486	4,605	0	19,873	0	0	6,414	0	37,942	289,187	16.40%
Charles Walker												
2012	288,960	6,502	0	0	26,322	0	0	399	116,755	26,006	464,944	32.10%
2011	82,923	3,780	0	0	7,463	0	0	248	61,936	15120	171,470	47.14%
David Green <sup>2</sup>												
2012	0	0	0	0	0	0	0	0	0	0	0	n/a
2011	210,250	0	0	0	7,574	0	0	0	0	0	217,824	0.00%
Wim Meutermans												
2012	201,196	4,661	0	0	26,234	0	0	5,365	12,203	18,646	268,305	13.24%
2011	194,846	9,034	0	0	24,904	0	0	5,532	0	36,135	270,451	16.70%
Michael West												
2012	194,981	4,661	0	0	32,263	0	0	5,538	12,203	18,646	268,292	13.24%
2011	187,615	6,775	0	0	31,996	0	0	3,969	0	27,102	257,457	13.16%
Sub-total exec	cutive KMP											
2012			B		141 072	0	0	22,878	204,361	116,439	1,796,908	19.47%
	1,275,689	29,110	6,568	0	141,973		<u> </u>				[	<u>,</u>
2011	1,235,688 1,247,988	29,110 37,205	8,568 4,605	0	125,793	0	0	20,439	61,936	148,821	1,646,787	15.06%
	1,247,988											
2011	1,247,988											

<sup>1</sup> Carlo Montagner resigned 22 November 2011.

The amount included 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.

<sup>2</sup> David Green resigned 28 January 2011.

Table 2: Compensation options: Granted and vested during the year (Consolidated)

	Granted		Terms & Cor Fair Value per option at grant date	Exercise price per	ach Grant Expiry	First Exercise	Last Exercise	Vest	ed
30 June 2012	No.	<b>Grant Date</b>	(\$)	option (\$)	Date	Date	Date	No.	%
Directors									
P Smith	400,000	23 Nov 11	\$0.1313	\$0.3286	16 Aug 17	28 Nov 12	16 Aug 17	=	-
Executives									
T Brown	100,000	18 Aug 11	\$0.2001	\$0.3286	16 Aug 17	01 Sep 12	16 Aug 17	-	-
C Walker	50,000	18 Aug 11	\$0.2001	\$0.3286	16 Aug 17	01 Sep 12	16 Aug 17	-	-
W Meutermans	70,000	18 Aug 11	\$0.2001	\$0.3286	16 Aug 1 <i>7</i>	01 Sep 12	16 Aug 17	_	_
M West	70,000	18 Aug 11	\$0.2001	\$0.3286	16 Aug 17	01 Sep 12	16 Aug 17	-	-
Total	690.000					•		_	_

		Terms & Conditions for each Grant						Vested	
30 June 2011	Granted No.	Grant Date	Fair Value per option at grant date (\$)	Exercise price per option (\$)	Expiry Date	First Exercise Date	Last Exercise Date	No.	%
Directors									
P Smith	-	-	-	-	_	-	-	-	-
Executives									
T Brown	-	-	_	_	-	_	-	_	-
C Walker	630,000	18 Feb 11	\$0.2698	\$0.7421	16 Feb 17	18 Feb 12	16 Feb 17	_	-
W Meutermans	_	-	_	_	_	_	-	_	-
M West	-	-	-	-	-	-	-	-	-
Total	630,000							_	-

Table 3: Options granted as part of remuneration

	Value of options	Value of options	Value of options	Remuneration
	granted during the	exercised during the	lapsed during the	consisting of
	year	year	year	options for the year
	\$	\$	\$	%
P Smith	\$52,520	_	-	9.5%
T Brown	\$20,010	_	_	6.3%
C Walker	\$10,005	_	-	26.7%
W Meutermans	\$14,007	-	-	4.8%
M West	\$14,007	_	-	4.8%
Total	\$110,549	-	-	12.0%

## Table 4: Shares issued on exercise of compensation options (Consolidated)

There were no shares issued on exercise of compensation options during the period.

30 June 2012	Shares issued No.	Paid per share \$	Unpaid per share \$
-	-	-	-
30 June 2011			
D Green	500,000	\$0.387	-

Signed in accordance with a resolution of the directors.

P Smith

Managing Director and Chief Executive Officer

Signed at Brisbane on 21 August 2012

Alchemia Limited is committed to protecting and enhancing shareholder value and adopting best practice governance policies and procedures. At a minimum we will ensure that all regulatory requirements are met and ethical standards maintained. Alchemia Limited adheres to the substantive and procedural recommendations of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (2<sup>nd</sup> Edition) (**Principles**) as amended in June 2010. Alchemia adheres to the three new recommendations and other amendments relating to diversity introduced by this amendment on 30 June 2010. The company has subsequently established a diversity policy in April 2010, and as part of this diversity policy, the Company will now report on measurable diversity objectives on an ongoing basis in its annual reports.

Alchemia is committed to a corporate culture which embraces diversity in all aspects of the workplace, including the processes of selecting and appointing directors and employees. Currently 33% of Alchemia's total staff and 50% of the board of directors is female. It is the company's measurable objective to maintain a female composition of at least 30% females amongst both directors and staff.

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.

Comprehensive information about our current corporate governance policies can be found on our website at <a href="https://www.alchemia.com.au">www.alchemia.com.au</a>.

#### **ROLE OF THE ALCHEMIA LIMITED 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:

- Appoint the Chief Executive Officer (CEO) and monitor performance of the CEO and senior Executives;
- 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;
- · 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.

This complies with Principle 1.1.

#### **BOARD COMPOSITION AND INDEPENDENCE**

The Alchemia Limited Board has four Directors. The Board is comprised of three Non-Executive Directors being Mr Melvyn Bridges (Chairman), Dr Tracie Ramsdale and Ms Nerolie Withnall and one Executive Director, Dr Peter Smith (CEO and Managing Director).

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

Directors (except for the CEO) are subject to re-election by rotation at annual general meetings as stipulated in the Corporations Act and the Company's constitution. There are no maximum terms for Non-Executive Director appointments. Newly elected Directors must seek re-election at the first general meeting of shareholders following their appointment.

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.

The Board has concluded that all Non-Executive Directors are independent. In reaching this conclusion the Directors considered the following:

- Dr Tracie 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. As a period of 5 years has now expired since serving in an executive capacity that relationship is no longer deemed to affect Dr Ramsdale's independence. Dr Ramsdale also provides consulting services to, and chairs Alchemia's Scientific Advisory Board. Notwithstanding these past and present associations the Board is satisfied that these do not affect her ability nor her willingness to operate independently as a director, and is satisfied, through her demonstrated history of participation in robust and energetic board debate, that these have not and will not interfere with the independent exercise of her judgement.
- Nerolie Withnall and Melvyn Bridges (Chairman) do not have any previous association with the Company or any other relationships that are relevant to their independence.

The Chairman is independent and 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.
- 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 are exercised by different individuals, 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 company's Board structure is compliant with Principles 2.1, 2.2, 2.3 and 2.6.

#### DIRECTORS' ACCESS TO INDEPENDENT PROFESSIONAL ADVICE

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.

This complies with Principles 2.1 and 2.6.

#### **REVIEW OF BOARD PERFORMANCE**

The Board undertakes to regularly review its performance against appropriate measures. The most recent review of its performance and that of its committees and individual Directors was conducted in October 2009. This involved a self assessment process which required the completion and evaluation of detailed questionnaires on business and management matters. The results of this assessment have been reviewed by the Board and have been used to establish new performance objectives. A review of the Board's performance (and of its committees and individual Directors) is scheduled to occur in the second half of calendar year 2012.

Formal performance assessment is undertaken on all Executives including the CEO on an annual basis.

This complies with Principles 1.2, 2.5 and 2.6.

### **ACCESS TO INFORMATION**

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 monthly reports from management and have unrestricted access to company records and information.

All Directors have direct access to the Company Secretary who is accountable to the Chief Executive and, (through the Chairman), the Board on all corporate governance matters.

This complies with the recommendations under Principles 2.5.

### **BOARD COMMITTEES**

Alchemia's Board has established three standing committees to assist in meeting its responsibilities — the Audit and Risk Committee, the Remuneration Committee and the Nomination 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 from our website.

#### **Remuneration Committee**

The Board has established a Remuneration Committee, which meets at least two times per year. The Remuneration Committee comprises the following Non-Executive Directors:

- Carlo Montagner (Chairman until 22 November 2011);
- Tracie Ramsdale (Chairman from 22 November 2011);
- Nerolie Withnall (appointed as member from 22 November 2011); and,
- Mel Bridges.

Attendance at meetings during the year is set out in the Directors' Report.

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.

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 Remuneration Committee complies with Principles 8.1 and 8.2.

#### Audit and Risk Committee

The Board has established an Audit and Risk Committee, which meets regularly throughout the year. The Audit and Risk Committee comprises three Independent Non-Executive Directors, and its current members are:

- Nerolie Withnall (Chairman);
- Tracie Ramsdale (appointed as member from 22 November 2011);
- Carlo Montagner (resigned 22 November 2011); and,
- Mel Bridges.

Attendance at meetings during the year is set out in the Directors' Report.

The members of the Audit and Risk Committee have significant financial, business, and legal backgrounds, expertise and qualifications. The full particulars of each member's relevant experience and qualifications, and other relevant matters are contained in this annual report.

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 Audit and Risk Committee generally invites the CEO, the Chief Financial Officer (CFO) and external auditors to attend meetings. The CEO (Peter Smith) and the CFO (Charles Walker) sign a statement to the half yearly and full year accounts to the effect that the Company's financial reports present a true and fair view in all material respects of the Company's financial condition and operational results, and are in accordance with relevant accounting standards.

The Audit and Risk Committee structure and charter comply with Principles 4.1, 4.2 and 4.3.

#### Nomination committee

The Nomination Committee comprises all members of the Board and meets where necessary to consider and select candidates for the position of director.

The Nomination Committee structure and functions comply with Principles 2.4.

#### **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:

- The principal strategic, operational and financial risks are identified;
- Effective systems are in place to monitor and manage risks; and
- Reporting systems, internal controls and arrangements for monitoring compliance with laws and regulations are adequate.

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;
- Issued and revised 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.

The 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 oversees an annual assessment of the effectiveness of risk management and internal compliance and control.

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, 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.

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 nonfinancial nature.

The Board acknowledges the Revised Supplementary Guidance to Principle 7 issued by the ASX in June 2008 and has continued its proactive approach to risk management.

For the purposes of assisting investors to understand better the nature of the risks faced by Alchemia Limited, 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:

- > Fluctuations in interest rates, exchange rates & demand volumes;
- > Molecule or clinical trial failure;
- > Changes in technology which make Alchemia's programs uncommercial or redundant;
- Force majeure events by significant suppliers such as Dr Reddy's;
- Increasing costs of operations, including labour costs; and,
- > Changed operating, market or regulatory environments as a result of governmental changes to the healthcare system, particularly reimbursements.

The risk oversight policies and practices comply with Principles 7.1 and 7.2.

### **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.

This code of conduct complies with the obligations in Principle 3.1.

### **SHARE TRADING**

The Board has set the following rules relating to trading in the Company's securities by Directors, management and relevant employees:

- 1. Directors, Officers and employees will not engage in short term trading of the Company's shares.
- 2. Directors, Officers and employees will neither buy nor sell at a time when they possess information which, if disclosed publicly, would be likely to materially affect the market price or value of the Company's shares.
- 3. Directors, Officers and employees will notify the Board in advance of any material intended transactions involving the Company's shares (through the Chairman or Secretary).

- 4. Subject to points 1 to 3 above, Directors, Officers and employees can only buy or sell shares in the Company during a four week period starting immediately after the occurrence of one of the following events:
  - a) Release of yearly results to the ASX; or
  - b) Release of half yearly results to the ASX; or
  - c) The Annual General Meeting.
- 5. Points 1 to 4 above apply to Directors, Officers and employees (including their nominee companies) and their associates, such as spouses, dependent children, family trusts and family companies where the transactions are known to the Director.

The share trading policy will be monitored and amended by the Board to reflect pending changes to the ASX Listing Rules and Guidelines.

The share trading policy complies with Principle 3.2.

#### **REPORTING TO 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's disclosure policy is supported by a formal policy and comprehensive procedures on continuous and periodic disclosure to ensure compliance with the ASX Listing Rules and Corporations Act obligations.

All Company announcements, financial reports, presentations to analysts and other significant briefings are posted on the company's website after release to ASX. The Company Secretary is responsible for communications with ASX.

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 Principles 5 and 6.1.

### **CERTIFYING FINANCIAL REPORTS**

The Chief Executive Officer and Chief Financial Officer 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 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.

This complies with Principles 7.2 and 7.3.

### **AUDIT GOVERNANCE**

The Company's external audit services are provided by Ernst & Young. The Partner responsible for the audit was 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.

# **Balance Sheet**

As at 30 JUNE 2012

		CONSOL	IDATED	ALCHEMIA	LIMITED
	Note	2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	9	12,346	3,536	4,811	3,364
Term deposits	10	1,677	2,050	1,677	2,050
Trade and other receivables	11	79	306	186	285
Other current assets	12	1,572	70	98	39
TOTAL CURRENT ASSETS		15,674	5,962	6,772	5,738
NON-CURRENT ASSETS					
Property, plant and equipment	13	391	725	143	268
Intangible assets and goodwill	14	16,055	17,380	-	_
Investment in controlled entities	15	-	_	54,448	17,669
Other non-current assets	12	236	212	-	10
Deferred tax assets	7 _	15	46	6	6
TOTAL NON-CURRENT ASSETS		16,697	18,363	54,597	17,953
TOTAL ASSETS		32,371	24,325	61,369	23,691
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	16	3,319	944	1,383	363
Provisions	17	548	692	399	563
Deferred revenue		351	74	351	74
Rights	21	466	_	-	_
TOTAL CURRENT LIABILITIES		4,684	1,710	2,133	1,000
NON-CURRENT LIABILITIES					
Provisions	17	327	277	299	260
Deferred tax liability	7 _	3,095	3,524	6	6
TOTAL NON-CURRENT LIABILITIES		3,422	3,801	305	266
TOTAL LIABILITIES		8,106	5,511	2,438	1,266
NET ASSETS	_	24,265	18,814	58,931	22,425
EQUITY					
Contributed equity	18	138,522	118,249	138,522	118,249
Reserves	19	3,898	3,637	3,898	3,637
Accumulated losses	19	(118,155)	(103,072)	(83,489)	(99,461)
TOTAL EQUITY	. 5	24,265	18,814	58,931	22,425

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

# **Statement of Comprehensive Income**

FOR THE YEAR ENDED 30 JUNE 2012

		CONSOLIDATED		ALCHEMIA	LIMITED
	Note	2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000
Continuing operations					
Interest revenue		389	491	386	490
Grant revenue		331	807	331	807
Other revenue		6	25	_	25
Total revenue		726	1,323	717	1,322
Depreciation and amortisation	6b	(1,730)	(1,724)	(169)	(300)
Payroll and staff expenses	6c	(3,582)	(3,051)	(2,617)	(2,312)
Business development	00	(5,562)	(140)	(3)	(10)
Research and development costs		(7,209)	(6,949)	(817)	(787)
Administration and corporate expenses		(2,771)	(1,802)	(1,927)	(1,726)
Rent and occupancy expense		(321)	(701)	(320)	(700)
Share based payment expense		(486)	(403)	(376)	(317)
Provision for intercompany loan	22f	` -	_	(1)	(7,660)
Changes in fair value of rights	21	(466)	_	_	_
Other income/(expense)	6a	363	(381)	21,485	(510)
Profit/(loss) from continuing operations					
before income tax		(15,481)	(13,828)	15,972	(13,000)
Income tax benefit	7	398	398	_	_
Net income/(loss) from continuing					
operations		(15,083)	(13,430)	15,972	(13,000)
Other comprehensive income		-	(13,130)	-	-
Total comprehensive income/(loss)					
attributable to equity holders of the					
parent		(15,083)	(13,430)	15,972	(13,000)
Earnings per share (cents per share)					
- Basic earnings/(loss) per share (cents)	8	(6.2)	(7.0)		
- Diluted earnings/(loss) per share (cents)	8	(6.2)	(7.0)		
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 2012

Consolidated	Issued Capital	Accumulated losses	Reserves	Total equity
	\$'000	\$'000	\$'000	\$'000
At 1 July 2010	117,599	(89,642)	3,574	31,531
Net loss from continuing operations	-	(13,430)	-	(13,430)
Comprehensive income for the period	_	_	_	-
Total comprehensive income for the period	_	(13,430)	_	(13,430)
Shares issued on conversion of employee options	310	_	_	310
Cost of share based payment	_	_	63	63
Issuance of shares - executive and				
employee incentive plans shares	340			340
Total as at 30 June 2011	118,249	(103,072)	3,637	18,814
Net loss from continuing operations	-	(15,083)	-	(15,083)
Comprehensive income for the period	_	-	_	_
Total comprehensive income for the period	_	(15,083)	_	(15,083)
Cost of share based payment	_	-	261	261
Issuance of shares - executive and				
employee incentive plans shares	180	-	-	180
Capital placement	21,146	-	-	21,146
Cost of capital placement	(1,053)	-	-	(1,053)
Total as at 30 June 2012	138,522	(118,155)	3,898	24,265

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

# **Statement of Changes in Equity**

FOR THE YEAR ENDED 30 JUNE 2012

Parent	Issued Capital	Accumulated losses	Reserves	Total Equity
	\$'000	\$'000	\$'000	\$'000
At 1 July 2010	117,599	(86,461)	3,574	34,712
Net loss from continuing operations	-	(13,000)	-	(13,000)
Comprehensive income for the period		-	-	_
Total comprehensive income for the period	_	(13,000)	-	(13,000)
Shares issued on conversion of employee options	310	_	_	310
Cost of share based payment	-	_	63	63
Issuance of shares – executive and				
employee incentive plans shares	340	_	_	340
Total as at 30 June 2011	118,249	(99,461)	3,637	22,425
Net profit from continuing operations	_	15,972	-	15,972
Comprehensive income for the period		-	-	_
Total comprehensive income for the period	_	15,972	-	15,972
Cost of share based payment	-	-	261	261
Issuance of shares - executive and				
employee incentive plans shares	180	-	-	180
Capital placement	21,146	-	-	21,146
Cost of capital placement	(1,053)	-	-	(1,053)
Total as at 30 June 2012	138,522	(83,489)	3,898	58,931

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

# **Cash Flows Statement**

FOR THE YEAR ENDED 30 JUNE 2012

		CONSOL	IDATED	ALCHEMIA	LIMITED
	Note	2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000
Cash flows from operating activities					
Receipts from grants		841	646	841	646
Payments to suppliers and employees		(13,020)	(12,222)	(4,878)	(5,205)
Other income received		6	25	_	25
Interest received		373	471	370	469
Net cash flows used in operating activities	20	(11,800)	(11,080)	(3,667)	(4,065)
Cash flows from investing activities					
Purchase of property, plant and equipment	13	(71)	(550)	(44)	(5)
Advances to subsidiary		_	-	(15,571)	(7,660)
Redemption of short term deposits		373	10,000	373	10,000
Net cash flows from (used in) investing activities		302	9,450	(15,242)	2,335
Cash flows from financing activities					
Proceeds from issues of ordinary shares	18	21,146	310	21,146	310
Payment of share issue costs	18	(1,053)	-	(1,053)	_
Net cash flows from financing activities	Ī	20,093	310	20,093	310
Net increase/(decrease) in cash and cash equivalents		8,595	(1,320)	1,184	(1,420)
Net foreign exchange difference relating to cash		215	(503)	263	(503)
Cash and cash equivalents at beginning of year		3,536	5,359	3,364	5,287
Cash and cash equivalents at end of year	9	12,346	3,536	4,811	3,364

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

# **Notes to the Financial Statements**

FOR THE YEAR ENDED 30 JUNE 2012

#### 1. CORPORATE INFORMATION

The financial report of Alchemia Limited (the "Company" or the "Parent") for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors on 21 August 2012.

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.

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

### (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.

FOR THE YEAR ENDED 30 JUNE 2012

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) New accounting standards and interpretations

(i) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as

	at 1	July	201	1.
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Reference	Title	Application date of standard	Application date for Group
AASB 124 (Revised)	The revised AASB 124 Related Party Disclosures (December 2009) simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:	1 January 2011	1 July 2011
	(a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other		
	(b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other		
	(c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other		
	A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.		
AASB 2010-4	Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2011	1 July 2011
	[AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]		
	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments.		
	Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.		
	Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions.		
	Clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.		

FOR THE YEAR ENDED 30 JUNE 2012

Reference	Title	Application date of standard	Application date for Group
AASB 2010-5	Amendments to Australian Accounting Standards  [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]  This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.  These amendments have no major impact on the requirements of the amended pronouncements.	1 January 2011	1 July 2011
AASB 1054	Australian Additional Disclosures  This standard is as a consequence of phase 1 of the joint Trans— Tasman Convergence project of the AASB and FRSB.  This standard, with AASB 2011–1 relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas:  (a) Compliance with Australian Accounting Standards  (b) The statutory basis or reporting framework for financial statements  (c) Whether the entity is a for–profit or not–for–profit entity  (d) Whether the financial statements are general purpose or special purpose  (e) Audit fees  (f) Imputation credits	1 July 2011	1 July 2011
AASB 2010-6	Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]  The amendments increase the disclosure requirements for transactions involving transfers of financial assets but which are not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale.	1 July 2011	1 July 2011

FOR THE YEAR ENDED 30 JUNE 2012

		Application	Application
Reference	Title	date of standard	date for Group
AASB 2010-9	Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First–time adopters [AASB 1]  In respect of the removal of fixed dates, the amendments provide relief for first–time adopters of Australian Accounting Standards from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards. The amendments in respect of severe hyperinflation provide guidance for entities emerging from severe hyperinflation either to resume presenting Australian Accounting Standards financial statements or to present Australian Accounting Standards financial statements for the first time.	1 July 2011	1 July 2011
AASB 2009-12	Amendments to Australian Accounting Standards  [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]  Makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations.  In particular, it amends AASB 8 Operating Segments to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.	1 January 2011	1 July 2011
AASB 1048	Interpretation of Standards  AASB 1048 identifies the Australian Interpretations and classifies them into two groups: those that correspond to an IASB Interpretation and those that do not. Entities are required to apply each relevant Australian Interpretation in preparing financial statements that are within the scope of the Standard. The revised version of AASB 1048 updates the lists of Interpretations for new and amended Interpretations issued since the June 2010 version of AASB 1048.	1 July 2011	1 July 2011

The adoption of these standards did not have a material financial effect on the current year's financial statements.

FOR THE YEAR ENDED 30 JUNE 2012

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) New accounting standards and interpretations (continued)

(ii) 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 2012. The Group does not believe that there will be a material financial impact to either the statement of comprehensive income or the balance sheet once these accounting standards are adopted. These are outlined in the table below:

Reference	Title	Application date of standard*	Application date for Group*
2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]	1 Jan 2012	1 July 2012
AASB 2011-9	Amendments to Australian Accounting Standards - Presentation of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	1 July 2012	1 July 2012
AASB 9	Financial Instruments	1 January 2013	1 July 2013
AASB 10	Consolidated Financial Statements	1 January 2013	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	1 January 2013	1 July 2013
AASB 13	Fair Value Measurement	1 January 2013	1 July 2013
AASB 119	Employee Benefits	1 January 2013	1 July 2013
Annual Improvements	Annual Improvements to IFRSs 2009–2011 Cycle	1 January 2013	1 July 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	1 July 2013	1 July 2013
AASB 1053	Application of Tiers of Australian Accounting Standards	1 July 2013	1 July 2013
AASB 2012-2	Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities	1 January 2013	1 July 2013
AASB 2012-3	Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities	1 January 2014	1 July 2015
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle	1 January 2013	1 July 2013

FOR THE YEAR ENDED 30 JUNE 2012

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Alchemia Limited and its subsidiaries as at 30 June each year (the Group). Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity. The financial statements of the subsidiaries are prepared for the same reporting period as Alchemia Limited, the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The acquisition of a subsidiary is accounted for using the acquisition method of accounting. The acquisition method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

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

### (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".

FOR THE YEAR ENDED 30 JUNE 2012

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (e) Foreign currency translation

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 2012, the functional currency of the subsidiaries have been determined to be Australian dollars.

### 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 balance sheet date. All differences arising on settlement or translation of monetary items are taken to the income statement.

### Translation of group companies' functional currency to presentation currency

As at the reporting date, the assets and liabilities of Alchemia Inc. are translated into the presentation currency of Alchemia Limited at the rate of exchange ruling at the balance sheet 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.

### (f) Cash and cash equivalents

Cash and cash equivalents in the balance sheet 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.

FOR THE YEAR ENDED 30 JUNE 2012

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Investments and other financial assets (continued)

Recognition and derecognition

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.
- > 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.
- Available-for-sale securities
  - Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the two preceding categories. After initial recognition available-for sale securities are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

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.

FOR THE YEAR ENDED 30 JUNE 2012

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (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 method

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

### Derecognition

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.

### (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

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term if there is reasonable certainty that the Group will obtain ownership by the end of the lease term.

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.

FOR THE YEAR ENDED 30 JUNE 2012

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Alchemia Limited 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.

### (I) 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.

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

FOR THE YEAR ENDED 30 JUNE 2012

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (I) Goodwill and intangibles (continued)

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.

### (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.

FOR THE YEAR ENDED 30 JUNE 2012

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (n) Provisions and employee benefits (continued)

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet 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.

### Employee leave benefits

### 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 expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

### (o) Share-based payment transactions

The Company provides benefits to employees (including key management personnel) 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).

FOR THE YEAR ENDED 30 JUNE 2012

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (o) Share-based payment transactions (continued)

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.

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:

FOR THE YEAR ENDED 30 JUNE 2012

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (q) Revenue recognition (continued)

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.

#### Royalty income

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

#### (r) Income tax and other taxes

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

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

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

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

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

FOR THE YEAR ENDED 30 JUNE 2012

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (r) Income tax and other taxes (continued)

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet 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; and
- receivables and payables, which are stated with the amount of GST included.

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

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

Government grants are recognised as a liability when the grant is received.

When the grant relates to an expense item (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. They are 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 balance sheets under the deferred revenue account represent grant funding received for which the related expenditure had not been incurred at the balance sheet date.

FOR THE YEAR ENDED 30 JUNE 2012

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (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) Reclassification within Cash Flow Statement

In the current year, the classification of advances to subsidiary and foreign exchange differences relating to cash were changed to better reflect the nature of the cash outflows. The prior year comparatives have been reclassified to be consistent with the current year format. Advances to subsidiary amounting to \$7.7 million in 2011 has been reclassified from cash flows from operating activities to cash flows from investing activites. Further, foreign exchange differences amounting to \$503,000 in 2011 has been reclassified from operating cash flows to a separate line item in the cash flow statement.

### (v) Going Concern

This report adopts the going concern basis of accounting, which contemplates the realisation of assets and the discharge of liabilities and commitments in the ordinary course of business.

The Group incurred an operating loss after income tax of \$15.1 million for the year ended 30 June 2012 (2011: \$13.4 million). As at 30 June 2012, the Group had \$14.0 million in net cash resources (30 June 2011: \$5.6 million).

During the financial year, the Group commenced Phase III clinical trials in HA-irinotecan. In order to fund the completion of the clinical trials, the Group will be required to raise further capital.

The Directors believe that the Group continues to be a going concern and that it will be able to pay its debts as and when they fall due for a period of 12 months from the date of this report as a result of the following:

- (i) As at 30 June 2012 the Group had net assets of \$24.3 million and the assets of the Group exceeded liabilities by a ratio of 4:1. At the date of this report, the market capitalisation of the Company is in excess of \$152 million.
- (ii) The Group had cash at its disposal of \$14.0 million at 30 June 2012 and had no substantive borrowings from banks or other financial institutions at 30 June 2012.
- (iii) The Group has the ability to vary certain research expenditure dependant on the availability of working capital.
- (iv) The Group has been successful in raising capital in the past and in this regard is working towards an Initial Public Offering of shares of Audeo Oncology Inc. ("Audeo Oncology") on the NASDAQ Securities Exchange.

On this basis the directors believe that the going concern basis of presentation is appropriate. No adjustments have been made relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Group not have the ability to continue as a going concern.

FOR THE YEAR ENDED 30 JUNE 2012

### 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 2011, the Group's cash and cash equivalents with terms up to 90 days, and term deposits with terms up to 180 days.

The Group's policy to manage its interest rate risk, given its dependence on cash and cash equivalents at this stage in the Group's development cycle 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:

	Consoli	dated	Pare	nt
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Financial assets				
Term deposits	1,677	2,050	1,677	2,050
Cash and cash equivalents	12,346	3,536	4,811	3,364
	14,023	5,586	6,488	5,414
Financial liabilities				
	<del>_</del>	-	-	-
Net exposure	14,023	5,586	6,488	5,414

FOR THE YEAR ENDED 30 JUNE 2012

### 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk Exposure and Responses (continued)

Sensitivity analysis		Post tax Loss Higher/(Lower)		xcluding ed losses) (Lower)
	2012	2011	2012	2011
Judgement of reasonably possible movements:	\$'000	\$'000	\$'000	\$'000
Consolidated				
Interest rate strengthens +0.25% or 25 basis points	(35)	(56)	-	_
(2011: +1% or 100 basis points)				
Interest rate weakens -1% or 100 basis points	140	28	-	_
(2011: -0.5% or 50 basis points)				
Parent				
Interest rate strengthens +0.25% or 25 basis points	(14)	(54)	-	_
(2011: +1% or +100 basis points)				
Interest rate weakens -1% or 100 basis points	65	27	-	_
(2011: -0.5% or 50 basis points)				

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, royalty or expense reimbursements under the Group's various drug 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 2012 the consolidated balance of the USD bank accounts amounted to USD\$7.4 million (30 June 2011: USD\$83,000). In the future, the Group will determine the appropriate hedging strategy which will be based partly on (1) a direct hedge of the USD exposure to cover the period from the time of approval of fondaparinux to first receipts of revenue from sale of that product and (2) a natural hedge of the USD Phase III exposure from receipt of fondaparinux revenues which will also be US dollar denominated.

Currently, Alchemia Inc.'s operations in the United States are not significant and relate primarily to administration and local tax regulatory matters of Alchemia Inc. In the past these related principally to business development activities, however, effective 1 January 2009 such activities are now based in Australia. The Group maintains a day-to-day USD bank account with a US\$20,000 float to cover any minor expenses incurred by Alchemia Inc. The balance is replenished as required.

FOR THE YEAR ENDED 30 JUNE 2012

### 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Risk Exposure and Responses (continued)

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. Audeo Oncology does not have operations and exists for the sole purpose of undertaking the initial public offering of the Oncology business. As at the balance date, Audeo Oncology is subject to the same transactional currency exposure as AOL.

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

	CONSOLIDA	TED	ALCHEMIA LIMITED		
	2012	2011	2012	2011	
	\$'000	\$'000	\$'000	\$'000	
Financial Assets					
Cash and cash equivalents	7,337	96	2,395	76	
	7,337	96	2,395	76	
Financial Liabilities					
Trade and other payables	407	458	47	1	
Net exposure	6,930	(362)	2,348	75	

Based on the financial instruments held at 30 June 2012, 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		ax Loss (Lower)	Equity (excluding accumulated losses) Higher/(Lower)	
	2012	<b>2012</b> 2011		2011
Judgement of reasonably possible movements:	\$'000	\$'000	\$'000	\$'000
Consolidated				
AUD strengthens +10% (2011: +10%)	(630)	33	-	_
AUD weakens -10% (2011: -10%)	770	(40)	-	_
Parent				
AUD strengthens +10% (2011: +10%)	(214)	(7)	-	_
AUD weakens -10% (2011: -10%)	261	8	-	_

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 spot rate as at balance date, moving this spot rate by 10% and then re-converting the USD into AUD with the "new spot-rate".
- > This methodology reflects the translation methodology undertaken by the Group.

FOR THE YEAR ENDED 30 JUNE 2012

### 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Risk Exposure and Responses (continued)

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 and certain derivative instruments. 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 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 22).

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.

Through the management techniques outlined above the Group seeks to minimise liquidity risk. The Group's business of developing new drugs is dependent on significant expenditure on research and development. As at 30 June 2012, the Group had \$14.0 million in net cash resources. To fulfil its plans for the next stage of its drug research, the Group is likely to need additional funds. The Directors believe that the Group will be able to access sufficient additional funding to carry out its intended research and development for at least the next twelve months, and as such these accounts have been prepared on a going concern basis.

FOR THE YEAR ENDED 30 JUNE 2012

### 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 management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Deferred tax assets for losses are not recognised 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.

### Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined. Management have tested for impairment in this financial period and are comfortable that no impairment to the carrying value of these assets has occurred.

### **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 balance sheet. Deferred tax assets, including those arising from unrecouped 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. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

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

FOR THE YEAR ENDED 30 JUNE 2012

### 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 balance sheet 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.

### 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.

As corroborative support for the carrying value of the Group's intangible assets, management in prior years undertook a review of recoverable amount, using a discounted cash flow model, based on the Group's most advanced HyACT clinical candidate, HA-Irinotecan. The cash flow projections covered the remaining patent life of HA-Irinotecan and applied an after-tax discount rate of 18%. The key assumptions used in the model were all sourced externally (capturing variables from government databases, published industry journals and academic research), including potential patient numbers in adjuvant, first, second and third line metastatic colorectal cancer in the US and European markets (and corresponding market share), cycles of therapy, clinical trial costs, estimated dose charges and costs, and out-licensing royalty rates. Each input was then subject to sensitivity testing to determine their respective impact/significance on the present value calculation. Management believes that the model, which supported the value of the Group's intangible assets, was still relevant as at the balance date.

### Provision reversal of intercompany loan

The Group previously judgmentally determined to provide against the intercompany loan balance as AOL had no separate funding available to repay the loans. During the current year, these loans were reversed as the loans were settled for equity.

FOR THE YEAR ENDED 30 JUNE 2012

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

### Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

### 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.

FOR THE YEAR ENDED 30 JUNE 2012

### 5. SEGMENT INFORMATION

In prior years, the Group operated in a single business segment – being the research and development of new human pharmaceuticals – organised into geographical segments (Australia and USA). In light of the restructure undertaken by the Group just prior to year–end, the Group has been reorganised, for management purposes, into two separate business units as at 30 June 2012. The business activities of Alchemia Limited at the balance sheet date comprised the commercialisation and improvements of its generic fondaparinux product and the VAST drug discovery platform. The business activity of AOL comprised the development and commercialisation of the HyACT platform and the oncology business. Comparative segment information for FY2011 has also been presented.

Business Segment	Fondaparii	nux/VAST	НуА	HyACT		Eliminations		Consolidated Total	
	2012	2011	2012	2011	2012	2011	2012	2011	
	\$'000	\$000	\$'000	\$000	\$000	\$000	\$000	\$000	
Revenues									
Inter-segment									
revenues	3	10	-	_	(3)	(10)	-	_	
Other revenues	717	1,321	9	2	-	_	726	1,323	
Total segment									
revenues	720	1,331	9	2	(3)	(10)	726	1,323	
Depreciation and									
amortisation	(169)	(300)	(1,561)	(1,424)	-	-	(1,730)	(1,724)	
Payroll and staff									
expenses	(2,619)	(2,312)	(965)	(739)	2	-	(3,582)	(3,051)	
Research and									
development costs	(817)	(787)	(6,392)	(6,162)	-	-	(7,209)	(6,949)	
Administrative and									
corporate expenses	(1,927)	(1,726)	(844)	(76)	-	-	(2,771)	(1,802)	
Provision for									
intercompany loans	(1)	(7,660)	-	-	-	7,660	(1)	-	
Other income									
(expense)	21,485	(510)	(4,642)	129	(16,480)	_	363	(381)	
Segment profit/(loss)									
before tax	15,975	(12,990)	(14,973)	(8,488)	(16,483)	7,650	(15,481)	(13,828)	
Borrowing costs							_		
Consolidated entity									
loss from continuing									
activities							(15,481)	(13,828)	
Income tax benefit							398	398	
Consolidated entity							4	/ /:	
loss						_	(15,083)	(13,430)	

FOR THE YEAR ENDED 30 JUNE 2012

### 5. SEGMENT INFORMATION (continued)

Business Segment	Fondaparir	nux/VAST	HyA	ACT	Eliminations		Consolida	ted Total
	2012	2011	2012	2011	2012	2011	2012	2011
	\$'000	\$000	\$'000	\$000	\$000	\$000	\$000	\$000
Other segment								
information								
Segment assets	61,389	23,711	19,875	12,495	(48,893)	(11,881)	32,371	24,325
Segment liabilities	5,600	4,428	5,900	20,725	(3,394)	(19,642)	8,106	5,511
Depreciation and								
amortisation	(169)	(300)	(1,561)	(1,424)	-	-	(1,730)	(1,724)
Other non-cash								
expenses	(376)	(317)	(110)	(86)	-	-	(486)	(403)
Cash flow								
information								
Net cash flow from								
(used in) operating								
activities	(3,667)	(4,065)	7,438	645	(15,571)	(7,660)	(11,800)	(11,080)
Net cash flow from	, , ,		·		` , , ,	, , ,	, , ,	. , .
(used in) investing								
activities	(15,242)	2,335	(27)	(545)	15,571	7,660	302	9,450
Net cash flow from								
financing activities	20,093	310	_	_	-	_	20,093	310
Capital expenditure	(44)	(5)	(27)	(545)	_	-	(71)	(550)

### **Geographic Information**

	2012	2011
	\$'000	\$'000
Revenues		
Australia	726	1,323
United States	_	
Total revenues per consolidated statements of comprehensive income	726	1,323
Non-current assets		
Australia	16,697	18,363
United States	_	
Total non-current assets per consolidated balance sheets	16,697	18,363

FOR THE YEAR ENDED 30 JUNE 2012

		CONSOLIDATED		ALCHEMIA LIMITED	
		2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000
6. OTHER INCOME AND EXPENSES					
(a) Other income (expenses)					
Recharge of shared costs to AOL*		-	-	4,732	_
Reversal of provision of intercompany loan	22f	-	-	16,480	_
Net foreign currency gains (losses)		373	(371)	283	(503)
Other expenses		(10)	(10)	(10)	(7)
		363	(381)	21,485	(510)

<sup>\*</sup> These pertain to operating expenses, primarily salaries and benefits of officers and other employees of Alchemia Limited, since AOL's acquisition to 30 June 2012, that were allocated to AOL in the current year.

(b) Depreciation and amortisation:				
Depreciation of property, plant and equipment	405	399	169	300
Amortisation of patent	1,325	1,325	_	
	1,730	1,724	169	300
(c) Employee benefits expense				
Wages and salaries	2,882	2,641	2,173	2,037
Workers compensation costs	9	5	5	2
Defined contribution plan expense (superannuation)	265	229	198	176
Annual leave provision	81	45	66	10
Long service leave provision	58	31	42	17
Payroll and Fringe Benefit Tax	150	140	108	106
Termination payments and related expenses	_	(10)	-	(10)
Other employee benefit expenses	137	(30)	25	(26)
	3,582	3,051	2,617	2,312

### 7. INCOME TAX

	CONSO	LIDATED	ALCHEMIA LIMITED	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Income Tax Expense				
The major components of income tax expense are:				
Statement of comprehensive income				
Current income tax				
Current income tax charge	(4,497)	(4,027)	(109)	(3,804)
Deferred income tax				
Unrecognised tax losses	4,099	3,629	109	3,804
Income tax expense/(benefit) reported in the statement of comprehensive income	(398)	(398)	-	-

FOR THE YEAR ENDED 30 JUNE 2012

### 7. INCOME TAX (continued)

A reconciliation between the tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

		CONSOLIDATED		ALCHEMI <i>A</i>	LIMITED
		2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000
Accounting loss before income tax		(15,481)	(13,828)	15,972	(13,000)
At the statutory income tax rate of 30% (2011: 30%)		(4,644)	(4,148)	4,792	(3,899)
Expenditure not allowable for income tax purposes	a	147	121	114	95
Unrecognised tax losses		4,099	3,629	109	3,804
Utilisation of previously unrecognised tax losses recognised during the year		-	-	(5,015)	-
Income tax benefit reported in the statement of comprehensive income		(398)	(398)	-	-

(a) Share based payment expense (consolidated) :\$489,555 at 30% = \$146,867 (2011: \$402,909 at 30% = \$120,873) Share based payment expense (parent) : \$379,335 at 30% = 113,801 (2011: \$317,122 at 30% = \$95,137)

Deferred income tax at 30 June relates to the following:	
Deferred tax liabilities	
Unrealised foreign exchange gains	10
Deferred income	5
Patents	3,080
Deferred tax liability	3,095
Deferred tax assets	
Employee entitlements	180
Intercompany loan provision	-
Accruals and provisions	314
Losses available for offset against future	45,894
taxable income	43,034
Deferred depreciation for tax purposes	327
S40-880 costs	257
Rights	140
Patent costs	790
	47,902
Deferred tax assets not recognised	(47,887)
Gross deferred income tax assets	15

10	40	1	_
5	6	5	6
3,080	3,478	_	_
3,095	3,524	6	6
180	138	127	94
_	_	949	5,892
314	194	273	194
45.004	41.070	22.607	22.562
45,894	41,878	23,607	23,563
327	422	327	422
257	123	257	77
140	_	_	_
790	778	409	404
47,902	43,533	25,949	30,647
(47,887)	(43,487)	(25,943)	(30,641)
15	46	6	6

FOR THE YEAR ENDED 30 JUNE 2012

### 7. INCOME TAX (continued)

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:

Alchemia Limited Alchemia Oncology Pty Ltd Total

2012	2011
78,691,850	78,327,592
74,288,984	61,517,147
152,980,834	139,844,739

# **2012** 2011 **(6.2)** (7.0)

### 8. EARNINGS PER SHARE

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. Diluted earnings per share amounts are calculated by dividing the net loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

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

Net loss used in calculating basic and diluted earnings per share

2012	2011
\$'000	\$'000
15,083	13,430

Weighted average number of ordinary shares used in calculating basic earnings per share:

Number of Shares				
242,209,502	191,424,576			

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

	CONSOLIDATED		ALCHEMIA LIMITED	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
9. CURRENT ASSETS – CASH AND CASH EQUIVALENTS				
Cash at bank and on hand	7,453	355	2,449	183
Short term deposits	4,893	3,181	2,362	3,181
	12.346	3.536	4.811	3.364

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

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

FOR THE YEAR ENDED 30 JUNE 2012

	CONSOL	CONSOLIDATED		IMITED
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
10. CURRENT ASSETS – TERM DEPOSITS				
Medium term deposits*	1,677	2,050	1,677	2,050
	1,677	2.050	1,677	2.050

<sup>\*</sup> Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

11. CURENT ASSETS - TRADE AND OTHER RECEIVABLES				
Security deposit	20	20	-	_
Grant receivable	-	259	-	259
Intercompany receivable from AOL	_	_	164	_
Others	59	27	22	26
	79	306	186	285

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. As at 30 June 2012, there were no receivables balances that were past due (30 June 2011: \$nil).

12. CURRENT ASSETS - OTHER CURRENT ASSETS				
Prepayments	902	70	98	39
Capital Raising Costs (a)	670	_	-	
	1.572	70	98	39

(a) The capital raising costs relate to the amounts unbilled in relation to the proposed Initial Public Offering of Audeo Oncology. These amounts will be set off against the proceeds of the offering (30 June 2011: \$nil).

OTHER NON-CURRENT ASSETS				
Prepayments	236	212	-	10
	236	212	_	10

FOR THE YEAR ENDED 30 JUNE 2012

	CONSOL	IDATED	ALCHEMIA	LIMITED
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
13. NON-CURRENT ASSETS - PROPERTY, PLANT AND E		<b>\$ 000</b>	<b>¥</b> 000	<b>\$ 000</b>
Leasehold improvements	QOII MEITI			
At cost	1,607	1,607	1,607	1,607
Accumulated depreciation	(1,607)	(1,605)	(1,607)	(1,605)
Net carrying amount	-	2	-	2
Plant and equipment				
At cost	8,255	8,184	7,496	7,451
Accumulated depreciation	(7,864)	(7,461)	(7,353)	(7,185)
Net carrying amount	391	723	143	266
rece carrying amount	331	, 23	1 15	200
Total property, plant and equipment				
At cost	9,862	9,791	9,103	9,058
Accumulated depreciation and amortisation	(9,471)	(9,066)	(8,960)	(8,790)
Total written down value	391	725	143	268
Reconciliations				
Leasehold Improvements				
Carrying amount at start of period	2	5	2	5
Depreciation expense	(2)	(3)	(2)	(3)
Carrying amount at period end	_	2	_	2
Plant and equipment				
Carrying amount at start of period	723	569	266	558
Additions	71	550	44	5
Depreciation expense	(403)	(396)	(167)	(297)
Carrying amount at period end	391	723	143	266

FOR THE YEAR ENDED 30 JUNE 2012

	CO	NSOLIDATE	D	ALC	ALCHEMIA LIMITEI	
	Patents	Goodwill	TOTAL	Patents	Goodwill	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
14. NON-CURRENT ASSETS – INTANGIBLE ASSETS ANI	O GOODWIL	L				
At 1 July 2011	11,593	5,787	17,380	-	-	_
Amortisation at 30 June 2012	(1,325)	-	(1,325)	-	-	_
Net of accumulated amortisation at 30 June 2012	10,268	5,787	16,055	_	_	_
Cost (gross carrying amount) at 1 July 2011	18,330	5,787	24,117	_	-	_
Accumulated amortisation	(8,062)	-	(8,062)	_	-	_
Net carrying amount at 30 June 2012	10,268	5,787	16,055	_	-	=
At 1 July 2010	12,918	5,787	18,705	_	-	_
Amortisation at 30 June 2011	(1,325)	-	(1,325)	-	-	-
Net of accumulated amortisation at 30 June 2011	11,593	5,787	17,380	_	-	_
Cost (gross carrying amount) at 1 July 2010	18,330	5,787	24,117	_	-	_
Accumulated amortisation	(6,737)	-	(6,737)	_	-	_
Net carrying amount at 30 June 2011	11,593	5,787	17,380	_	_	_

Patents include intangible assets acquired through business combinations. These patents are amortised on a straight line basis over the remaining lives of the patents of between 8 to 20 years. The patents were acquired with the acquisition of AOL, are all current and relate entirely to intellectual property attached to the AOL's HyACT technology and active research and development programs based on that technology. These assets were tested for impairment as at 30 June 2012.

The goodwill arose from the acquisition of AOL.

FOR THE YEAR ENDED 30 JUNE 2012

		CONSOLI	DATED	ALCHEMIA LI	MITED
	Note	2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000
15. NON-CURRENT ASSETS - CONTROLLED E	NTITIES				
Investments in controlled entities	22	-	-	54,448	17,669
Non-current receivable from controlled entities (net of provision)	22	-	-	-	-
		-	_	54,448	17,669
16. CURRENT LIABILITIES – TRADE AND OTHE	R PAYABLES*				
Trade creditors	(i)	1,037	513	721	28
Other creditors	(ii)	2,282	431	662	335
		3,319	944	1,383	363

Terms and conditions relating to the above financial instruments:

- (i) Trade creditors are non-interest bearing and are normally settled on 30 day terms. The \$721,000 balance includes a \$67,000 payable to AOL, which is eliminated on consolidation.
- (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.

	Surplus Lease	Make good provision	Long service leave	Annual leave	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
17. CURRENT LIABILITIES – PROVISIONS CONSOLIDATED					
At 1 July 2011	274	234	227	234	969
Provided for/(Utilised) during the year	(248)	15	58	81	(94)
At 30 June 2012	26	249	285	315	875
Current 2012	26	-	207	315	548
Non-current 2012		249	78	_	327
	26	249	285	315	875
Current 2011	274	-	184	234	692
Non- current 2011		234	43	_	277
	274	234	227	234	969

FOR THE YEAR ENDED 30 JUNE 2012

### 17. CURRENT LIABILITIES - PROVISIONS (continued)

	Surplus Lease	Make good provision	Long service leave	Annual leave	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
PARENT					
At 1 July 2011	274	234	169	146	823
Provided for/(Utilised) during the year	(248)	15	42	66	(125)
At 30 June 2012	26	249	211	212	698
Current 2012	26	_	161	212	399
Non-current 2012		249	50	-	299
	26	249	211	212	698
Current 2011	274	_	143	146	563
Non-current 2011	_	234	26	_	260
	274	234	169	146	823

#### Make good provision

In accordance with the lease agreement, the Group must restore the leased premises in Brisbane to their original condition upon expiration of the lease. A provision was made in respect to the Group's obligation to remove leasehold improvements from these leased premises. The costs associated with the make good are being recognized on a straight line basis over the lease term, to ensure the full extent of the make good liability is accrued as at the date of the lease expiration. No further amounts were provided during the year nor were any costs incurred to remove the improvements to date.

The lease agreement, which expires in August 2012, is not expected to be renewed by Alchemia Limited, the legal lessee in the lease agreement. Instead, AOL is expected to enter into a new lease agreement with the lessor from that date.

### Surplus lease provision

This provision consists of surplus lease space following the implementation of the prudent cash management strategy in October 2008. At this time an assessment of Alchemia's leasing requirements was undertaken at its Eight Mile Plains facility in Brisbane, where the majority of retrenchments and project cessation occurred. Following this review, it was estimated that a portion of space in the facility was surplus to Alchemia's needs and accordingly a surplus lease provision (representing six month rental on the unoccupied portion of the premises) was raised. Subsequently, Alchemia was unable to secure a suitable sub–tenant and as such an additional amount was reinstated representing the rental on the unoccupied portion of the premises up until the termination of the lease in August 2012. The balance in this provision as at 30 June 2012 represents the remaining two months until expiry of the lease.

FOR THE YEAR ENDED 30 JUNE 2012

	CONSO	LIDATED	<b>ALCHEMIA LIMITED</b>	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
18. CONTRIBUTED EQUITY				
(a) Ordinary shares				
Issued and fully paid	138,522	118,249	138,522	118,249
Fully paid ordinary shares carry one vote per share and	d carry the right to	dividends.		
Movements in ordinary shares on issue	No of C	Ordinary Shares		\$'000
At 1 July 2010		190,249,026	1	17,599
Shares issued to employees under the Employee				•
Share Bonus Scheme		871,618		340
Rights Issue		840,000		310
Transaction costs on share issue		-		_
At 1 July 2011		191,960,644	1	18,249
Shares issued to employees under the Employee				
Share Bonus Scheme		E40.013		1.00
Private Capital Placement		548,013 28,790,000		180
Share Purchase Plan		28,790,000		6,910
Tranche 2 Placement		, ,		5,000
Transaction costs on share issue		38,485,000		9,236 (1,053)
At 30 June 2012		280,617,079	1	38,522

### (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.

FOR THE YEAR ENDED 30 JUNE 2012

### 19. ACCUMULATED LOSSES AND RESERVES

Movement in accumulated losses were as follows:

	CONSOL	CONSOLIDATED		LIMITED
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July	(103,072)	(89,642)	(99,461)	(86,461)
Net profit/(loss)	(15,083)	(13,430)	15,972	(13,000)
Balance at 30 June	(118,155)	(103,072)	(83,489)	(99,461)

### Other reserves:

	C	ONSOLIDATED			ALCHEMIA	
		Options			Options	
	Options	Reserve -		Options	Reserve -	
	Reserve -	non		Reserve -	non	
	employee	employee		employee	employee	
	related	related	Total	related	related	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2010	3,086	488	3,574	3,086	488	3,574
Share based payments	63	_	63	62	_	62
Share based payments*	_	_	_	1	-	1
At 30 June 2011	3,149	488	3,637	3,149	488	3,637
Share based payments	256	5	261	219	-	219
Share based payments*		_	_	37	5	42
At 30 June 2012	3,405	493	3,898	3,405	493	3,898

<sup>\*</sup>Expense relating to options issued to AOL employees.

### Nature and purpose of reserves

### Options reserve

### **Non Employee Options**

The Company has issued 195,000 Alchemia options to consultants of both AOL and Alchemia Limited. An expense of \$5,230 has been recognised in relation to these options in the 30 June 2012 financial statements (2011: nil).

2012			
No of options	Exercise price	Vesting date	Expiry date
15,000	\$0.855	26 Jul 2009	26 Jul 2012
150,000	\$0.335	30 Jun 2010	29 Jun 2013
30,000	\$0.328	1 Sep 2011	16 Aug 2017
195,000			

### 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 24).

FOR THE YEAR ENDED 30 JUNE 2012

### 20. CASH FLOW STATEMENT RECONCILIATION

	CONSOLIDATED		ALCHEMIA LIMITED	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Reconciliation of net loss after tax to net cash flows fro	om operations			
Net loss	(15,083)	(13,430)	15,972	(13,000)
Adjustments for				
Reversal of provision against non-current				
assets	_	_	(16,480)	_
Recharge of shared costs to AOL	-	_	(4,732)	-
Fair value of services paid for via issuance of options	261	63	219	62
Provision for intercompany loans	-	_	1	7,667
Depreciation of non-current assets	405	399	169	300
Amortisation of intangibles	1,325	1,325	-	_
Changes in fair value of rights	466	_	-	_
Net foreign exchange differences relating to				
cash	(215)	503	(263)	503
Changes in assets and liabilities				
Decrease/(Increase) in trade and other receivables	227	6	262	(3)
Decrease/(Increase) in other current assets	(1,502)	(137)	(59)	39
Decrease/(Increase) in other non-current assets	(24)	_	10	_
Decrease/(Increase) in deferred tax assets	31	79	-	79
Increase/(Decrease) in deferred revenue	277	74	277	74
Increase/(Decrease) in trade and other payables	2,555	250	1,082	78
Increase/(Decrease) in current provisions	(144)	241	(164)	186
Increase/(Decrease) in deferred tax liabilities	(429)	(476)	-	(79)
Increase/(Decrease) in non-current provisions	50	23	39	29
Net cash used in operating activities	(11,800)	(11,080)	(3,667)	(4,065)

### 21. ISSUANCE OF RIGHTS

As part of the fundraising undertaken by the company in November 2011, Alchemia agreed that if the Oncology Business is demerged from Alchemia by 31 December 2012 and shares are quoted on a stock exchange, the investors that took part in the fundraising would be issued options to subscribe for shares in the listed company ("Audeo Oncology rights"). The number of Audeo Oncology rights will depend on the average prices at which the Audeo Oncology Shares trade in the 60 trading days following the US IPO.

FOR THE YEAR ENDED 30 JUNE 2012

### 21. ISSUANCE OF RIGHTS (continued)

Audeo Oncology right holders will receive the right to buy a total of \$8.073 million worth of stock in Audeo Oncology at a price of a 30% premium to the 60 day volume weighted average price of Audeo Oncology Shares after the listing of the stock of Audeo Oncology on NASDAQ. The holders of Audeo Oncology rights will be able to buy the Audeo Oncology Shares on a 1 for 1 basis in the period from the date of six months after the date of Audeo's initial public offering (if consummated) (the "IPO Date"), until the date that is the later to occur of the following, or the expiry date:

- · three years from the IPO Date; and
- the earlier of (A) six months from the date that we announce to the market the results for the primary endpoint of the Phase III clinical trial period for HA-Irinotecan in colorectal cancer and (B) five years from the IPO Date.

Any right that is not exercised prior to the Expiry Date will automatically expire on the Expiry Date.

As at 30 June 2012, the rights have been assessed to have a fair value of \$466,000, which has been presented as a current liability in the balance sheet.

### 22. RELATED PARTY DISCLOSURE

### (a) Subsidiaries

The consolidated financial statements include the financial statements of Alchemia Limited (the parent) and the direct/indirect subsidiaries listed in the following table.

Name	Country of Incorporation	Percentage of Equity interest held by the consolidated entity		Investment \$'000	
		2012	2011	2012	2011
Direct subsidiaries					
Alchemia Inc.	United States of America	100%	100%	2	2
Audeo Oncology Inc. (i)	United States of America	100%	-	54,446	_
Indirect subsidiaries (ii)					
Alchemia Oncology Pty Ltd	Australia	100%	100%	_	17,667
Audeo Discovery Pty Ltd	Australia	100%	-	_	_
				54,448	17,669

No provision in investments in subsidiaries is required as their recoverable amounts assessed to be higher than their carrying amounts.

- (i) Audeo Oncology was incorporated in June 2012 as a fully owned subsidiary of the Company. On 28 June 2012, in preparation of the planned Initial Public Offering of Audeo Oncology, the Company carried out a reorganisation whereby it capitalised all of the loans outstanding (\$36.6million) from AOL to equity of AOL and then transferred 100% of its equity holding in AOL for 7.5million shares of Audeo Oncology. Audeo Discovery Pty Ltd was incorporated on 21 June 2012 as a fully owned subsidiary of Audeo Oncology.
- (ii) Audeo Oncology owns 100% of these subsidiaries.

FOR THE YEAR ENDED 30 JUNE 2012

### 22. RELATED PARTY DISCLOSURE (continued)

### (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 23.

### (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.

Director	2012	2011
	\$'000	\$'000
T Ramsdale	60	60

### (e) Loan to controlled entities

	Consol	Consolidated		ent
	2012	2011	2012	2011
	\$	\$	\$	\$
At cost	-	_	3,162	19,641
Provision for diminution (f)	_	-	(3,162)	(19,641)
	_	_	_	_

(f) Movements of provision of diminution

	Consol	Consolidated		ent			
	2012	2011	2012	2011			
	\$	\$	\$	\$			
Movements in the provision for impairment loss were	Movements in the provision for impairment loss were as follows:						
At beginning of year	-	_	(19,641)	(11,981)			
Charge for the year	-	_	(1)	(7,660)			
Reversal of provision for intercompany loan	_	-	16,480	_			
At end of year	_	_	(3,162)	(19,641)			

On 28 June 2012, the Company carried out a reorganisation whereby it capitalised all of the loans outstanding (\$36.6 million) from AOL to equity and then transferred 100% of its equity holding in AOL for 7.5 million shares of Audeo Oncology. As such, all of the loan provision relating to the intercompany loan with AOL which was \$16.5 million as at 30 June 2011 was written back.

FOR THE YEAR ENDED 30 JUNE 2012

# 23. KEY MANAGEMENT PERSONNEL

# (a) Compensation for key management personnel

	Consol	Consolidated		ent
	2012	2011	2012	2011
	\$	\$	\$	\$
Short-term employee benefits	1,596,267	1,601,798	1,367,269	1,376,840
Post-employment benefits	154,123	140,373	132,756	120,500
Other long-term benefits	22,878	20,439	17,349	14,025
Equity-based payment	320,790	210,757	283,779	172,815
Total compensation	2,094,058	1,973,367	1,801,153	1,684,180

# (b) Option holdings of key management personnel (consolidated)

30 June 2012	Balance at Beginning of Period	Granted as Remuneration	Options Exercised	Options Forfeited/Expired Cancelled	Balance at End of Period	Vest	ed at 30 June 2	2012
	1 July 2011				30 June 2012	Total	Not Exercisable	Exercisable
Directors								
M Bridges	-	_	_	_	_	_	-	_
P Smith	2,600,000	400,000	_	2,000,000	1,000,000	1,000,000	400,000	600,000
C Montagner	_	_	_	_	_	_	_	_
T Ramsdale	-	_	-	-	_	-	-	_
N Withnall	_	-	-	-	_	-	_	_
Executives								
D Green	450,000	_	_	450,000	_	_	_	-
C Walker	630,000	50,000	_	_	680,000	680,000	50,000	630,000
T Brown	547,266	100,000	_	247,266	400,000	400,000	100,000	300,000
W Meutermans	470,000	70,000	_	220,000	320,000	320,000	70,000	250,000
M West	470,000	70,000	-	220,000	320,000	320,000	70,000	250,000
Total	5,167,266	690,000	_	3,137,266	2,720,000	2,720,000	690,000	2,030,000

FOR THE YEAR ENDED 30 JUNE 2012

# 23. KEY MANAGEMENT PERSONNEL (continued)

# (b) Option holdings of key management personnel (consolidated) (continued)

30 June 2011	Balance at Beginning of Period	Granted as Remuneration	Options Exercised	Options Forfeited/Expired Cancelled	Balance at End of Period	Vest	ed at 30 June 2	2011
	1 July 2010				30 June 2011	Total	Not Exercisable	Exercisable
Directors								
M Bridges	-	-	-	-	_	-	-	-
P Smith	2,600,000	_	_	_	2,600,000	2,600,000	_	2,600,000
C Montagner	_	_	_	_	_	_	_	_
T Ramsdale	_	_	_	_	_	_	-	_
N Withnall	-	-	-	-	-	-	-	-
Executives								
D Green	950,000	_	500,000	_	450,000	450,000	-	450,000
C Walker	_	630,000	_	_	630,000	630,000	630,000	_
T Brown	547,266	_	_	_	547,266	547,266	_	547,266
W Meutermans	470,000	_	_	_	470,000	470,000	_	470,000
M West	470,000			-	470,000	470,000		470,000
Total	5,037,266	630,000	500,000	_	5,167,266	5,167,266	630,000	4,537,266

# (c) Shareholding of key management personnel (consolidated)

Ordinary shares held in Alchemia Limited (number)

30 June 2012	Balance 1 July 11	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 12
Directors					
M Bridges	450,485	_	_	288,773	739,258
P Smith	1,074,349	211,154	_	_	1,285,503
T Ramsdale	1,244,637	_	_	59,182	1,303,819
C Montagner	84,015	-	-	-	84,015
Executives					
C Walker	-	46,013	_	_	46,013
T Brown	307,423	115,466	_	_	422,889
W Meutermans	256,181	57,745	_	_	313,926
M West	623,321	82,477	-	-	705,798
Total	4,040,411	512,855	_	347,955	4,901,221

FOR THE YEAR ENDED 30 JUNE 2012

### 23. KEY MANAGEMENT PERSONNEL (continued)

### (c) Shareholding of key management personnel (consolidated) (continued)

30 June 2011	Balance 1 July 10	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 11
Directors					
M Bridges	387,936	_	_	62,549	450,485
P Smith	894,334	180,015	-	-	1,074,349
T Ramsdale	1,244,637	_	-	-	1,244,637
C. Montagner	84,015	-	-	-	84,015
Executives					
D Green	1,500,000	_	500,000	(2,000,000)	_
T Brown	196,237	111,186	-	-	307,423
W Meutermans	196,025	60,156	-	-	256,181
M West	535,078	88,243	-	-	623,321
Total	5,038,262	439,600	500,000	(1,937,451)	4,040,411

#### 24. 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:

		CONSOLIDATED		ALCHEMIA LIMITED	
	Note	2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000
Expenses arising from equity-settled share- based payment transactions	19	261	63	219	62

### 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 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.

FOR THE YEAR ENDED 30 JUNE 2012

### 24. SHARE-BASED PAYMENT PLAN (continued)

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:

	20	2012		011
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	6,698,404	0.75	6,908,404	0.70
- granted	993,000	0.33	630,000	0.74
- lapsed	(3,961,404)	0.70	_	_
- forfeited	-	-	_	_
- exercised	_	-	(840,000)	0.37
Balance at end of year	3,730,000	0.51	6,698,404	0.75
Evereisable at and of year	2 727 000	0.51	6 279 404	0.75
Exercisable at end of year	2,737,000	0.51	6,278,404	0.75

### Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding as at 30 June 2012 is 2.45 years (2011 1.16 years)

### Range of exercise price

The range of exercise prices for options outstanding at end of the year was \$0.28 - \$1.015 (2011: \$0.335 - \$1.725).

### Weighted average fair value

The weighted average fair value of options granted during the year was \$0.1730 (2011: \$0.2698).

### Options held as at the end of the reporting period:

The following table summarises information about options held by the employees as at 30 June 2012:

Number Issued	Grant date	Vesting date	Exercise Price	Expiry Date
447,000	27 Jul 2007	26 Jul 2009	\$0.855	26 July 2012
30,000	26 Nov 2007	26 Nov 2010	\$0.945	25 Nov 2012
10,000	14 Dec 2007	14 Dec 2010	\$1.015	14 Dec 2012
40,000	17 Dec 2007	17 Dec 2008	\$0.855	16 Dec 2012
1,580,000	30 June 2009	30 June 2010	\$0.335	29 Jun 2013
630,000	18 Feb 2011	18 Feb 2012	\$0.742	18 Feb 2017
985,000	18 Aug 2011	17 Aug 2012	\$0.329	16 Aug 2017
8,000	9 Mar 2012	8 Mar 2013	\$0.280	8 Mar 2017
3,730,000				

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### 24. SHARE-BASED PAYMENT PLAN (continued)

### 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.

The following table lists the inputs to the model used for the year ended 30 June 2012 and 30 June 2011.

	2012	2011
Expected volatility (%)	68%	50%
Risk free interest rate (%)	3.41%	5.14%
Expected life of options (years)	2.9	3.0
Dividend yield (%)	0%	0%
Option exercise price (\$)	\$0.33	\$0.74
Weighted average share price at grant date (\$)	\$0.353	\$0.700

The expected volatility was determined using the historical average of Company share prices in respect of ESOP spanning the life of the options issued.

	CONSO	LIDATED	ALCHEMIA LIMITED	
Note	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000

### 25. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

### **Employee Benefits**

### Current

The aggregate employee benefit liability is comprised of:

Accrued wages, salaries, bonus and on-	228	300	127	228
costs	220	300	121	220
Annual and long-service leave provisions	F22	41.0	272	200
(current)	522	418	373	289
	750	718	500	517
Non current				
Long service leave provision (non-current)	78	43	50	26
	828	761	550	543

FOR THE YEAR ENDED 30 JUNE 2012

### **26. EXPENDITURE COMMITMENTS**

### (a) Capital expenditure commitments

There were no capital expenditure commitments as at 30 June 2012 and 2011.

	CONSOLIDATED		ALCHEMIA LIMITED	
Note	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
(b) Lease expenditure commitments				
(i) Operating leases (non-cancellable): (i)				
Minimum lease payments				
- not later than one year	73	417	73	417
- later than one year and not later than five years	_	73	-	73
Aggregate lease expenditure contracted for at reporting date	73	490	73	490
(c) R&D Project commitments: (ii)				
- not later than one year	339	723	-	_
- later than one year and not later than five years	_	_	_	_
Total commitments	339	723	_	_

- (i) The operating leases are in respect of the lease of the Company's premises in Brisbane and one item of equipment.
- (ii) The Group has entered into agreements with certain organisations for ongoing research and clinical trials. Under these agreements the Group is committed to providing funds over future periods as set out in note 26(c).

FOR THE YEAR ENDED 30 JUNE 2012

	CONSOLIDATED		<b>ALCHEMIA LIMITED</b>	
	2012	2011	2012	2011
	\$	\$	\$	\$
27. AUDITORS' REMUNERATION				
The auditor of Alchemia Limited 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	964,665	82,000	110,965	82,000
entity and any other entity in the consolidated				
entity				
• other services in relation to the entity and any other				
entity in the consolidated entity:	53,400	_	53,400	_
	1,018,065	82,000	164,365	82,000
Amounts received or due and receivable by non Ernst				
& Young audit firms for:				
accounting and taxation services	67,155	64,647	67,155	64,647
	67,155	64,647	67,155	64,647

Audit fees to Ernst & Young consist of fees billed or to be billed for professional services rendered for the audit of the annual consolidated financial statements, reviews of the March 2012 quarterly financial statement, and services in connection with the registration of Audeo Oncology. with the Securities and Exchange Commission of the United States.

Other services pertain to services performed in relation to the Australian scheme of arrangement.

### 28. CONTINGENT ASSETS AND LIABILITIES

### Novozymes Biopharmaa 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% 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 up to a 2% royalty on the net sales from any HA-Irinotecan product. Subject to any termination event, this agreement is valid until the expiry of the Group's HyACT patents. The latest date on which any of theGroup's HyACT patent expires is in 2026.

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### 29. SUBSEQUENT EVENTS

On 6 July 2012, Audeo Oncology filed its registration statement with the Securities and Exchange Commission of the United States in preparation of its Initial Public Offering on the NASDAQ Securities exchange.

Concurrent with its IPO, Audeo Oncology will complete its demerger from Alchemia Limited where shares of Audeo Oncology will be distributed to Alchemia Limited's shareholders in a 1 (Audeo Oncology share): 37 (Alchemia Limited share) basis. The following transactions will also be consummated prior to or concurrently with the demerger:

- (i) Seven employees of Alchemia Limited will be transferred to Audeo Oncology including the CEO and the CFO who will transfer upon completion of the demerger. Audeo Oncology will assume the legal liability of leave entitlements of these personnel that will be transferred, totalling approximately \$223,000.
- (ii) Any remaining net amounts due to or from Alchemia Limited will be settled in cash.

On 21August 2012, the Board of Directors of Audeo Oncology adopted the transition services agreement. Under the agreement, Alchemia Limited may request that Audeo Oncology provide certain accounting, payroll, management, investor relations, office facilities, intellectual property management and administrative services to Alchemia Limited following the demerger. Under the agreement, Alchemia Limited must pay a monthly service charge and secondment fee and reimburse out of pocket expenses in return for the services.

On 21 August 2012, the Board of Directors of Audeo Oncology adopted the 2012 Equity Incentive Plan (the "Stock Plan"). The Stock Plan provides for the award of grants of incentive stock options, nonstatutory stock options, restricted stock, restricted stock units, stock appreciation rights, performance units and, performance shares of Audeo Oncology's common stock. Awards can be made to employees, outside directors, and consultants of Audeo Oncology and will be subject to terms within each award agreement.

On 21 August 2012, Audeo Discovery Pty Ltd entered into an exclusive technology licence agreement with Alchemia Limited for the development of the VAST technology. This agreement requires Audeo Discovery to fund the development of such technology with a minimum amount of AUD\$500,000 and commits to pay Alchemia Limited 5% royalties on net sales, if any, in the future based on Audeo Discovery's successful development of the products. Because the achievement of this milestone is neither probable nor reasonably estimable, the Company has not recorded a liability on its balance sheet for any such contingencies. The timing and the amount of royalty payments in the future are not certain. Audeo Discovery may immediately terminate the agreement by written notice if an insolvency event occurs in relation to Alchemia Limited, and either party may terminate for a material breach of the agreement that is not cured within a specified number of days. Four employees of Alchemia Limited who worked on the VAST technology transferred to Audeo Discovery in August 2012. Audeo Discovery has assumed the legal liability of leave entitlements for these employees totalling \$87,000.

### **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 2012 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 2012.

On behalf of the Board

P Smith

Managing Director and Chief Executive Officer

Signed at Brisbane on 21 August 2012



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# 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 sheets as at 30 June 2012, the statements of comprehensive income, the statements of changes in equity and the statements 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 company and 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 company's and consolidated entity's financial positions as at 30 June 2012 and of their performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

### Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 2 in the financial report which indicates that the consolidated entity incurred a net loss of \$15.1 million during the year ended 30 June 2012 (2011: \$13.4 million). The company and the consolidated entity will be required to raise additional funds in order to continue their on-going research and development activities as planned. Should these events not happen, there is significant uncertainty whether the company and the consolidated entity will continue as going concerns, and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company and/or the consolidated entity not continue as going concerns.

## Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2012. 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 2012, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Winna Brown Partner Brisbane

21 August 2012

### **Shareholder Information**

**ALCHEMIA LIMITED** ABN 43 071 666 334

### **Registered Office:**

3 Hi-Tech Court Brisbane Technology Park Eight Mile Plains QLD 4113

#### Postal Address:

PO Box 4851

EIGHT MILE PLAINS QLD 4113 Telephone: (07) 3340 0200 Facsimile: (07) 3340 0222 Internet: www.alchemia.com.au

### **Annual General Meeting**

Alchemia Limited's Annual General Meeting will be held at 11.00am on Thursday the 22<sup>nd</sup> of November 2012 at: Brisbane Convention and Exhibition Centre

Cnr Grey & Russell streets (located in-between the Rydges Hotel & South Brisbane Train Station) South Bank QLD 4101

### **Share Registry**

Shareholder information in relation to shareholding or share transfers can be obtained by contacting the Company's share registry:

Link Market Services, Locked Bag A14, Sydney South NSW 1235

Telephone: (02) 8280 7111

Facsimile: (02) 9287 0303; Facsimile: (02) 9287 0309 (for proxy)

Email: <u>registrars@linkmarketservices.com.au</u> Internet: <u>www.linkmarketservices.com.au</u>

For all correspondence to the share registry, please provide your Security holder Reference Number (SRN) or Holder Identification Number (HIN).

## **Change of Address**

Changes to your address can be updated online or by completing a Change of Address Form. CHESS sponsored investors must change their address details via their broker.

### **Annual Report Mailing List**

All shareholders are entitled to receive the Annual Report. In addition, shareholders may nominate not to receive an Annual Report by advising the share registry in writing, by fax, or by email, quoting their SRN/HIN.

### Stock Exchange Listing

Alchemia's shares are listed on the Australian Stock Exchange and trade under the ASX code ACL. The securities of the Company are traded on the Australian Stock Exchange under CHESS (Clearing House Electronic Subregister System).

#### **Voting Rights**

Shareholders in Alchemia Limited have a right to attend and vote at general meetings. At a general meeting, individual shareholder may vote in person or by proxy.

- Show of hands One vote per shareholder
- Poll One vote for each share held by registered holders

## **Board of Directors**

### **Mel Bridges BAppSc FAICD**

Chairman

Mel Bridges joined the Alchemia Board as Non-Executive Chairman in September 2003. He has over 30 years experience in the biotechnology and healthcare industries. During this period, Mel founded and managed successful diagnostics, biotechnology and medical device businesses. He co-founded ASX listed companies Panbio Limited and ImpediMed Limited.

During the past three years Mel has also served as a director of the following other listed companies:

ImpediMed Limited - appointed as a Director (September 1999) and subsequently as Chairman - March 2004. Incitive Limited Chairman – appointed Director in November 2007. Resigned June 2010.

Benitec Limited Non-Executive Director - appointed Director in October 2007.

Genera Biosystems Limited Non-Executive Director – appointed in December 2008. Resigned November 2010. Tissue Therapies Limited Non-Executive Director – appointed March 2009

ALS Limited (formerly Campbell Brothers Limited until 31 July 2012) – appointed September 2009.

Mel is a Fellow of the Australian Institute of Company Directors.

Mel is also a member of both Alchemia's Audit and Risk, and Remuneration Committees and is chairman of the Nomination Committee

### **Pete Smith PhD**

Chief Executive Officer and Managing Director

Peter Smith joined Alchemia in May 2006 and was appointed Head of Alchemia's Commercialization and Business Development Division. He was appointed to the role of CEO and Managing Director on 26 April 2007.

During the past three years Peter has not served as a director of another listed company.

Previously Peter was CEO and Managing Director of Australian listed biotech Amrad Limited. He founded UK biotech company Onyvax and was a top-rated pharmaceutical industry analyst at European Investment Banks UBS and HSBC. Peter holds a PhD in Biochemistry and a MA from Cambridge University.

### **Nerolie Withnall BA LLB FAICD**

Non-Executive Director

Nerolie Withnall joined the Board in October 2003. She is a former partner of Minter Ellison Lawyers. In 2001 she retired from the law after practising for more than 30 years in Sydney, Darwin and Brisbane.

During the past three years Nerolie has also served as a director of the following other listed companies:

ALS Limited (formerly Campbell Brothers Limited until 31 July 2012) - appointed Director 1994, Deputy Chairman and "Chairman Designate" in July 2011, and Chairman in July 2012.

PanAust Limited - appointed Director in May 1996.

Redcape Property Fund Limited (formerly Hedley Leisure & Gaming Property Partners Limited) - appointed Director in June 2007. Retired November 2010.

Computershare Limited - appointed Director in July 2008.

She was previously Director and Chairman of QM Technologies Limited (appointed September 2003, resigned April 2008 following completion of the takeover by Computershare Limited).

She has also held the positions of Deputy President of the Takeovers Panel, a member of the Corporations and Markets Advisory Committee (retiring in March 2010), and a member of the Senate of the University of Queensland (retiring December 2009).

Nerolie is Chairman of Alchemia's Audit and Risk Committee and a member of Alchemia's Remuneration Committee.

#### 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. Tracie originally trained as a synthetic organic chemist, obtaining a Master of Pharmacy from the Victorian College of Pharmacy in 1987 and a PhD in Biochemistry from the University of Queensland in 1994.

During the past three years Tracie has also served as a director of the following other listed companies:

Incitive Limited Non-Executive Director - appointed Director in November 2007; resigned November 2008

Tracie is a member of the Australian Advisory Council on Intellectual Property and a member of the Australian Institute of Company Directors.

Tracie is the chairman of Alchemia's Remuneration Committee and Alchemia's Scientific Advisory Board, and a member of Alchemia's Audit & Risk Committee.

### Carlo Montagner - Resigned 22 November 2011

Non-Executive Director

# **Senior Management**

### **Charles Walker**

**Chief Financial Officer** 

Charles was appointed in March 2011. He has a BSc. (Hons) in pharmacology from the University of Bristol and an MBA from Warwick Business School. His career has been spent working with international life sciences companies in a number of transactions including mergers, acquisitions, initial public offerings and a range of innovative financings. Charles has been directly involved in over 40 corporate transactions including 15 Initial Public Offerings. He is a Registered Representative with the UK FSA and a Member of the Securities Institute in the UK.

### **Stephen Denaro CA**

**Company Secretary** 

Stephen 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.

### Wim Meutermans PhD

Vice President of Discovery

Wim Meutermans joined Alchemia in April 2000 and is responsible for Alchemia's early drug discovery programs. He has worked for 15 years in the medicinal chemistry field, including 10 years in management roles on both academic and industrial projects. He has published extensively with over 45 journal publications and is co-inventor of 12 patents. Wim obtained his PhD from the Katholieke Universiteit Leuven in Belgium.

### Michael West PhD

Vice President of Intellectual Property and Technology Transfer

Michael joined Alchemia in 1997 after holding positions in academic research at University of Queensland and in industry at GlaxoSmithKline. A registered Patent & Trade Mark attorney, Michael is responsible for the management of the Alchemia groups intellectual property protection and IP strategy. In his technology transfer capacity Michael manages the process development, scale-up and manufacturing of the fondaparinux project. Michael has responsibility for relationship management with Alchemia's manufacturing partners and co-ordinates in-house and outsourced manufacturing.

### **Tracey Brown PhD**

Vice President of Preclinical Development, and Acting Vice President of Development.

Tracey joined Alchemia in 2006 as a result of the successful acquisition of Meditech. She is responsible for the evaluation of lead compounds from both Alchemia's discovery and HyACT® programs where her primary role is to take the potential therapeutics into both non-clinical and clinical development.

Over the last 28 years, Tracey has researched the biochemistry and therapeutic applications of carbohydrates, where this experience culminated in the invention of the HyACT platform and the development of three drugs from conception through to successful clinical evaluation. During her career, Tracey has gained international experience in managing both academic and commercial scientific teams and as the Head of Preclinical Development, Tracey directs Alchemia's team at Monash University where she holds an adjunct position as an Associate Professor in the Department of Biochemistry and Molecular Biology.