Alchemia Limited
ABN 43 071 666 334

and Controlled Entities (Alchemia Group)

HALF-YEAR FINANCIAL REPORT
FOR THE SIX MONTHS ENDING 31 DECEMBER 2014

Provided to the ASX in accordance with Listing Rule 4.2A

This half-year financial report should be read in conjunction with the annual financial report for the year ended 30 June 2014.

ALCHEMIA LIMITED
(ABN 43 071 666 334)

APPENDIX 4D - HALF YEARLY ASX REPORT
FOR THE SIX MONTHS TO 31 DECEMBER 2014

Item 1. **Reporting Period**	
Report for the half-year (six months) ended	31 December 2014
Previous corresponding period is the half-year ended	31 December 2013
Comparative information provided for balance sheet items is	30 June 2014

Item 2. **Results for Announcement to the Market**		**% Change from Dec 2013**	**Six months to 31 December 2014 $000**
Revenue from ordinary activities	up	35.6%	6,829
Loss before adjusted EBITDA*	down	7.1%	(4,580)
Loss from ordinary activities after tax attributable to members	up	187.9%	(15,759)
Net loss for the period attributable to members	up	187.9%	(15,759)

Dividends	**Amount per security**	**Franked amount per security**
Final dividend	-	-
Interim dividend	-	-

Commentary
Refer to interim results announcement and accompanying half-year financial statements for more details and commentary regarding the financial results presented above.

**Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation and charges for impairment*

Item 3. **Net Tangible Asset Per Security**	**December 2014 $000**	**December 2013 $000**
Net tangible asset backing per ordinary share ($)	3.6 cents	4.2 cents

This half yearly report is to be read in conjunction with the most recent annual financial report

Items 4-8. Not applicable.

Item 9.
Review Information

The financial statements for half year ended 31 December 2014 have been independently reviewed by external auditors. The financial statements are not subject to a modified review statement or emphasis of matter. A copy of the review report is attached to the financial statements.

Company Secretary
26 February 2015

Corporate Information

ABN 43 071 666 334

Website: www.alchemia.com.au

Directors
Mr S Costa
Mr N Drona
Mr T Hughes
Dr S Kelley
Dr T Ramsdale

Company Secretary
Mr S Denaro

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Eight Mile Plains, Qld 4113, Australia

Principal place of business
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Stock Exchange Listing
Alchemia Limited is listed on the Australian Securities Exchange with the code: ACL

Solicitors
Allens
Melbourne
Australia

Bankers
Westpac Bank
Garden City
Australia

Auditor
Ernst & Young
Australia

Alchemia Limited
Directors' Report

Your directors submit their report for Alchemia Limited ("the Company") and its consolidated entities ("the Group"), for the half year ended 31 December 2014.

Directors

The names of the Group's directors in office during the half year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Mr S Costa
Mr N Drona
Mr T Hughes
Dr S Kelley
Dr T Ramsdale

Principal activities

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

Operating and financial review

Financial position

Alchemia recorded profit share income arising from sales of fondaparinux of $2.8 million for the period and had net assets of $11.6 million as at 31 December 2014.

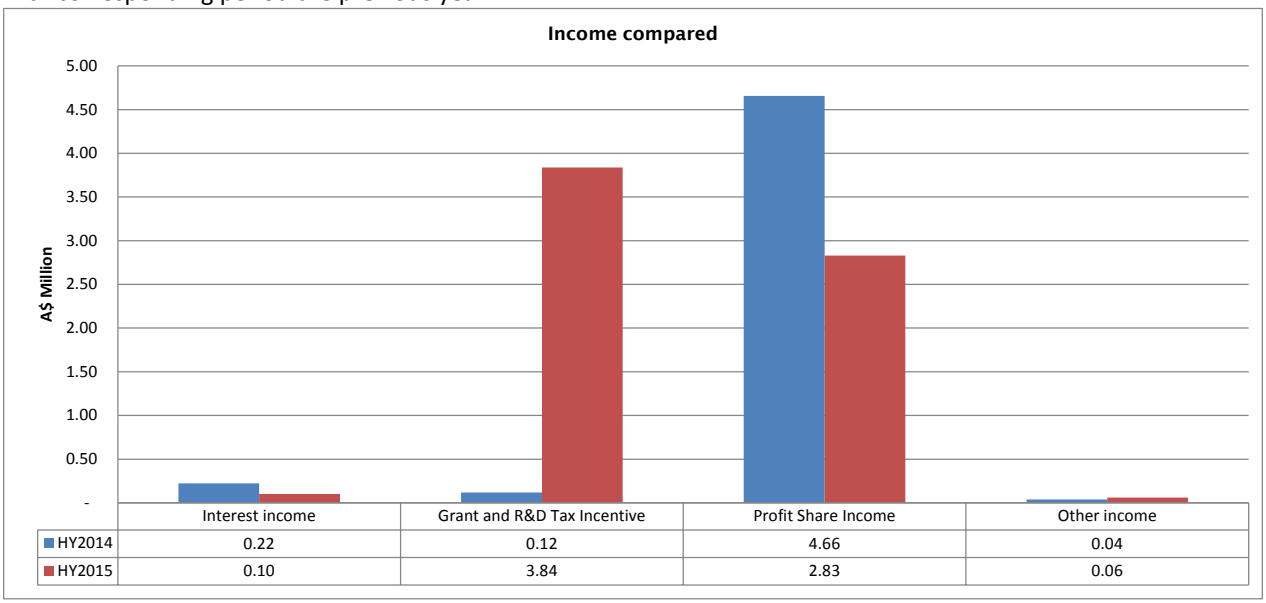
Alchemia ended the first half of the 2015 financial year with a consolidated cash and cash equivalent balance of $11.9 million and a consolidated receivable balance of $5.0 million (which includes an estimated $3.6 million refund for the R&D Tax Incentive and $1.3 million of profit share income from the sale of fondaparinux). Alchemia also recorded a positive operating cash flow of $0.9 million in the period due to the receipt of $6.5 million in R&D tax incentives, which arose out of R&D spending made in the financial year ending 30 June 2014.

Operating results for the year

The Group reported a net loss of $15.8 million for the six months to 31 December 2014 (2013: $5.5 million). This is an increase of $10.3 million in net losses over the corresponding period. The net loss for the current period includes an impairment loss of $12.7 million (2013: nil).

Revenue from continuing operations

Figure: Revenue from continuing operations for the first half of the financial year ending 30 June 2015, compared with corresponding period the previous year.

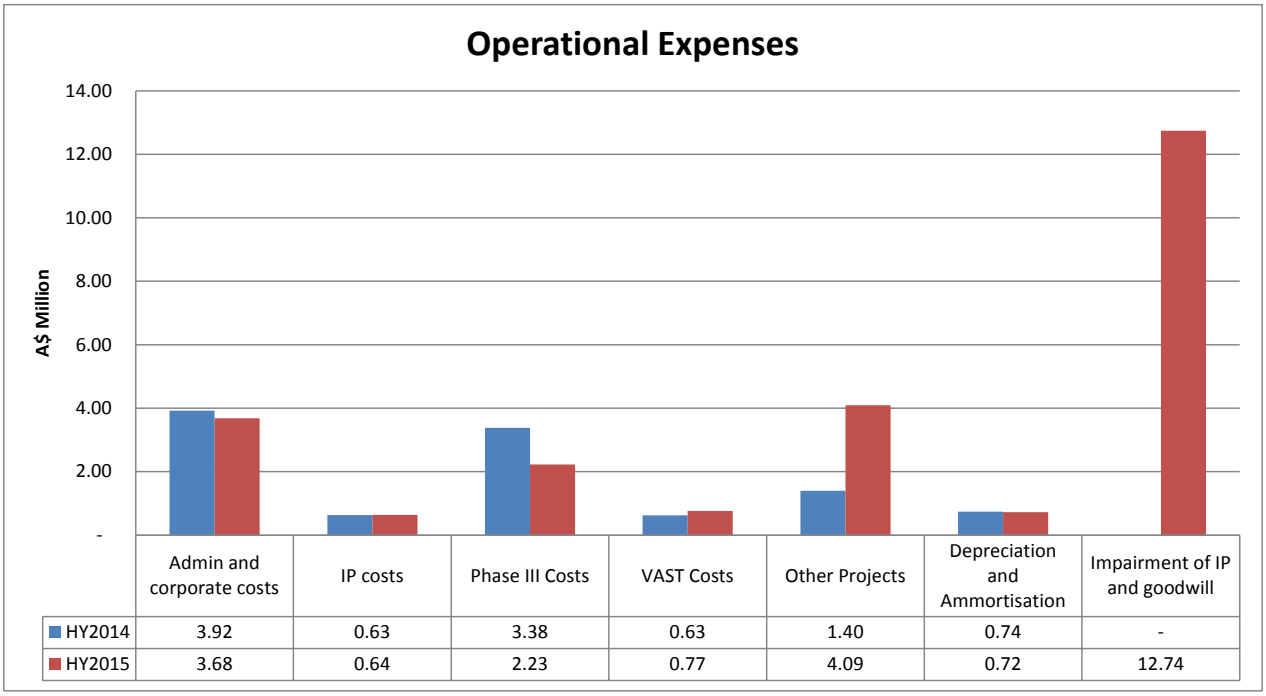


	Interest income	Grant and R&D Tax Incentive	Profit Share Income	Other income
HY2014	0.22	0.12	4.66	0.04
HY2015	0.10	3.84	2.83	0.06

Total revenue from operations for the period was $6.9 million, an increase of $1.9 million from the previous corresponding period (31 December 2013: $5.0 million). This increase was primarily due to the accrual of $3.6 million for R&D Tax Incentive Refund revenue in the current period (31 December 2013: nil). This increase was offset by the fall in fondaparinux profit share income for the current period compared to the previous corresponding period of $1.8 million.

Expenses from continuing operations

Figure: Expenses from continuing operations for the first half of financial year ending 30 June 2015 compared with corresponding period the previous year.



	Admin and corporate costs	IP costs	Phase III Costs	VAST Costs	Other Projects	Depreciation and Ammortisation	Impairment of IP and goodwill
HY2014	3.92	0.63	3.38	0.63	1.40	0.74	-
HY2015	3.68	0.64	2.23	0.77	4.09	0.72	12.74

Operating expenditure of $24.9 million increased by $14.2 million over the corresponding period (31 December 2013: $10.7 million). This increase in expenditure was primarily due to impairment losses of $12.7 million being recognised for the HyACT intellectual property assets and associated goodwill in the current reporting period. Please refer to note 10 of the financial statements for further information on the impairment losses recognised.

In addition, the expense category "other projects" increased by $2.7 million in the current reporting period, reflecting expenses incurred for the refurbishment of plant and equipment that was necessary in preparation for commercial drug manufacture of HA-Irinotecan. The costs of the phase III for HA-Irinotecan fell by $1.2 million for the half year as the number of patients on the study and the associated patient monitoring and project management were substantially reduced compared to the previous corresponding period.

Cash and cash flow

The consolidated cash position of the Group over the reporting period has seen a net decrease in cash balances (including cash, cash equivalents and term deposits) of $4.5 million from $16.4 million as at 31 December 2013 to $11.9 million as at 31 December 2014.

The Group reported a net operating cash inflow to 31 December 2014 of $0.9 million, a decrease of $2.8 million from the corresponding period (30 June 2014: $3.7 million cash inflow). The net cash inflow recognised for the current period included receipt of $3.2 million profit share income from the sale of fondaparinux during the period (30 June 2014: $5.9 million) and $6.5 million from R&D tax incentives and other grant funding (30 June 2014: $8.8 million). These cash inflows were offset by operating cash outflows of $8.9 million (30 June 2014: $11.2 million).

Review of operations

Generic fondaparinux

For the half year ended 31 December 2014, the Company reported income of $2.8 million (31 December 2013: $4.7 million) for the sale of Alchemia's generic fondaparinux in the US under the collaboration, development and marketing agreement with Alchemia's commercial partner, Dr Reddy's Laboratories. This revenue is reported net of the deduction of $1.1 million by Dr Reddy's Laboratories for agreed activities to improve yields and cost of goods. From 1 January 2015, there are no further obligations to Dr Reddy's for cost of goods improvements.

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

In a recent prospective multicenter cohort study from the Swedish Web-System for Enhancement and Development of Evidence-Based Care in Heart Disease Evaluated According to Recommended Therapies registry involving 40,616 consecutive patients with non–ST-segment elevation myocardial infarction (NSTEMI) who received fondaparinux or LMWH between September 1 2006 and June 30, 2010, fondaparinux was associated with improved survival and reduced major bleeding events compared with low-molecular-weight heparin (LMWH) (JAMA February 17, 2015 Volume 313, Number 7). The results of this prospective cohort study highlight the advantages of fondaparinux over LMWH products such as Enoxaparin in routine clinical care settings.

HyACT Technology

As indicated to the market on 27 October 2014, the Company's pivotal Phase III clinical trial of HA-Irinotecan in metastatic colorectal cancer (mCRC) failed to reach its primary endpoint of statistically significant improvement in Progression Free Survival (PFS) and also did not meet its secondary endpoint of an improvement in overall-survival (OS). Rather the results for the FOLF(HA)IRI arm were virtually identical to those of the control arm. However, for both endpoints the control arm (FOLFIRI, a combination of the cancer drugs 5-FU, leucovorin and irinotecan) performed significantly better than has been observed in any previously reported clinical trial.

Since the announcement of the above top line results, Alchemia has further analysed the data in an attempt to determine potential reasons why the control arm on this study out-performed the historical clinical experience with this drug regimen and the findings were communicated in our strategic review on 29 January 2015.

Next Steps for HA-Irinotecan and the HyACT platform

The future of HA-I and the HyACT platform remains uncertain at this time and, as noted in our strategic review, the results of the subset analyses suggest that it is unlikely that these study results will support FDA regulatory approval for HA-I in the mCRC indication. However, the Company is in the process of requesting a meeting with the FDA to discuss the results of the trial and possible next steps. It should be noted there is a risk the FDA may not grant a meeting. Furthermore, even if the FDA grants a meeting, the Company's advisors have indicated that trials that have previously failed to meet the primary endpoint in the intention-to-treat analysis, under similar circumstances, have not succeeded in obtaining regulatory approval from the FDA.

The Board is of the view that any potential FDA regulatory approval of HA-I would require additional clinical trial(s) and that any such trial(s) would require a partner versus being funded by Alchemia shareholders. If the Company's further investigations and consultations confirm that there is significant value in HA-I and/or the HyACT platform, then one potential avenue to best maximise value for shareholders will be the execution of a corporate transaction, such as a broad partnership, sale, or a spin out of the Alchemia oncology business. However, even if the Company's current investigations and consultations conclude that there is value in the HyACT platform, there is no guarantee that a suitable partner will be found or that the terms of a transaction can be agreed with any such partner on terms acceptable to the Company.

In addition, Alchemia initiated an investigator-led Phase II clinical trial of HA-Irinotecan in combination with carboplatin in small cell lung cancer (SCLC). Currently 35 patients have been enrolled in the study and the investigators aim to recruit the remaining 10% of patients within 2015. The investigator intends to publish the study results in an oncology journal with the objective of providing the first-in-man data demonstrating the specificity of the HyACT technology for CD44positive tumours. These data could support the potential therapeutic use of HA-Irinotecan in SCLC.

Further, Alchemia and Merck Serono are in collaboration to support an investigator-led Phase II clinical trial (CHIME). The trial evaluates Alchemia's HA-Irinotecan used in the FOLFIRI regimen, combined with Merck Serono's leading therapeutic antibody, Erbitux (cetuximab), in patients with mCRC. The goal of the trial is to demonstrate that HA-Irinotecan has an acceptable safety profile in combination with Erbitux when administered as part of the FOLFIRI regimen in the treatment of mCRC. The trial was intended to enrol approximately 45-50 patients receiving second-line treatment for mCRC. The first patient was recruited to the study in June 2014. The trial currently has five patients enrolled, and the safety experience to date suggests that the addition of cetuximab to the FOLF(HA)IRI regimen is well tolerated. The CHIME trial was placed on hold following the announcement of our Phase III study. It is anticipated that a decision on the CHIME trial will be made after receipt of feedback from the FDA regarding the Phase III trial.

Drug Discovery

Alchemia has established a multi-target drug discovery collaboration with AstraZeneca AB in April 2013, where Astra Zeneca will apply the technology across a variety of therapeutic areas including oncology, respiratory, cardiovascular, metabolism, infection and neuroscience. In addition, we have also put in place strong collaborations with the Institute for Molecular Biosciences (University of Queensland) to discover novel inhibitors of selected ion channels and with the Monash Institute for Pharmaceutical Science to discover novel allosteric modulators of the Family B G-protein coupled receptors. These collaborations aim to discover new treatments for pain, chronic obstructive pulmonary disease and type II diabetes. The collaborations are supported by government grants, which help fund specialised biology teams in the respective institutes, fully focussed on the collaborative drug discovery efforts. These types of collaborations maximise the use of the VAST platform in a highly cost efficient manner.

Although the VAST technology has been under development for many years, it is still at a very early stage in terms of its drug discovery potential. The current collaboration with AstraZeneca is continuing to progress as planned and it is hoped this will provide a valuable proof-of-concept. Nevertheless, it will take a substantial sum of money and many years before there is any prospect of a VAST derived drug entering the market. Even then there are no guarantees of success.

The Board has come to the decision that a sale or other strategic transaction involving VAST would be the best way to maximise the value of the technology. As previously advised to the market, Evolution Life Science Partners has been appointed to assist the Company in this process. Confidential discussions are underway with a number of parties.

Strategic Objectives
As announced to the market on 29 January 2015, the key strategic objectives of Alchemia going forward are:

1. Target a payment of a dividend to shareholders in the second half of calendar year 2015. When this dividend is formally declared, the Company intends to pay out to shareholders all revenues from fondaparinux, less the costs of running the core business functions of a listed company, via the payment of dividends. Given the substantial tax losses that Alchemia has amassed, it is expected that these future dividends will not have any franking (imputation) credits attached.

2. Further investigate the possible sale of fondaparinux. In the event of a sale, it is the intention of the Company that the net sale proceeds will be returned to shareholders.

3. Target the execution of a corporate transaction or partnership for HyACT for further clinical development. The transaction specifics currently being investigated include a variety of structures, for example, a sale, partnership, or a demerged oncology focused entity. Any additional capital that may be required to support the future development of HyACT is intended to be raised in an entity outside of the Alchemia Group (eg. through a demerged entity) so that it does not affect the ability of the Company to pay future dividends to its shareholders.

4. Target the execution of a corporate transaction for the VAST technology by June 30, 2015. Alchemia has engaged Evolution Life Sciences to assist in this process. The Company is in discussions with potential international and domestic partners with the objective of Alchemia in these negotiations is to maximise the value of the technology for the Company's shareholders.

5. Continue to cut costs with the target being the minimum needed for the Company to continue to meet its corporate obligations and maximise its opportunities.

6. Continue to manage the availability of the Company's tax losses in any transaction that the Company undertakes.

While a number of uncertainties remain that could impact decisions as to Alchemia's future strategic direction, the Board believes the primary objectives listed above will have the maximum impact on generating shareholder value going forward.

Matters subsequent to the half yearly financial period
As previously stated, the Company has recently undergone a strategic review of all of its assets and operations. As a result of this review, the Company's assets and operations may materially change in the future reporting periods. The Directors are not aware of any other significant changes in the state of affairs of the Company after the balance date that is not covered in this report.

Rounding of amounts
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.

Auditor's Independence
Attached is a copy of the Auditor's Independence declaration provided under Section 307c of the *Corporations Act 2001* in relation to the review of the half year ended 31 December 2014. The Auditor's Declaration forms part of this Directors' Report.

On behalf of the Board

Tim Hughes
Director

26 February 2015

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Auditor's Independence Declaration to the Directors of Alchemia Limited

In relation to our review of the financial report of Alchemia Limited for the half-year ended 31 December 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Winna Brown
Partner
26 February 2015

Condensed Statement of Financial Position as at 31 December 2014

	Notes	Consolidated 31 December 2014 $000	Consolidated 30 June 2014 $000
Assets			
Current Assets			
Cash and cash equivalents	7	11,799	7,949
Term deposits	7	117	3,117
Trade and other receivables	8	5,012	8,257
Other current assets		1,168	942
Total current assets		**18,096**	**20,265**
Non-current assets			
Property, plant and equipment	9	249	307
Intangible assets and goodwill	10	-	13,404
Deferred tax assets		3	20
Total non-current assets		**252**	**13,731**
Total Assets		**18,348**	**33,996**
Liabilities			
Current liabilities			
Trade and other payables	11	5,705	3,522
Provisions	12	706	456
Deferred revenue		63	289
Total current liabilities		**6,474**	**4,267**
Non-current liabilities			
Provisions	12	292	374
Deferred tax liability	13	3	2,305
Total non-current liabilities		**295**	**2,679**
Total Liabilities		**6,769**	**6,946**
Net Assets		**11,579**	**27,050**
Equity			
Equity attributable to equity holders of the parent			
Contributed equity	14	151,478	151,302
Reserves		5,709	5,597
Accumulated losses		(145,608)	(129,849)
Total equity		**11,579**	**27,050**

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

Condensed Statement of Comprehensive Income for the half-year ended 31 December 2014

	Notes	Consolidated 31 December 2014 $000	Consolidated 31 December 2013 $000
Continuing operations			
Interest revenue		101	222
Grants revenue and R&D tax incentives		3,837	118
Profit share income		2,830	4,657
Other income		61	38
Revenue from continuing operations		6,829	5,035
Depreciation and amortisation	5	(723)	(741)
Impairment losses (intangible assets and goodwill)	10	(12,741)	-
Payroll and staff expenses		(2,930)	(2,615)
Business development		(115)	(140)
Research and development costs		(6,618)	(5,151)
Administration and corporate expenses		(1,333)	(1,264)
Rent and occupancy expense		(277)	(266)
Share based payment expense		(112)	(616)
Other expense		(24)	86
Expenses from continuing operations		(24,873)	(10,707)
Loss from continuing operations before income tax		**(18,044)**	**(5,672)**
Income tax benefit		2,285	198
Net loss from continuing operations		**(15,759)**	**(5,474)**
Other comprehensive income		-	-
Total comprehensive income/(loss) for the period		**(15,759)**	**(5,474)**
Earnings/(losses) per share (cents per share)			
Basic losses per share	6	(4.9)	(1.7)
Diluted losses per share	6	(4.9)	(1.7)

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

Condensed Statement of Cash Flows for the half-year ended 31 December 2014

	Notes	Consolidated 31 December 2014 $000	Consolidated 31 December 2013 $000
Cash flows from operating activities			
Payments to suppliers, employees and others		(8,939)	(11,160)
Receipts from grants and R&D incentives		6,532	8,798
Interest received		90	147
Profit share and other income received		3,215	5,900
Net cash flows used in operating activities		**898**	**3,685**
Cash flows from investing activities			
Payments for property, plant, equipment and other assets		(2)	(247)
Redemption/(deposit) of short term deposits		3,000	(1,833)
Net cash flows from investing activities		**2,998**	**(2,080)**
Net cash flows from financing activities		**-**	**-**
Net increase in cash and cash equivalents		**3,896**	**1,605**
Cash and cash equivalents at beginning of the half year		7,949	5,064
Effect of exchange rates movements on cash balances		(46)	-
Cash and cash equivalents at the end of the half year	7	**11,799**	**6,669**

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

Condensed Statement of Changes in Equity as at 31 December 2014

Consolidated	Issued Capital $000	Accumulated Losses $000	Reserves $000	Total equity $000
At 1 July 2013	**151,149**	**(122,925)**	**4,155**	**32,379**
Loss for the period	-	(5,474)	-	(5,474)
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the half-year	-	(5,474)	-	(5,474)
Issuance of shares – Executive and Employee Incentive Plan Shares	153	-	-	153
Fair value of share-based payments	-	-	616	616
Total as at 31 December 2013	**151,302**	**(128,399)**	**4,771**	**27,674**
At 1 July 2014	**151,302**	**(129,849)**	**5,597**	**27,050**
Loss for the period	**-**	(15,759)	**-**	(15,759)
Other comprehensive income for the period	**-**	**-**	**-**	**-**
Total comprehensive income for the half-year	**-**	(15,759)	**-**	(15,759)
Issuance of shares – Executive and Employee Incentive Plan Shares	176	-	-	176
Fair value of share-based payments	-	-	112	112
Total as at 31 December 2014	**151,478**	**(145,608)**	**5,709**	**11,579**

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

Notes to the Financial Statements

Note 1. Corporate information

The half-year financial report of Alchemia Limited ("the Company") and its consolidated entities ("the Group"), for the six months ending 31 December 2014 was authorised for issue in accordance with a resolution of the directors on 26 February 2015.

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

The nature of the operations and principal activities of the Group are described in the Directors' Report.

Note 2. Significant changes in the current reporting period

During the current reporting period the Company announced that its pivotal Phase III trial of HA-Irinotecan in the treatment of patients with metastatic colorectal cancer (mCRC) did not meet its primary endpoint of statistically significant improvement in progression-free survival (PFS). As a result, the Group has fully impaired its intellectual property and goodwill assets which relate to the HyACT platform technology, of which HA-Irinotecan is part of. Refer to note 10 for further information.

Note 3. Summary of significant accounting policies

a) Basis of Preparation

This general purpose, condensed interim consolidated financial report for the half year ended 31 December 2014 ("half-year financial report"), has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The interim half-year financial report does not include all notes of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the annual financial report. Accordingly, it is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2014 and considered together with any public announcements made by Alchemia Limited during the half year ended 31 December 2014 in accordance with the continuous disclosure obligations of the *ASX listing rules*. The investor update announcement made by the Company on 29 January 2015 with regards to its strategic review warrants special mention.

Apart from the changes in accounting policy noted below, the accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

b) 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.

A company (whether for-profit or not-for-profit) is a going concern when it is considered to be able to pay its debts as and when they are due, and continue in operation without any intention or necessity to liquidate or otherwise wind up its operations for at least the next 12 months from the end of the reporting period. Each of these requirements are considered in more detail below.

Ability to repay debts as and when they are due

Management has prepared an assessment of the Group's ability to meet its debts as and when they fall due. This assessment includes forecasting committed and variable expenditure required in order for the Group to continue its operations in the future. The Groups operations going forward are likely to be materially different to the past given the failure of its lead asset, HA-Irinotecan, which occurred in the current reporting period. Future expected changes in the operations of the Group have been taken into consideration in the assessment of the Group's ability to operate as a going concern.

The Group incurred an operating loss after income tax of $15.8 million for the half year ended 31 December 2014 compared with a $5.5 million loss in the corresponding period last year. The loss for the current year includes a one-off (non-cash) impairment charge of $12.7 million for the impairment of intangible assets including goodwill. As a result of this charge, the Group's reported intangible asset balance is nil as at 31 December 2014 (30 June 2014: $13.4 million).

Notes to the Financial Statements

Note 3. Summary of significant accounting policies (continued)

The Directors believe that the Group 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 31 December 2014 the Group had net tangible assets of $11.6 million and the assets of the Group exceeded liabilities by a ratio of 2.7:1. It should be noted, that in addition to the liabilities reported on the balance sheet at 31 December 2014, the Group has reported a total of $2.5 million for contractual commitments (refer note 15).

(ii) The Group reported cash and cash equivalents of $11.9 million at 31 December 2014 (31 December 2013: $16.4 million).

(iii) The Group has no borrowings from banks or other financial institutions as at 31 December 2014, and there are no plans to obtain any debt financing in the next 12 months.

(iv) The Group reported receipt of $1.3 million from its profit share agreement with Dr Reddy for sales in the US of its generic anti-coagulant drug fondaparinux for the quarter ending 31 December 2014. The Group expects to continue to receive this profit share revenue for at least the next twelve months. In addition, the contractual payment of approximately $0.5 million per quarter to Dr Reddy for Alchemia's contribution to yield and cost of goods improvement has now ceased, and going forward will no longer be deducted from the profit share revenue received.

(v) During the period the Group received a total of $6.5 million for an R&D tax incentive refund from the Australian government. The Group is forecasting to receive a further refund for its eligible expenditure for the year ended 30 June 2015.

(vi) During the current reporting period, the Group has cut overheads and staffing costs. The Group is continuing to review its cost structure and is targeting further cost reductions over the next 12 months.

Continuing operations

As mentioned above, during the current reporting period the Company announced that its pivotal Phase III trial of HA-Irinotecan in the treatment of patients with metastatic colorectal cancer (mCRC) did not meet its primary endpoint of statistically significant improvement in progression-free survival (PFS). This prompted a strategic review of the Company's assets and operations. The Company announced an update of this strategic review to the market on 29 January 2015. In that announcement, the Company stated it is targeting the execution of a corporate transaction or partnership for both the HyACT and VAST technologies. Discussions with potential partners are underway to gauge interest. Any additional capital that may be required to support the future development of HyACT or VAST is intended to be raised in an entity outside of the Alchemia Group (eg. through a demerged entity). Should the Group execute successful corporate transactions for both HyACT and VAST, the Company's operations will consist of Fondaparinux only. The Company intends to distribute future Fondaparinux revenues, less associate operating costs, as future dividends to its shareholders.

Whilst the Group's operations are expected to change in the future, there is no intention to either liquidate or wind up the Group's operations during the next 12 months.

Going concern assessment

In consideration of the above, and on the basis that the Group is able to pay its debts as and when they fall due, and there is no intention to liquidate or wind up the Company's operations in the next 12 months, the directors believe that the going concern basis of presentation is appropriate.

Notes to the Financial Statements

Note 3. Summary of significant accounting policies (continued)

c) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

d) Changes in accounting policy

The Group applied, for the first time, certain standards and amendments from 1 July 2014.

The each new standard and amendment are described below:

- AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Liabilities
- AASB 2013-7 Amendments to AASB 1038 arising from AASB 10 in relation to Consolidation and Interests of Policyholders [AASB 1038]
- AASB 1031 Materiality
- Interpretation 32 Levies
- AASB 2013-4 Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting [AASB 139]
- AASB 2013-5 Amendments to Australian Accounting Standards – Investment Entities [AASB 1, AASB 3, AASB 7, AASB 10, AASB 12, AASB 107, AASB 112, AASB 124, AASB 127, AASB 132, AASB 134 & AASB 139]
- AASB 2014-1 Part A - Amendments to Australian Accounting Standards - Part A Annual Improvements to IFRSs 2010–2012 Cycle
- AASB 2014-1 Part A - Amendments to Australian Accounting Standards - Part A Annual Improvements to IFRSs 2011–2013 Cycle

The adoption of these standards and amendments do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group. The Group does not believe that there will be a material financial impact to either the statement of comprehensive income or the statement of financial position once these accounting standards are adopted, with exception to IFRS 15 which the Group is currently evaluating.

Notes to the Financial Statements

Note 4. Segment information

During the reporting period, the main business activities of Alchemia Limited were the commercialisation and improvements of its generic fondaparinux product. The main business activity of Audeo Oncology, Inc. comprised the development and commercialisation of the HyACT platform, the oncology business and VAST drug discovery platform.

Business Segment	**Fondaparinux**		**HyACT/VAST**		**Eliminations**		**Consolidated Total**	
31 December Half-Year	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	$000	$000	**$'000**	$000	**$000**	$000	**$000**	$000
Revenues								
Grants and R&D Incentive	**-**	-	**3,837**	117	**-**	-	**3,837**	117
Profit share income	**2,830**	4,657	**-**	-	**-**	-	**2,830**	4,657
Other revenues	**86**	215	**76**	46	**-**	-	**162**	261
Total segment revenues	**2,916**	4,872	**3,913**	163	**-**	-	**6,829**	5,035
Depreciation and amortisation	**-**	-	**(723)**	(741)	**-**	-	**(723)**	(741)
Impairment of IP and goodwill (*)	**-**	-	**(12,741)**	-	**-**	-	**(12,741)**	-
Payroll and staff expenses	**(1,131)**	(1,468)	**(1,799)**	(1,763)	**-**	-	**(2,930)**	(3,231)
Research and development costs	**(400)**	(389)	**(6,217)**	(4,762)	**-**	-	**(6,617)**	(5,151)
Administrative, corporate and other expenses	**(1,153)**	(882)	**(180)**	(648)	**-**	-	**(1,333)**	(1,530)
Other income (expense)	**(59)**	120	**(470)**	(174)	**-**	-	**(529)**	(54)
Segment profit/(loss) before tax	**173**	2,253	**(18,217)**	(7,925)	**-**	-	**(18,044)**	(5,672)
Borrowing costs								-
Consolidated entity loss from continuing activities							**(18,044)**	(5,672)
Income tax benefit							**2,285**	198
Consolidated entity loss							**(15,759)**	(5,474)

*(Note) Includes the impairment cost of $6.9 million for the HyACT IP and the $5.8 million write off of goodwill. Please refer to Note 10 for more details.

Notes to the Financial Statements

Note 4. Segment information (continued)

Business Segment	Fondaparinux		HyACT/VAST		Eliminations		Consolidated Total	
31 December Half-Year	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	$000	$000	**$000**	$000	**$000**	$000	**$000**	$000
Other segment information								
Depreciation and amortisation	**-**	-	**(723)**	(741)	**-**	-	**(723)**	(741)
Impairment of IP and goodwill	**-**	-	**(12,741)**	-	**-**	-	**(12,741)**	-
Other non-cash expenses	**(86)**	(258)	**(26)**	(358)	**-**	-	**(112)**	(616)
Cash flow information								
Net cash flow from (used in) operating activities	**1,174**	3,467	**(276)**	218	**-**	-	**898**	3,685
Net cash flow from (used in) investing activities	**2,998**	(1,839)	**-**	(241)	**-**	-	**2,998**	(2,080)
Net cash flow from financing activities	**-**	-	**-**	-			**-**	-
Capital expenditure	**(2)**	(6)	**-**	(241)	**-**	-	**(2)**	(247)

Business Segment	Fondaparinux		HyACT/VAST		Eliminations		Consolidated Total	
	December 2014	June 2014	**December 2014**	June 2014	**December 2014**	June 2014	**December 2014**	June 2014
	$'000	$000	**$'000**	$000	**$000**	$000	**$000**	$000
Other segment information								
Segment assets (*)	**7,316**	12,421	**11,688**	21,970	**(656)**	(395)	**18,348**	33,996
Segment liabilities	**2,040**	1,659	**29,799**	24,649	**(25,070)**	(19,362)	**6,769**	6,946

(*) the June 2014 asset and elimination amounts have been reclassed to be in line with the December 2014 presentation.

Notes to the Financial Statements

Note 5. Expenses

	Consolidated	
	31 December 2014	**31 December 2013**
	$000	**$000**
Depreciation and amortisation		
Depreciation and amortisation of property, plant and equipment	60	78
Amortisation of patents	663	663
	723	**741**

Note 6. Earnings per share (EPS)

	Consolidated	
	31 December 2014	**31 December 2013**
	$	**$**
Earnings/(losses) in cents per ordinary share		
Basic EPS	(4.9)	(1.7)
Diluted EPS	(4.9)	(1.7)
Net loss used in calculating basic and diluted earnings per share ($000)	(15,759)	(5,474)
	Number	**Number**
Weighted average number of ordinary shares used in the calculation of basic earnings per share	324,561,267	324,204,116

The options are non-dilutive as the company is in losses
Calculation of basic and diluted EPS is in accordance with AASB 133 *Earnings per share*

Note 7. Cash and cash equivalents

	Consolidated	
	31 December 2014	**31 December 2013**
	$000	**$000**
For the purpose of the Condensed Statement of Cash Flow, cash and cash equivalents comprise the following at 31 December:		
Cash at bank and on hand	2,037	1,810
Deposits at call	9,762	4,859
Cash and cash equivalents	**11,799**	**6,669**
Term Deposits	**117**	**9,744**

Notes to the Financial Statements

Note 8. Trade and other receivables

	Consolidated	
	31 December 2014	30 June 2014
	$000	$000
R&D tax incentive receivables	3,610	6,532
Profit share receivable	1,291	1,618
Other receivables	111	107
	5,012	**8,257**

The R&D tax incentive receivable for the current period consists of an estimated $3.6 million refund for the R&D Tax Incentive based on eligible R&D expenditure incurred by the Group for the half-year period.

Note 9. Property, plant and equipment

	Consolidated	
	31 December 2014	30 June 2014
Leasehold improvements	$000	$000
At cost	1,607	1,607
Accumulated depreciation	(1,607)	(1,607)
Net carrying amount	-	-
Plant and equipment		
At cost	8,600	8,598
Accumulated depreciation	(8,351)	(8,291)
Net carrying amount	**249**	**307**
Total property, plant and equipment		
At cost	10,207	10,205
Accumulated depreciation and amortisation	(9,958)	(9,898)
Total written down value	**249**	**307**

	Consolidated	
	31 December 2014	30 June 2014
	$000	$000
Movement		
Plant and equipment		
Carrying amount at the beginning of the period	307	426
Additions	2	249
Capital in progress	-	(219)
Depreciation expense	(60)	(149)
Carrying amount at the end of the period	**249**	**307**

Notes to the Financial Statements

Note 10. Intangible assets and goodwill

	Consolidated		
	Patents	**Goodwill**	**Total**
	$000	**$000**	**$000**
Balances			
Cost at 30 June 2014	18,330	5,787	24,117
Accumulated amortisation at 30 June 2014	(10,713)	-	(10,713)
Net carrying value at 30 June 2014	**7,617**	**5,787**	**13,404**
Cost at 31 December 2014	18,330	5,787	24,117
Accumulated amortisation at 31 December 2014	(11,376)	-	(11,376)
Accumulated impairment losses at 31 December 2014	(6,954)	(5,787)	(12,741)
Net carrying value at 31 December 2014	-	-	-
Movement (half-year)			
Net carrying value at 1 July 2013	8,943	5,787	14,730
Amortisation charge for the period	(663)	-	(663)
Impairment losses for the period	-	-	-
Net carrying value at 31 December 2013	**8,280**	**5,787**	**14,067**
Net carrying value at 1 July 2014	7,617	5,787	13,404
Amortisation charge for the period	(663)	-	(663)
Impairment losses for the period	(6,954)	(5,787)	(12,741)
Net carrying value at 31 December 2014	**-**	**-**	-

Acquisition of intangibles

The patents and goodwill arose from the acquisition of Meditech (now Alchemia Oncology Limited (AOL)) and represents the allocation of the excess of the purchase price over the net tangible assets of AOL. As part of the "fair value" accounting associated with the acquisition, Alchemia recognized the value of the patents and associated IP of Meditech at $18.3 million and has, since acquisition, been amortising it over the useful life of the patents (ranged from 8-20 years). Also on acquisition, was the requirement to recognise a deferred tax liability, for the difference between the tax effect of the fair value of the acquired assets and liabilities and their tax bases. The recognition of the deferred tax liability had the effect of reducing the net assets acquired, and the difference between the consideration paid and the net assets acquired (including the deferred tax liability) was recorded as goodwill. Goodwill is not amortised, but tested for impairment annually.

Impairment testing requirements

Australian Accounting Standard AASB136 – Impairment Testing, requires that all intangible assets with indefinite useful lives, such as goodwill, be tested for impairment, at least annually by comparing their carrying value with their recoverable amount. The standard further requires that goodwill be allocated to each "cash generating units" within AOL. Whilst previously there were a number of potential cash generating units, all arose from the central technology platform HyACT and are inseparable from it at the time of acquisition. Accordingly, the Company attributed the goodwill to HyACT and did not seek to arbitrarily allocate its value to the numerous potential commercial applications of that technology. For the purpose of testing this goodwill for impairment, any of the related deferred tax liabilities recognised on acquisition that remain at balance date are treated as part of the relevant CGU.

Notes to the Financial Statements

Note 10. Intangible assets and goodwill (continued)

Impairment trigger

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

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

Recoverable amount and impairment losses

In assessing the recoverable amounts of the intangible assets the directors have considered the failed phase III trial of its lead asset, the market capitalisation of the Company in comparison to its net tangible assets and off-balance sheet value of fondaparinux, the future investment required to further create value in the HyACT technology, and the Company's cost of capital. In consideration of these factors, and in accordance with accounting standards, the directors have assessed the recoverable amount of the HyACT patents and associated goodwill to be nil as at 31 December 2014. Consequently, the Group has recognised impairment losses of $6.9 million for HyACT Patents and $5.8 million for goodwill.

Future value

As announced on 29 January 2015, the Company is targeting a corporate transaction or partnership for its HyACT platform technology. Whilst the directors believe there is value in this technology, particularly in the patents, know-how and clinical data, this value cannot be reliably estimated at this time.

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

Therefore to the extent a value is realised for HyACT in the future through a corporate transaction, the impairment charge will be reversed and the asset's value reinstated, up to its carrying value immediately prior to the impairment. The goodwill balance will not be reinstated in any event.

Deferred tax liability

In addition, the impairment of the HyACT intangible asset resulted in the winding down of the deferred tax liabilities that arose from the acquisition of Meditech. The write back of the deferred tax liability produced an income tax benefit of $2.3 million in the current year's statement of comprehensive income. Refer to note 13 for further information.

Note 11. Trade and other payables

	Consolidated	
	31 December 2014	**30 June 2014**
	$000	**$000**
Trade creditors	1,664	1,633
Other creditors including accruals	4,041	1,889
	5,705	**3,522**

Notes to the Financial Statements

Note 12. Provisions	**Consolidated**	
	31 December 2014	**30 June 2014**
	$000	**$000**
Current		
Annual leave	284	282
Long service leave	222	174
Redundancies	200	-
	706	**456**
Non-current		
Long service leave	17	99
Make good provision for lease of premises	275	275
	292	**374**

Note 13. Deferred tax liability	**Consolidated**	
	31 December 2014	**30 June 2014**
Deferred taxes related to:	**$000**	**$000**
Unrealised foreign exchange gains	-	17
Deferred income	3	3
Patent assets	-	2,285
	3	**2,305**

Note 14. Issued capital	**Consolidated**	
Ordinary shares	**31 December 2014**	
Issued and fully paid	**Shares No.**	**$000**
At 1 July 2014	324,410,203	151,302
Shares issued to employees under the Employee Share Bonus Scheme	287,966	176
At 31 December 2014	**324,698,169**	**151,478**

Notes to the Financial Statements

Note 15. Expenditure commitments

(a) Capital expenditure commitments

There were no capital expenditure commitments as at 31 December 2014 (30 June 2014: nil).

	Consolidated	
	31 December 2014	**30 June 2014**
	$000	**$000**
(b) Lease expenditure commitments		
Operating leases (non-cancellable):		
Minimum lease payments		
– not later than one year	600	447
– later than one year and not later than five years	260	490
Aggregate lease expenditure contracted for at reporting date	**860**	**937**

The operating leases are in respect of the lease of the company's premises in Brisbane, Melbourne and one item of equipment.

	Consolidated	
	31 December 2014	**30 June 2014**
	$000	**$000**
(c) R&D Project commitments		
– not later than one year	200	200
– later than one year and not later than five years	-	-
Total commitments	**200**	**200**

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, single digit royalty for a successful HyACT product and a single digit percentage success fee on consummation of a business development/corporate transaction. Details of these commitments are set out in the 2014 Annual Report of the company and the ASX announcements from July 2014.

	Consolidated	
	31 December 2014	**30 June 2014**
	$000	**$000**
(d) Contract research commitments		
– not later than one year	1,447	1,805
– later than one year and not later than five years	-	-
Total commitments	**1,447**	**1,805**

The Group entered into a clinical research services agreement (CRSA) with a contract research organisation (CRO) to assist with the management and coordination of the phase III trial for HA-Irinotecan. Pursuant to the CRSA, the CRO is due a total fixed fee for their services of US$10.7 million. As at 31 December 2014, there was an amount of US$1.18 million (A$1.447 million) remaining under this contract. In addition, the Group is obliged to reimburse the CRO for certain out-of-pocket expenses and third party vendor costs as and when they are incurred. There are no further contractual commitments for the completion of the phase III trial other than those reported above, or those that are already accrued for and recorded as liabilities as at 31 December 2014.

Notes to the Financial Statements

Note 16. Contingent assets and liabilities

There are no contingent assets or liabilities as at 31 December 2014 (2014: Nil).

Note 17. Options issued

The Group issued 600,000 options under the Employee Share Option Plan during the reporting period. These options were issued with an exercise price of $0.88 per share, and expire in September 2019.

Note 18. Events after the balance date

The Company issued 400,000 options under the Employee Share Option Plan on 6 January 2015. These options were issued with an exercise price of $0.25 per share, and expire in January 2020.

The Directors are not aware of other significant change in the state of affairs of the Group after the reporting date that is not already disclosed within this report.

Alchemia Limited
Directors' Declaration

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

In the opinion of the directors:

(a) the financial statements and notes of the company are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the financial position as at 31 December 2014 and the performance for the half-year ended on that date of the consolidated entity; and

(ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

(b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Tim Hughes
Director

26 February 2015

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To the members of Alchemia Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Alchemia Limited, which comprises the condensed statement of financial position as at 31 December 2014, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Alchemia Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, 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.

Building a better working world

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Alchemia Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Winna Brown
Partner
Brisbane
26 February 2015