ACRUX LIMITED
ABN 72 082 001 152
AND CONTROLLED ENTITIES

FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2016

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DIRECTORS' REPORT

The Directors present their report, together with the Financial Report of the consolidated entity consisting of Acrux Limited and the entities it controlled for the financial year ended 30 June 2016, together with the independent auditor's report thereon. This Financial Report has been prepared in accordance with Australian Accounting Standards.

Principal Activities

The principal activities of the consolidated entity during the financial year were the development and commercialisation of pharmaceutical products. There has been no significant change in the nature of these activities during the financial year.

Operating Results

	2016 $M	2015 $M
Revenue	28.6	25.4
Net profit after tax	13.0	11.1
Earnings per share	7.8 cents	6.7 cents
Cash on hand	29.4	23.1

The consolidated profit after income tax attributable to the members of Acrux Limited was $13.0 million (2015: $11.1 million). Diluted earnings per share were 7.8 cents (2015: 6.7 cents).

Review of Operations

A review of the operations of the consolidated entity during the financial year and the results of these operations are as follows:

Mission

Acrux is a pharmaceutical company dedicated to developing and commercialising branded and generic transdermal and topical pharmaceuticals for global markets to deliver attractive returns to shareholders.

Business Strategy

Acrux's strategy is to create new transdermal or topical pharmaceutical products by formulating or reformulating delivery methods for proven drugs using our internal development capabilities. Transdermal or topical delivery of pharmaceutical products as gels, patches, creams and ointments is a rapidly growing alternative route of administration of drugs delivered in oral and injectable forms. Formulating proven drugs means that the development time is usually shorter and both the risk and expenditure profiles are lower than is typical for new drug development. Intellectual property (IP) remains an important cornerstone of our product development strategy, both in terms of creating new IP (where relevant), and ensuring freedom to operate in the fields in which we develop products.

DIRECTORS' REPORT

Our transdermal or topical pharmaceutical product portfolio can be segregated into two streams - generic pharmaceutical products and specialty pharmaceutical products.

Generic transdermal or topical pharmaceutical products are the pharmaceutical and therapeutic equivalents of existing (reference) branded products. Accordingly, generic products provide a safe, effective and cost-efficient alternative to users of the reference brand products. Generic product development is generally less time-consuming and complex than the new chemical entity development process. It usually does not require new preclinical and clinical studies, because it relies on the studies conducted for the referenced innovator product (often called the Reference Listed Drug or RLD) that had established safety and efficacy of that product. Generic products may require one or more bioequivalence studies to show that the generic drug is bioequivalent to the previously approved RLD. These studies are relatively low cost and short term.

Specialty transdermal or topical pharmaceutical products are designed to provide patients with an improved product experience. Our specialty product development projects are targeting improved formulation of proven active pharmaceutical drugs with Acrux's delivery technology to create a patient-preferred product. These products are designed to provide a point of difference in the market through either improved formulation efficacy, reduced volume of active drug ingredient, improved active drug efficiency or a novel means of drug administration. Like generic products, specialty product development is generally less time-consuming and complex than the development process of a new chemical entity. The investment required for specialty products is usually higher than that required to develop generic transdermal and topical products. The specialty product development cycle requires a number of preclinical and clinical trials to validate safety and patient outcomes. However, unlike generic product development, specialty product development enables the creation of new IP, which provides commercial protection against competitors.

During the year, internal research and development milestones were achieved through the progression of product development of three generic products and one specialty product (to treat a fungal infection called onychomycosis). At year end, formulation development for these three generic projects was completed. The Company is now moving forward with scale-up plans for these products, including the selection of contract manufacturing organisations for the manufacture of exhibit batches. The onychomycosis product development is continuing, targeting delivery of a superior product for fungal infection of the nail bed.

Operating Results

The consolidated profit before tax was $18.1 million (2015: $16.8 million). The consolidated profit after tax was $13.0 million (2015: $11.1 million).

Revenue

Total revenue for the financial year was $28.6 million (2015: $25.4 million). Revenue from licensing agreements was $28.0 million (2015: $24.6 million), comprising royalty revenue of $25.5 million (2015: $24.6 million) and milestones of $2.5 million (2015: nil). Royalty revenue from Axiron® was $25.3 million (2015: $24.3 million).

DIRECTORS' REPORT

On a constant currency basis and after normalising for milestones received during the 2016 financial year, licensing income was 6.8% ($1.9M) lower than the prior period. The movement year on year reflects a net decline in product volumes and change in mix of royalty income. Axiron prescription volumes declined 12%[(*)] when compared to financial year 2015, partially offset by the launch of Lenzetto in Europe.

Interest income contributed $0.5 million (2015: $0.6 million).

Operating Expenditure

Operating expenditure totaled $10.5 million (2015: $8.6 million). With an increase in research and development activities during the year, reflecting the Company's strategy to diversify its income base through the development of generic transdermal and topical pharmaceutical products, Acrux invested $5.5 million in research and development (2015: $3.8 million) across 4 projects. Further details of research and development investment are provided in Note 5 of the Financial Report which follows the Directors' Report. Royalty payments due to the Monash Investment Trust increased to $1.0 million (2015: $0.9 million), in line with the increase in licensing income. A foreign exchange loss of $0.8 million was recorded on conversion of the royalties which are received in US dollars (2015: $nil).

A non-cash expense of $0.3 million (2015: $0.8 million) was recorded for employee share options granted during the reporting period, as required by accounting standard AASB 2.

Income tax expense for the financial year was $5.1 million (2015 $5.7 million). Further details of the income tax expense are provided at Note 1 (j) of the Financial Report which follows the Directors' Report.

Cash flow

Net cash provided by operating activities totaled $16.5 million (2015: $10.5 million). Net cash for the financial year after payment of dividends to shareholders was $6.3 million inflow (2015: $2.9 million outflow). Cash reserves at 30 June 2016 were $29.4 million (30 June 2015: $23.1 million).

Receipts from licensing agreements totaled $28.2 million (2015: $25.2 million) comprising royalty income of $25.7 million (2015: $24.4 million) and milestones of $2.5 million (2015: $nil). Interest receipts added $0.5 million (2015: $0.6 million). Payments to suppliers and employees increased to $7.9 million (2015: $6.5 million). Income taxes paid decreased to $4.3 million from $8.9 million in the 2015 financial year.

The outflow of cash recorded for financing activities represents the payment of $10.0 million (2015: $13.3 million) of dividends to shareholders, comprising the 6 cent final dividend for the 2014/15 financial year.

[(*)] **Source: IMS data**

DIRECTORS' REPORT

Contributed Equity

There were no changes to contributed equity during the financial year.

The number of outstanding employee share options on issue at the date of this report was 4,794,000 (30 June 2015: 3,380,000), representing 3.1% of the Company's issued share capital. Further details of share based payments are provided in Note 16 of the Financial Report which follows the Directors' Report.

Key Events During the Year

- Formulation development completed for our first three generic products
- Further generic pipeline product opportunities identified and assessed for future development
- Lenzetto® launched in Europe by our licensee (Gedeon Richter)
- Net sales of Axiron® for the 2015/16 financial year totalled US$149.3 million (2014/15: US$155.4 million)
- 2014/15 final dividend paid (6 cents per share)

Significant Changes in the State of Affairs

There have been no significant changes in the state of affairs of the consolidated entity during the year.

After Balance Date Events

The Board resolved to issue 1,000,000 Options to the Chief Executive Officer (Mr. Michael Kotsanis) on 22 July 2016 at an exercise price of $0.96 per share. The Options comprise the long term incentive component of the CEO's remuneration package and were issued pursuant to the terms of the Chief Executive Officer Share Option Plan, which was approved at the Acrux Limited Extraordinary General Meeting held on 3 February 2015. Shares allocated on the exercise of these Options will rank equally with the issued capital of the Company from their date of exercise.

Formal trial proceedings concluded in July 2016 in the United States District Court for the Southern District of Indiana against 1) Perrigo Israel Pharmaceuticals Limited ("Perrigo"), 2) Watson Laboratories Inc. ("Actavis"), 3) Amneal Pharmaceuticals LLC ("Amneal") and 4) Lupin Pharmaceuticals Inc. ("Lupin") (collectively, the "Defendants"), respectively for infringement of issued patents covering Axiron®. In each instance, the patents are owned by Acrux DDS, a wholly-owned subsidiary of Acrux Limited and exclusively licensed to Eli Lilly and Company, our licensee for Axiron®. On 22 August 2016, the United States District Court for the Southern District of Indiana ruled the formulation and axilla application patents granted by the US Patent Office for Axiron® have been invalidated and therefore would not be infringed by the commercialisation of generic versions of Axiron® by the generic companies that have challenged these patents. The applicator patent is valid but not infringed by the majority of parties. The decision allows FDA-approved generic versions of Axiron® to enter the U.S. marketplace, pending an appeal. On 23 August 2016, in the United States, Eli Lilly and Company and Acrux announced that they will appeal the Court's decision. In the event that the decision is overturned during the appeal, and the courts determine that the patents are valid and infringed, the generics can be withdrawn from the market and the brand company can seek monetary damages. Appeal proceedings are ongoing at the time of writing this report.

DIRECTORS' REPORT

No other matters or circumstances have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Likely Developments

For the foreseeable future, the consolidated entity's financial results will be materially influenced by the sales performance of Axiron® in the United States and the development of the consolidated entity's product pipeline, involving transition of pipeline products from preclinical activities to clinical trial initiation. Under a license agreement with Eli Lilly and Company, the consolidated entity receives royalties on worldwide sales of Axiron® by Lilly.

Environmental Regulation

The consolidated entity's operations are subject to certain environmental regulations under the laws of the Commonwealth and of the State. Details of the consolidated entity's performance in relation to such environmental regulations are as follows:

Laboratory Waste

In order to ensure compliance with the Environment Protection Act 1970, the consolidated entity engages an external waste management consultant. This consultant has ISO 14001:2004 Certification for Environmental Management to ensure compliance with the legislative requirements. The consultant issues an EPA Transport Certificate at every collection of waste to ensure safe collection, transport, delivery and disposal/recycling procedures.

Trade Water Waste

An agreement exists with City West Water to ensure compliance under the Water Industry Act 1994 and Water Industry Regulations 1995. This agreement ensures that the acceptance of trade waste into the sewage network is managed effectively and that City West Water is aware of the type and quantities of waste disposed of by the consolidated entity.

The Directors are not aware of any breaches during the period covered by this report.

Dividend Paid, Recommended and Declared

A final franked dividend for the 2014/15 financial year of 6 cents per share, totaling $10.0 million, was paid during the reporting period. The Board did not declared a dividend for the year ended 30 June 2016.

Share Options

Unissued ordinary shares of Acrux Limited under option at the date of this report are as follows:

Date options granted	Number of unissued ordinary shares under option	Issue price of shares	Expiry date of the options
3 February 2015	2,000,000	$1.32	February 2018
22 July 2015	1,000,000	$1.11	July 2018
22 July 2016	1,000,000	$0.96	July 2019
25 January 2016*	794,000	$0.82	January 2020
	4,794,000		

* Options issued under the Employee Share Plan on 25 January 2016 are unvested. Options may vest 12 months after grant date, assuming performance measures are achieved.
No option holder has any right under the options to participate in any other share issue of the Company.

A total of 1,000,000 options over unissued ordinary shares were granted to the CEO during the financial year and a further 1,000,000 on the 22 July 2016.

Shares Issued On Exercise of Options

There were no shares issued during the financial year from the exercise of share options.

Indemnification and Insurance of Directors and Officers

During the financial year, the consolidated entity has paid premiums in respect of an insurance contract to indemnify officers against liabilities that may arise from their position as officers of the Company and its controlled entities. Officers indemnified include the company secretary, all Directors and all executive officers participating in the management of the Company and its controlled entities. Further disclosure required under section 300(9) of the *Corporations Act 2001* is prohibited under the terms of the insurance contract.

Court Proceedings

Our largest commercial product (Axiron®) has attracted the interest of generic companies in the United States. The market remains attractive, with net sales of Axiron in the US alone exceeding US$145 million in 2016. As has been previously communicated, Acrux and our partner Eli Lilly and Company have filed lawsuits for infringement of specified issued US patents against a number of companies that had filed applications for a generic of Axiron®. Formal trial proceedings against the Defendants began in June 2016 in the United States District Court for the Southern District of Indiana. The relevant patents include claims relating to the formulation (expiry 2017), the application of testosterone to the axilla (expiry 2027) and to the applicator used to apply Axiron® (expiry 2027). The court will rule on the validity and/or infringement of those patent claims by the Defendants' proposed products. Lilly and Acrux are represented by Finnegan, Henderson, Farabow, Garrett & Dunner, LLP, which is a firm with significant expertise in patent litigation in the United States. The conduct of the lawsuit will not have a material impact on Acrux's operating expenditure.

DIRECTORS' REPORT

Lilly and Acrux are committed to asserting their intellectual property rights for Axiron®. Should the relevant patent families for Axiron® be found to be invalid, then the result could lead to the launch of generic competition to Axiron® in the United States, which would cause a decline in Axiron's net sales and the resulting royalties received by Acrux.

Since 2014, a number of product liability lawsuits alleging personal injuries have been filed against Acrux and Lilly. These cases, brought primarily by private plaintiffs, were consolidated for pre-trial purposes with cases filed against other manufacturers of testosterone replacement therapy in the United States District Court for the Northern District of Illinois under the Multi-District Litigation Rules as Testosterone Replacement Therapy Products Liability Litigation, MDL No. 2545. The conduct of the lawsuits will not have a material impact on Acrux operating expenditure.

Information on Directors and Company Secretary

The qualifications, experience and special responsibilities of each person who has been a Director of Acrux Limited at any time during or since 1 July 2015 is provided below, together with details of the company secretary as at the year end. The Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

R Dobinson (Director since March 1998)

Responsibilities	-	From November 2014, Non-Executive Chairman; 1 July 2012, Executive Chairman; prior to 1 July 2012, Non-Executive Chairman
Qualifications	-	BBus Management
Experience	-	Ross has been a Director since 1998 and was appointed Chairman in January 2006 and then Executive Chairman from 1 July 2012 to October 2014. He is a founder and former CEO of Acrux. Ross has a background in investment banking and stockbroking. He is currently Managing Director of TSL Group Ltd, a corporate advisory company specialising in establishing and advising life sciences companies. He is a Director of Reliance Worldwide Corporation (ASX:RWC). He was previously a founding Director of Starpharma Holdings Limited (ASX: SPL), Executive Chairman of Hexima, Chairman of TPI Enterprises Limited (ASX:TPE), Director of Roc Oil Company Limited (ASX: ROC) and a Director of Racing Victoria Limited.

Information on Directors and Company Secretary (Continued)

B Parncutt AO (Director since April 2012)

Responsibilities	-	Non-Executive Director, member of the Human Capital and Nomination Committee and Chair of the Audit and Risk Committee with financial qualification
Qualifications	-	BSc, MBA
Experience	-	Bruce joined the board on 30 April 2012. His career spans over 40 years in investment management, investment banking and stockbroking including seven years as Chief Executive of listed securities firm Mclntosh Securities (1990-1996) and three years as Senior Vice President of Merrill Lynch (1997-1999). His experience includes extensive involvement in financial analysis, merger and acquisition transactions, capital-raisings, and investment in companies across a broad spectrum from early stage to mature public companies. He holds a Bachelor of Science, MBA, and is a Member of the Financial Services Institute of Australasia. Bruce is Chairman of the investment and corporate advisory firm Lion Capital. He is a Board Member of the Australian Ballet Company. His previous roles have included, Director Australian Stock Exchange Ltd and Vision Systems Ltd, President of The National Gallery of Victoria and member of Council of Melbourne Grammar School.

T Oldham (Director since October 2013)

Responsibilities	-	Non-Executive Director, member of the Audit and Risk Committee and Chair of the Human Capital and Nomination Committee (commencing July 2015)
Qualifications	-	BSc, (Hons), LLB(Hons), PhD
Experience	-	Tim joined the board in October 2013. He has more than 15 years of life sciences business development, alliance management and sales and marketing experience in Europe, Asia and Australia. He is CEO and Managing Director of Cell Therapies Pty Ltd, a leading Asia Pacific provider of manufacturing and distribution of cell-based therapeutics and was President of Asia Pacific for Hospira Inc. (2007 to 2012), having held a variety of senior management roles with Mayne Pharma (2002 to 2007) prior to its acquisition by Hospira. These roles encompassed the development and commercialisation of pharmaceuticals, devices, biologics and cellular therapies. Prior to this, Dr. Oldham was an engagement manager with McKinsey & Co (1997 to 2001). Tim has been chairman of the European

Information on Directors and Company Secretary (Continued)

Generic Medicines Association Biosimilars and Biotechnology Committee, a Director of the Generic Medicines Industry Association and a member of the Pharmaceutical Industry Strategy Group. He is also a Director of Respiri Ltd (ASX: RSH) and a member of AusBiotech's Regenerative Medicine Advisory Group.

G Brooke (Director since June 2016)

Responsibilities	-	Non-Executive Director, member of the Audit and Risk Committee
Qualifications	-	MBBS, MBA
Experience	-	Geoff joined the board in June 2016. He founded GBS Venture Partners in 1996 and has more than 20 years' venture capital experience. In January 2014, he reduced his involvement in GBS and is now Special Adviser to the firm and its funds. Geoff was formally President of Medvest Inc., a US-based early-stage venture capital group he founded with Johnson & Johnson. Geoff's experience includes company formation and acquisitions, as well as public listings on the NYSE, NASDAQ and ASX exchanges. He has been a founder, executive and director of private and public companies and has an extensive international network. Geoff was formerly on the board of two GBS portfolio companies. From 2009 until 2015, he was an independent director of the Victoria Workcover Authority. Dr. Geoff Brooke is licensed in clinical medicine by the Medical Board of Victoria, Australia and his post-graduate work was in anaesthetics/intensive care. He earned his Bachelor of Medicine/Surgery from the University of Melbourne, Australia and a Masters of Business Administration from IMEDE (now IMD) in Lausanne, Switzerland.

S Green (Director since June 2016)

Responsibilities	-	Non-Executive Director, member of the Human Capital and Nomination Committee
Qualifications	-	PhD
Experience	-	Simon joined the board in June 2016. He has 25 years of experience in the biotechnology industry having worked at Genentech and Novartis in San Francisco before joining CSL in 1998. Simon held roles as Senior Vice President in Research and Development and Manufacturing Operations at CSL. He has extensive international experience as a board member for several CSL subsidiary companies in Australia and Germany and for the European Plasma Protein Therapeutics Association. Simon has

Information on Directors and Company Secretary (Continued)

been a member of the Victorian Biotechnology Advisory Council and acting Chairman of the Northern Innovation and Investment Fund. Simon left CSL in November 2015 to take up the position of Chief Executive Officer and Managing Director for Immunosis Pty Ltd, a biotech company focused on improved diagnostic outcomes for patients with immune deficiencies. He graduated as a biochemist from Monash University and completed his PhD in the field of immunology at Melbourne University in 1992.

M Kotsanis (Managing Director from 3 November 2014)

Responsibilities	-	Managing Director and Chief Executive Officer
Qualifications	-	BSc, MBus,
Experience	-	Michael has over 25 years of experience in the pharmaceutical industry and has significant senior leadership experience across the global pharmaceutical markets. Michael was formally the Chief Commercial Officer for Synthon Holding BV, an international pharmaceutical company and a leader in the field of generic medicines, and was based in The Netherlands, a position he held for four years. Prior to Synthon, he served as President, Europe, Middle East and Africa, for Hospira, the global leader in generic injectable pharmaceuticals. Michael joined Hospira following its acquisition of Mayne Pharma in 2007, where he served as President Asia Pacific from 2002. He joined Mayne following their acquisition of Faulding Pharmaceuticals in 2001, where he held responsibility for commercial activities in Australia and New Zealand. Prior to Faulding, Michael held a variety of sales and marketing positions with Boehringer Ingelheim over an 11 year period. Michael earned a bachelor's degree in science from Monash University, and a master's degree in business from the University of Technology, Sydney.

S Papworth (Company Secretary from 29 September 2014)

Responsibilities	-	Chief Financial Officer and Company Secretary
Qualifications	-	B.Com, CA.
Experience	-	Sharon commenced with Acrux as CFO and Company Secretary in September 2014. She has 18 years of finance experience, leading both commercial and technical functions. Having previously held senior finance roles at ASX and US listed organisations, Sharon's

DIRECTORS' REPORT

Information on Directors and Company Secretary (Continued)

experience spans across industries including Pharmaceuticals, Media, Fast Moving Consumer Goods and professional services. Prior to joining Acrux, Sharon was General Manager Finance at Salmat Limited (2010-2014) and Regional Financial Controller for Australia and New Zealand at Hospira (2004-2010), initially joining Mayne Pharma prior to its acquisition by Hospira. These roles supported business growth strategies, providing financial advisory and leadership. Sharon commenced her career at KPMG in the audit division and worked with a broad range of clients including ASX listed entities. Sharon is a Chartered Accountant who also holds a Bachelor of Commerce with majors in Accounting and Marketing.

Directors' Meetings

The number of meetings of the Board of Directors and of each Board Committee held during the financial year and the numbers of meetings attended by each Director were as follows:

DIRECTORS	DIRECTORS' MEETINGS		COMMITTEE MEETINGS			
			AUDIT & RISK		HUMAN CAPITAL & NOMINATION	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
R Dobinson	8	8	2	2	3	3
B Parncutt	8	8	2	2	3	3
T Oldham	8	8	2	2	3	3
G Brooke[1]	1	1	-	-	-	1*
S Green[1]	1	1	-	-	-	1*
M Kotsanis	8	8	-	2*	-	3*

[1] Appointed Non-Executive Director on 1 June 2016
* Attended by invitation.

Directors' and Executives' Interests in Shares and Options

Directors' and Executives' relevant interests in shares of Acrux Limited and options over shares in the Company as at the date of this report are detailed below:

DIRECTORS' REPORT

	Total No. of Shares	Total No. of Options
Directors		
R Dobinson	1,372,593	-
B Parncutt	718,137	-
T Oldham	15,750	-
M Kotsanis	-	4,000,000
Executives		
S Papworth		95,000
C O'Sullivan		95,000
F Colagrande	1,500	95,000
N Webster	6,100	60,000
Total	2,114,080	4,345,000

Directors' Interests in Contracts

Directors' interests in contracts are disclosed in Note 23 to the financial statements.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* in relation to the audit for the financial year is provided with this report.

Non-Audit Services

Non-audit services are approved by resolution of the Audit Committee and approval is provided in writing to the Board of Directors. Non-audit services provided by the auditors of the consolidated entity during the year, Pitcher Partners (Melbourne) and network firms of Pitcher Partners are detailed below.

	2016	**2015**
	$	**$**
Amounts paid or payable to Pitcher Partners (Melbourne) for non-audit services:	27,885	12,500
Amounts paid or payable to network firms of Pitcher Partners for non-audit services:	Nil	Nil
Amounts paid or payable to non-related auditors of group entities for non-audit services:	Nil	Nil
Total auditors' remuneration for non-audit services	27,885	12,500

REMUNERATION REPORT (AUDITED)

The Directors present the consolidated entity's 2016 remuneration report which details the remuneration information for Acrux Limited's Non-Executive Chairman, Non-Executive Directors and other key management personnel.

HUMAN CAPITAL AND NOMINATION COMMITTEE

The Human Capital and Nomination Committee carries out the following functions in relation to the remuneration of senior management:

(a) recommending to the Board a policy and framework for senior employees' remuneration which should aim to set remuneration which:
  (i) is competitive, fair and designed to attract employees of high quality, experience and integrity;
  (ii) motivates senior employees to pursue the long term growth and success of the Company within the appropriate control framework; and
  (iii) establishes a clear relationship between the performance of senior management and their remuneration;

(b) reviewing and recommending to the Board the total individual remuneration package of each member of senior management (including an executive Director), including any bonuses, incentive payments, and participation (including the level of participation) in any share or share option plans in accordance with the policy and framework for senior employees' remuneration;

(c) reviewing benchmarks against which salary reviews are made;

(d) reviewing and recommending the establishment and terms of any employee share or share option plan or other incentive plan and recommending any changes to the Board;

(e) reviewing and recommending on the superannuation arrangements of the Company and its controlled entities; and

(f) ensuring that equity-based senior management remuneration is made in accordance with thresholds set in plans approved by shareholders.

REMUNERATION POLICY

The main principles of the Company's remuneration policy are:

- remuneration is set at levels intended to attract and retain good performers and to motivate and reward them to continually advance the business of the Company;
- remuneration is structured to reward employees both for superior performance and for increasing long term shareholder value; and
- rewards are linked to the achievement of business objectives as set by the Board.

REMUNERATION REPORT (AUDITED)

REMUNERATION STRUCTURE

The remuneration of employees is structured in two parts:

- FIXED REMUNERATION, which comprises salary, superannuation and other benefits in lieu of salary; and
- VARIABLE REMUNERATION, which may comprise a short term incentive in the form of cash and a long term incentive in the form of options under the employee share option plan (ESOP). All permanent staff are eligible to participate in the short term incentive plan and the ESOP. However the level of participation varies according to the level of seniority and the ability to influence the performance of the business.

The Company aims to set the level of fixed remuneration at market levels for comparable jobs in the industry in which the Company operates, based on market sources. The Company then aims to set the short and long term incentives to provide for top performers to be remunerated at the upper end of the market, subject to the overall performance of the Company measured against the goals set by the Board.

The aim of both the short term and long term incentive plans is to drive performance to successfully implement annual business plans and to increase shareholder value. No advice from a remuneration consultant was sought during the financial year for the Company's remuneration structure.

SHORT TERM INCENTIVE PLAN

The purpose of the short term incentive plan is to reward achievement of business objectives on a year by year basis. Each financial year the Board, in conjunction with senior management, sets the business objectives aimed to be achieved during the year to implement the Company's business plan.

The business objectives are clearly defined outcomes in product development and commercialisation, achievement of which can be readily and objectively measured at the end of the financial year. Measurement of achievement of the business objectives does not involve comparison with factors external to the Company.

Achievement of each objective is expected to create immediate value for shareholders, or secure a material step towards value that will crystallise in a future period. Shareholder returns in the form of tax-free dividends are shown in the table below. Comparison of the achievement of objectives and shareholder returns for an individual year is not meaningful, because the value may crystallise in a future year.

Financial year	Closing share price ($)	Share price increase/(decrease) ($)	Dividend paid ($ per share)
2007/08	1.22		
2008/09	1.13	(0.09)	-
2009/10	1.81	0.68	-
2010/11	3.39	1.58	0.60
2011/12	4.25	0.86	-
2012/13	3.51	(0.74)	0.08
2013/14	1.01	(2.50)	0.20
2014/15	0.85	(0.16)	0.08
2015/16	0.72	(0.13)	0.06

There are different levels of the short term incentive plan, with senior executives, other than the Chief Executive Officer, able to achieve annual incentives of up to 24% of fixed remuneration.

The key principles of the plan are:
- Payments under the short term incentive plan are at the discretion of the Board.
- The amount of at-risk remuneration payable under the short term incentive plan is dependent upon the overall level of achievement of the year's business objectives.
- The Board assesses the level of achievement of the business objectives at the end of the year.
- For staff other than senior executives, achievement of personal objectives set for the financial year may also form part of their assessment for short term incentive plan payments.

LONG TERM INCENTIVE PLANS

The purpose of the long term incentive plan is to align the interests of senior executives and other employees more closely with those of the shareholders towards long term sustained superior performance. Long term incentive plan instruments are designed to meet the requirements of ASX Listing Rules and the Company's status as a Pooled Development Fund. At the time of signing there are two long term incentive plans, comprising options to acquire ordinary shares.

The employee share option plan is subject to the following terms:
- The Board may issue options to eligible employees;
- The options vest 12 months from issue, assuming performance measures are met;
- Should options vest, options will expire three years after grant;
- The options lapse on termination of employment, other than through death or redundancy; and
- The exercise price is set at a 15% premium to the volume weighted average market price of the Company's shares 5 days prior to grant and comprise 3 tranches.
  - Tranche 1 was granted on 25 January 2016;
  - Tranche 2 eligibility will be assessed by the Board on or after 25 January 2017; and
  - Tranche 3 eligibility will be assessed by the Board on or after 25 January 2018.

For further details refer to Note 16 to the accounts.

The Chief Executive Officer share option plan is subject to the following terms:

- The options expire three years after grant;
- The options lapse on termination of employment, other than through death or redundancy; and
- The exercise price is set at a 25% premium to the volume weighted average market price of the Company’s shares 5 days prior to grant and comprise 3 tranches.
  - Tranche 1 was granted on 3 February 2015;
  - Tranche 2 was granted on 22 July 2015; and
  - Tranche 3 was granted on 22 July 2016.

The Board evaluates the effectiveness of existing and potential long term incentive plans as the business environment changes.

REMUNERATION AND TERMINATION ENTITLEMENTS OF SENIOR MANAGEMENT

Senior executives have no fixed term of employment and either party may terminate the employment contract on periods of written notice of three months. The employment contracts contain no other entitlement to termination benefits in addition to statutory entitlements.

Names and positions held by executives of the consolidated entity in office at any time during the financial year are:

Executives	Position
M Kotsanis	Chief Executive Officer – Commenced 3 November 2014
S Papworth	Chief Financial Officer and Company Secretary – Commenced 29 September 2014
F Colagrande	Product Development and Technical Affairs Director – Commenced 15 February 2015
C O’Sullivan	Portfolio Director – Commenced 1 July 2015
N Webster	Commercial Director – Commenced 1 July 2013

Share Options

(a) Compensation Options: Granted and vested during the year

A total of 1,000,000 share options were issued by Acrux Limited to the Chief Executive Officer, Mr. Kotsanis, on 22 July 2015. Share options issued to Mr. Kotsanis vest on grant.

A further 794,000 share options were issued under the Employee Share Option Plan to eligible employees, following shareholder approval at the Annual General Meeting held on 17 November 2015. Share options issued under the Employee Share Option Plan vest upon achieving performance metrics detailed under the plan.

(b) Shares issued on exercise of compensation options

No ordinary shares were issued to Directors or Executives on exercise of compensation options during or since the end of the financial year.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

Details of the remuneration of the Executives are set out in the following table:

	Primary		**Post employment**	**Termination Benefits**	**Equity**	**TOTAL**	**Equity as % of Total**	**Bonus as % of Total**
	Salary	Bonus*	Super		Options			
2016	$	$	$	$	$	$	%	%
M Kotsanis[1]	389,892	100,000	19,308	-	225,400	734,600	31%	14%
S Papworth[2]	211,507	34,125	19,308	-	6,029	270,969	2%	13%
F Colagrande[3]	178,082	28,190	19,308	-	6,029	231,609	3%	12%
C O'Sullivan[4]	178,082	28,493	19,308	-	6,029	231,912	3%	12%
N Webster[5]	121,395	18,302	13,272	-	3,808	156,777	2%	12%
	1,078,958	209,110	90,504	-	247,295	1,625,867	15%	13%
2015								
M Kotsanis[1]	254,150	68,668	12,522	-	760,000	1,095,340	69%	6%
S Papworth[2]	158,304	27,874	14,174	-	-	200,352	0%	14%
F Colagrande[3]	158,837	28,031	16,356	-	-	203,224	0%	14%
N Webster[5]	114,324	20,030	11,956	-	-	146,310	0%	14%
	685,615	144,603	55,008	-	760,000	1,645,226	46%	9%

* Bonus relates to the achievement of objectives for the financial year.
[1] Appointed Chief Executive Officer and Managing Director 3 November 2014.
[2] Appointed Chief Financial Officer and Company Secretary 29 September 2014.
[3] Appointed Product Development and Technical Affairs Director 15 February 2015.
[4] Appointed Portfolio Director 1 July 2015.
[5] Appointed Commercial Director 1 July 2013.

REMUNERATION OF DIRECTORS

The Human Capital and Nomination Committee considers the level of remuneration necessary to attract and retain Directors with the skills and experience required by the Company at its stage of development. The Committee makes recommendations to the Board, for approval by the shareholders, at the following Annual General Meeting.

The director and management services of the Non-Executive Chairman Ross Dobinson are provided by Espasia Pty Ltd. The contract for services can be terminated by either party by giving three months' notice in writing. For the 2015/16 financial year the contract provided for fees of $118,000 per annum in respect of director services.

For the 2015/16 financial year Non-Executive Directors' fees were $70,000 per annum, plus superannuation, for each Non-Executive Director. At the 2004 Annual General Meeting shareholders set the maximum aggregate amount of Non-Executive Directors' fees at $450,000. In addition Non-Executive Directors are entitled to reimbursement of reasonable expenses incurred by them on Company business.

No retirement allowances are paid to Non-Executive Directors. No equity based remuneration is paid to Non-Executive Directors. Non-Executive Directors do not receive any additional remuneration for being members of Board Committees.

REMUNERATION REPORT (AUDITED)

The remuneration of each person who held the position of Director at any time during the financial year is set out in the following table:

	Primary		Post employment	Termination Benefits	Equity	TOTAL	Equity as % of Total	Bonus as % of Total
	Fees	Bonus*	Super		Options			
2016	$	$	$	$	$	$	%	%
R Dobinson[1]	118,000	-	-	-	-	118,000	0%	0%
B Parncutt[2]	70,000	-	6,650	-	-	76,650	0%	0%
T Oldham[3]	70,000	-	6,650	-	-	76,650	0%	0%
G Brooke[4]	5,833	-	554	-	-	6,387	0%	0%
S Green[4]	5,833	-	554	-	-	6,387	0%	0%
	269,666	-	14,408	-	-	284,074	0%	0%
2015								
R Dobinson[1]	232,667	32,000	-	-	-	264,667	0%	12%
B Parncutt[2]	70,000	-	6,650	-	-	76,650	0%	0%
R Barrow[5]	46,667	-	4,433	-	-	51,100	0%	0%
T Oldham[3]	70,000	-	6,650	-	-	76,650	0%	0%
	419,334	32,000	17,733	-	-	469,067	0%	7%

* Bonus relates to the achievement of objectives for the financial year.
[1] Appointed Non-Executive Chairman post appointment of the Chief Executive Officer, November 2014. Previously Executive Chairman from 1 July 2012
[2] Appointed Non-Executive Director 30 April 2012.
[3] Appointed Non-Executive Director 1 October 2013.
[4] Appointed Non-Executive Director 1 June 2016.
[5] Appointed Non-Executive Director Chief Operating Officer 1 April 2012 and resigned as Non-Executive Director 25 February 2015.

Mr. Kotsanis was appointed Chief Executive Officer and Managing Director, November 2014. The remuneration details of Mr. Kotsanis have been disclosed in the executive remuneration table.

Number of shares held by Key Management Personnel

Directors and Executives	Balance 1/07/2015	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30/06/2016
Directors					
R Dobinson[1]	1,372,593	-	-	-	1,372,593
B Parncutt[2]	718,137	-	-	-	718,137
T Oldham[3]	15,750	-	-	-	15,750
Executives					
N Webster[4]	6,100	-	-	-	6,100
F Colagrande[5]	1,500				1,500
Total	2,114,080	-	-	0	2,114,080

[1] Appointed Non-Executive Chairman post appointment of the Chief Executive Officer, November 2014. Previously Executive Chairman from 1 July 2012.
[2] Appointed Non-Executive Director 30 April 2012.
[3] Appointed Non-Executive Director 1 October 2013.
[4] Appointed Commercial Director 1 July 2013.
[5] Appointed Product Development and Technical Affairs Director 15 February 2015.

Number of employee share options held by Key Management Personnel

Directors and Executives	Balance 1/07/2015	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30/06/2016	Value of Options granted at grant date	Value of Options expensed in year ended 30/06/2016
Directors							
R Dobinson[1]	600,000	-	-	-	600,000	-	-
Executives							
M Kotsanis[2]	2,000,000	1,000,000	-	-	3,000,000	225,400	225,400
S Papworth[3]	-	95,000	-	-	95,000	14,469	6,028
F Colagrande[4]	140,000	95,000	-	-	235,000	14,469	6,028
C O'Sullivan[5]	-	95,000	-	-	95,000	14,469	6,028
N Webster[6]	175,000	60,000	-	-	235,000	9,138	3,808
Total	2,915,000	1,345,000	-	-	4,260,000	277,945	247,292

[1] Appointed Non-Executive Chairman post appointment of the Chief Executive Officer, November 2014. Previously Executive Chairman from 1 July 2012

[2] Appointed Chief Executive Officer 1 November 2014.

[3] Appointed Chief Financial Officer and Company Secretary 29 September 2014.

[4] Appointed Product Development and Technical Affairs Director 15 February 2015.

[5] Appointed Portfolio Director 1 July 2015.

[6] Appointed Commercial Director 1 July 2013.

Voting and comments made at the company's 2015 Annual General Meeting (AGM)

At the Company's most recent AGM, a resolution to adopt the prior year remuneration report was put to the vote and at least 75% of 'yes' votes were cast for adoption of that report . No comments were made on the remuneration report that was considered at the AGM.

This is the end of the audited remuneration report.

Rounding of Amounts

The amounts contained in the report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the Instrument applies.

Signed in accordance with a resolution of the Directors.

R Dobinson
Non-Executive Chairman

Melbourne
Dated this 24th day of August 2016

B Parncutt
Director

Melbourne
Dated this 24th day of August 2016

PITCHER PARTNERS

ACRUX LIMITED

AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF ACRUX LIMITED

In relation to the independent audit for the year ended 30 June 2016, to the best of my knowledge and belief there have been:

(i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and

(ii) No contraventions of any applicable code of professional conduct.

This declaration is in respect of Acrux Limited and the entities it controlled during the year.

S SCHONBERG
Partner

24 August 2016

PITCHER PARTNERS
Melbourne

ACRUX LIMITED AND CONTROLLED ENTITIES
ABN 72 082 001 152
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 $'000	2015 $'000
Revenue	4	28,557	25,368
Employee benefits expense	5	(3,582)	(2,769)
Directors' fees		(284)	(431)
Share options expense		(275)	(760)
Depreciation and amortisation expenses	5	(1,492)	(1,425)
Occupancy expenses		(417)	(406)
External research and development expenses		(1,430)	(705)
Professional fees		(632)	(716)
Royalty expense		(988)	(859)
Foreign exchange loss	5	(772)	-
Other expenses		(593)	(492)
		(10,465)	(8,562)
PROFIT BEFORE INCOME TAX		18,092	16,806
Income tax expense	6	(5,111)	(5,676)
PROFIT FOR THE YEAR		12,981	11,130
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		12,981	11,130
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Members of the parent	17	12,981	11,130
Non-controlling interest	18	-	-
		12,981	11,130
Basic earnings per share (cents per share)	8	7.80	6.70
Diluted earnings per share (cents per share)	8	7.80	6.70

The accompanying notes form part of these financial statements.

ACRUX LIMITED AND CONTROLLED ENTITIES
ABN 72 082 001 152
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Notes	2016 $'000	2015 $'000
CURRENT ASSETS			
Cash and cash equivalents	9	29,360	23,068
Receivables	10	4,783	4,943
TOTAL CURRENT ASSETS		34,143	28,011
NON-CURRENT ASSETS			
Plant and equipment	11	262	92
Intangible assets	12	18,966	20,392
TOTAL NON-CURRENT ASSETS		19,228	20,484
TOTAL ASSETS		53,371	48,495
CURRENT LIABILITIES			
Current tax payable	6	3,503	1,764
Payables	13	1,900	1,150
Short term provisions	14	335	288
TOTAL CURRENT LIABILITIES		5,738	3,202
NON-CURRENT LIABILITIES			
Deferred tax liabilities	6	3,727	4,649
Long term provisions	14	17	19
TOTAL NON-CURRENT LIABILITIES		3,744	4,668
TOTAL LIABILITIES		9,482	7,870
NET ASSETS		43,889	40,625
EQUITY			
Contributed equity	15	95,873	95,873
Reserves	17(a)	1,454	1,194
Accumulated Losses	17(b)	(53,438)	(56,442)
Equity attributable to the owners of Acrux Limited		43,889	40,625
Non-controlling interests	18	-	-
TOTAL EQUITY		43,889	40,625

The accompanying notes form part of these financial statements.

ACRUX LIMITED AND CONTROLLED ENTITIES
ABN 72 082 001 152
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	Contributed Equity $'000	Reserves $'000	Accumulated Losses $'000	Total Equity $'000
Balance as at 1 July 2014		95,873	638	(54,454)	42,057
Profit for the period		-	-	11,130	11,130
Total comprehensive income for the year		-	-	11,130	11,130
Transactions with owners in their capacity as owners:					
Employee Share Options Expense	17(a)	-	760	-	760
Vested Employee Share Options that lapsed during the period	17(a)	-	(204)	204	-
Dividends Paid	7	-	-	(13,322)	(13,322)
Total transactions with owners in their capacity as owners		-	556	(13,118)	(12,562)
Balance as at 30 June 2015		**95,873**	**1,194**	**(56,442)**	**40,625**
Balance as at 1 July 2015		95,873	1,194	(56,442)	40,625
Profit for the period		-	-	12,981	12,981
Total comprehensive income for the year		-	-	12,981	12,981
Transactions with owners in their capacity as owners:					
Employee Share Options Expense	17(a)	-	275	-	275
Vested Employee Share Options that lapsed during the period	17(a)	-	(15)	15	-
Dividends Paid	7	-	-	(9,992)	(9,992)
Total transactions with owners in their capacity as owners		-	260	(9,977)	(9,717)
Balance as at 30 June 2016		**95,873**	**1,454**	**(53,438)**	**43,889**

The accompanying notes form part of these financial statements.

ACRUX LIMITED AND CONTROLLED ENTITIES
ABN 72 082 001 152
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	Consolidated Entity 2016 $'000	Consolidated Entity 2015 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from product agreements		28,208	25,203
Payments to suppliers and employees		(7,923)	(6,460)
Interest received		515	639
Grant income received		-	23
Taxes paid		(4,294)	(8,886)
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	19(a)	16,506	10,519
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment		(236)	(66)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(236)	(66)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(9,992)	(13,322)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(9,992)	(13,322)
NET INCREASE/(DECREASE) IN CASH HELD		6,278	(2,869)
Foreign exchange differences on cash holdings		14	162
Add cash at the beginning of the year		23,068	25,775
CASH AT END OF YEAR	19(b)	29,360	23,068

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies adopted by the consolidated entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of presentation of the financial report

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers Acrux Limited and its controlled entities as a consolidated entity. Acrux Limited is a company limited by shares, incorporated and domiciled in Australia. Acrux Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial report was authorised for issue by the Directors as at the date of the Directors' report.

Compliance with IFRS

The consolidated financial statements of Acrux Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical Cost Convention

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

Critical accounting estimates

The preparation of the financial report requires the use of certain estimates and judgements in applying the entity's accounting policies. Those estimates and judgements significant to the financial report are disclosed in Note 2.

(b) Going Concern

The financial report has been prepared on a going concern basis.

During the year ended 30 June 2016 the consolidated entity reported an operating profit after tax of \$13.0 million (2015: \$11.1 million) and at the reporting date total assets exceeded total liabilities by \$43.9 million (2015: \$40.6 million).

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities, which the parent controls. The group controls an entity where it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to effect those returns through its power over the entity.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist.

All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation. Subsidiaries are consolidated from the date on which control is established and are derecognised from the date that control ceases.

Non-controlling interests in the results of the subsidiaries are shown separately in the consolidated statement of comprehensive income and consolidated statement of financial position respectively.

(d) Revenue

Revenue from product agreements is made up of milestone payments and revenue relating to product sales. Revenue from milestone payments is recognised upon completion of the milestone, which is the trigger point for the right to receive the revenue. Revenue relating to product sales, such as royalties and distribution fees, is recognised in the period in which the sales occur.

Interest revenue is recognised when it becomes receivable on a proportional basis taking into account the interest rate applicable to the financial assets.

Revenue from rendering of services to customers is recognised in the period in which the service was performed for the customer.

Other revenue is recognised as received or over the time period to which it relates.

All revenue is stated net of the amount of goods and services tax (GST).

(e) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks, short term deposits with an original maturity of three months or less, held at call with financial institutions.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Plant and equipment

Cost and valuation
Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation and any accumulated impairment losses. At each balance date the carrying amount of each asset is reviewed to ensure that it does not differ materially from the asset's fair value at reporting date. Where necessary, the asset is revalued to reflect its fair value.

Depreciation
The depreciable amount of all fixed assets are calculated on a straight line basis over their estimated useful lives to the entity commencing from the time the asset is held ready for use.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The useful lives for each class of assets are:

	2016	2015
Leasehold improvements:	5 to 20 years	5 to 20 years
Plant and equipment:	2.5 to 14 years	2.5 to 14 years

(g) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and rewards incidental to ownership.

Operating Leases
Lease payments for operating leases are recognised as an expense on a straight-line basis over the term of the lease.

(h) Intangibles

The intangible assets are recognised at cost at the date of acquisition. The balances are reviewed annually and any balances representing probable future benefits that are no longer anticipated are written off.

Intellectual Property
Acquired intellectual property is initially recorded at cost. Intellectual property with a finite life is carried at cost less any accumulated amortisation and any impairment losses. The intellectual property is amortised over the useful life of the relevant patents. Amortisation expense is included in 'Depreciation and amortisation expenses' of the Statement of Comprehensive Income.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Intangibles (Continued)

Research and Development
Expenditure during the research phase of a project is recognised as an expense when incurred. Product development costs are capitalised only when each of the following specific criteria has been satisfied:

1. Technical feasibility of completing development of the product and obtaining approval by regulatory authorities.
2. Ability to secure a commercial partner for the product.
3. Availability of adequate technical, financial and other resources to complete development of the product, obtain regulatory approval and secure a commercial partner.
4. Reliable measurement of expenditure attributable to the product during its development.
5. High probability of the product entering a major pharmaceutical market.

Capitalised development costs have a finite life and are amortised on a systematic basis over the period from when the product becomes available for use and cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with *AASB 5 Non-current assets held for sale and discontinued operations* and the date that the asset is derecognised.

The estimated useful life and total economic benefit for each asset are reviewed at least annually. The useful life of capitalised development costs for Axiron and Estradiol, for which amortisation has commenced, is approximately 18 years and 10 years respectively. Amortisation expense is included in 'Depreciation and amortisation expenses' of the Statement of Comprehensive Income.

(i) Impairment of non-financial assets

Assets with an indefinite useful life are not amortised but are tested annually for impairment in accordance with *AASB 136 Impairment of assets*. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicate that the carrying amount of the asset may be impaired.

An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to dispose and its value in use.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Income tax

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are expected to be recovered or liabilities are settled. No deferred tax asset or liability is recognised in relation to temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only when it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

The parent entity, Acrux Limited is a Pooled Development Fund (PDF):
- PDFs are taxed at 15% on income and gains from investments in small to medium enterprises;
- PDFs are taxed at 25% on other income; and
- PDFs are not permitted to consolidate for tax purposes.

The subsidiary companies of Acrux Limited are subject to the general corporate company tax rate of 30%. At 30 June 2014 Acrux Limited's tax paying subsidiaries had utilised all accumulated tax losses. The majority of the consolidated entity's taxable income is earned by these subsidiary companies.

Income tax expense for the financial year was $5.1 million (2015: $5.7 million) representing approximately 28.3% of profit before income tax. Fempharm Pty Ltd, a subsidiary of the parent entity received US$2 million in milestones on the marketing approval of Lenzetto in Europe. Fempharm profits were offset by prior accumulated tax losses which had not been previously recognised as a deferred tax asset. The parent entity, Acrux Limited, received franked dividends totaling $14.0 million from subsidiary companies. The parent entity's tax rate payable on this income is 15% however the franked dividends include an imputed tax credit of 30%. The excess franking credits convert to tax losses that can be used in future periods to offset taxable income. For accounting purposes the entity has not recognised a tax asset for these carried forward tax losses as the current operating structure of the entity is unlikely to produce the quantum of future taxable income to enable Acrux Limited to utilise these carried forward losses.

(k) Provisions

Provisions are recognised when the consolidated entity has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Contributions are made by the consolidated entity to employee superannuation funds and are charged as expenses when the obligation to pay them arises.

Bonus
The consolidated entity recognises a provision when a bonus is payable in accordance with the employee's contract of employment, and the amount can be reliably measured.

Share-based payments
The consolidated entity operates an employee share option plan. The fair value of the options is recognised as an expense in the Statement of Comprehensive Income in the period(s) during which the employee becomes entitled to exercise the options. The fair value of options at grant date is determined using a Binomial option pricing model, and is recognised as an employee expense over the period during which the employees become entitled to the option (the vesting period).

Termination benefits
Termination benefits are payable when employment of an employee is terminated before the normal retirement date.

The consolidated entity recognises a provision for termination benefits when entitlement to contractual benefits arises or when the entity can no longer withdraw the offer of non-contractual benefits.

(m) Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Financial instruments

Non-derivative Financial Instruments
Financial Assets
Non-derivative financial assets consist of trade and other receivables and cash and cash equivalents. Financial assets are tested for impairment at each financial year end to establish whether there is any objective evidence for impairment. Trade receivables are carried at full amounts due less any provision for impairment. A provision for impairment is recognised when collection of the full amount is no longer probable. Amounts receivable from other debtors are carried at full amounts due. Other debtors are normally settled 30 days from month end unless there is a specific contract, which specifies an alternative date. Amounts receivable from related parties are carried at full amounts due.

Non-listed investments in controlled entities, for which fair value cannot be reliably measured, are carried at cost and tested for impairment.

Financial Liabilities
Non-derivative financial liabilities include trade payables, other creditors and inter-company balances.

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity. Trade liabilities are normally settled 30 days from month end.

Derivative Financial Instruments
In prior years the consolidated entity had used, and may use derivative financial instruments to hedge its risk exposures from foreign currency exchange rate movements.

Such derivatives are measured at fair value and changes in value are recognised immediately in profit or loss.

(o) Foreign currency translations and balances

Functional and presentation currency
The financial statements of each of the consolidated entity's subsidiaries are measured using the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars, which is the consolidated entity's functional and presentation currency.

Transactions and balances
Transactions in foreign currencies of entities within the consolidated group are translated into functional currency at the rate of exchange ruling at the date of the transaction.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year. Except for any currency hedges, all resulting exchange differences arising on settlement or re-statement are recognised as revenues or expenses for the financial year.

(p) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis.

(q) Rounding amounts

The parent entity and the consolidated entity have applied the relief available under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and accordingly, the amounts in the consolidated financial statements and in the Directors' report have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar (where indicated).

(r) Accounting standards issued but not yet effective at 30 June 2016

AASB 15 Revenue from contracts with customers

AASB 15 introduces a five step process for revenue recognition with the core principle being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services. The five step approach is as follows:

- Step 1: Identify the contracts with the customer;
- Step 2: Identify the separate performance obligations;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price; and
- Step 5: Recognise revenue when a performance obligation is satisfied.

AASB 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

The effective date is annual reporting periods beginning on or after 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The changes in revenue recognition requirements in AASB 15 may cause changes to the timing and amount of revenue recorded in the financial statements as well as additional disclosures. The impact of AASB 15 has not yet been quantified.

AASB 9 Financial Instruments

Significant revisions to the classification and measurement of financial assets, reducing the number of categories and simplifying the measurement choices, including the removal of impairment testing of assets measured at fair value. The amortised cost model is available for debt assets meeting both business model and cash flow characteristics tests. All investments in equity instruments using AASB 9 are to be measured at fair value.

AASB 9 amends measurement rules for financial liabilities that the entity elects to measure at fair value through profit or loss. Changes in fair value attributable to changes in the entity’s own credit risk are presented in other comprehensive income.

Chapter 6 *Hedge Accounting* supersedes the general hedge accounting requirements in AASB 139 *Financial Instruments: Recognition and Measurement*, which many consider to be too rules-based and arbitrary. Chapter 6 requirements include a new approach to hedge accounting that is intended to more closely align hedge accounting with risk management activities undertaken by entities when hedging financial and non-financial risks. Some of the key changes from AASB 139 are as follows:

- to allow hedge accounting of risk components of non-financial items that are identifiable and measurable (many of which were prohibited from being designated as hedged items under AASB 139);
- changes in the accounting for the time value of options, the forward element of a forward contract and foreign-currency basis spreads designated as hedging instruments; and
- modification of the requirements for effectiveness testing (including removal of the ‘brightline’ effectiveness test that offset for hedging must be in the range 80-125%).

Revised disclosures about an entity’s hedge accounting have also been added to AASB 7 *Financial Instruments: Disclosures*.

Impairment of assets is now based on expected losses in AASB 9 which requires entities to measure:

- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or

- full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument.

The effective date is annual reporting periods beginning on or after 1 January 2018.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The available-for-sale investments held will be classified as fair value through other comprehensive income and will no longer be subject to impairment testing. The impairment loss recognised in the current year financial statements in relation to these statements was nil. Hedge accounting is likely to be applied to more of the entity's transactions in future transactions – the impact on the reported financial position and performance is dependent on the volume and value of future derivatives. Other impacts on the reported financial position and performance have not yet been determined.

NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Certain accounting estimates include assumptions concerning the future, which, by definition, will seldom represent actual results. Estimates and assumptions based on future events have a significant inherent risk, and where future events are not as anticipated there could be a material impact on the carrying amount of assets and liabilities, discussed below:

(a) Income tax

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the group will derive sufficient future assessable income to enable the benefit to be realised and that it will comply with the conditions of deductibility imposed by the law.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses as management considers that it is probable that future tax profits will be available to utilise those temporary differences and unused tax losses.

b) Impairment Testing

The Company uses discounted cash flow models to determine that the capitalised development costs in the consolidated entity are not being carried at a value that is materially in excess of recoverable value. The models value each product by estimating future cash flows and discounting the future net cash flows for the risks specific to the assets as well as for the time value of money. The following approach and assumptions have been applied:

- Revenue from a product is estimated using current market data and projections of market volumes, product price and market share, adjusted for the impact of generics entering the market based on external analysis of the market effect of generics.
- Multiple cash flow scenarios have been forecast where appropriate, including impact of generic product launch and consideration of Axiron patent appeal success, providing a weighted average of the possible scenarios.
- The cash flow forecasts are over 14 years, which is justified based on the products patents life.
- The cash flows have been discounted using a post-tax rate of 12%.
- No reasonable movement in the key assumptions results in impairment. The key assumptions being 20% change in cash flow, 20% change in discount rate and 20% change in the weighted average possible scenarios.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(c) Employee Benefits

Calculation of long term employment benefits requires estimation of the retention of staff, future remuneration levels and timing of the settlement of the benefits. These estimates are based on historical trends.

(d) Share based payments

The group operates an employee share option plan. The bonus element over the exercise price for the grant of options is recognised as an expense in the Statement of Comprehensive Income in the period(s) when the benefit is earned. The value of the bonus element is calculated using a Binomial option pricing model. This model requires the input of a number of variables including an estimate of future volatility and a risk free interest rate. Volatility is estimated based on the historical movements in the Company's share price since listing on the Australian Stock Exchange. The risk free interest rate is the Reserve Bank of Australia's cash rate at the options grant date.

NOTE 3: FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

The consolidated entity is exposed to a variety of financial risks comprising:
(a) Interest rate risk
(b) Currency risk
(c) Credit risk
(d) Liquidity risk
(e) Fair Values

The Board of Directors have overall responsibility for identifying and managing operational and financial risks.

(a) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

The consolidated entity’s exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities at 30 June 2016 are shown in the table on the following page. Cash is the only financial asset or liability that is exposed to interest rate risk. A change in the average effective interest rate of 1% would change the net profit and equity of the consolidated entity by approximately $0.2 million (2015: $0.2 million).

At 30 June 2016, the consolidated entity had financial instruments with carrying amounts as shown in the following table:

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 3: FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (Continued)

Financial Instruments	Floating interest rate		Fixed interest rate maturing in: 1 year or less		Non interest bearing		Total carrying amount as per the Balance Sheet		Weighted average effective interest rate*	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000	2016 $'000	2015 $'000	2016 $'000	2015 $'000	2016 %	2015 %
(i) Financial assets										
Cash	8,801	19,067	20,558	4,000	1	1	29,360	23,068	2.6	2.9
Receivables	-	-	-	-	4,943	4,943	4,783	4,943		
Total financial assets	8,801	19,067	20,558	4,000	4,944	4,944	34,143	28,011		
(ii) Financial liabilities										
Trade creditors	-	-	-	-	606	106	606	106		
Sundry creditors and accruals	-	-	-	-	1,294	1,044	1,294	1,044		
Total financial liabilities	-	-	-	-	1,900	1,150	1,900	1,150		

* The weighted average interest rate is calculated by dividing interest income for year over the average cash balance held

(b) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The consolidated entity is exposed to material currency risks due to revenue denominated in US dollars. Currency risk management strategies are regularly reviewed.

Bank accounts denominated in US dollars are maintained in order to facilitate receipts and payments. Cash reserves at 30 June 2016 included $0.5 million (2015: $0.2 million) denominated in US dollars. A change of 10% in the AUD/USD exchange rate at 30 June 2016 would have an immaterial impact on the net profit and equity of the consolidated entity.

The balance of receivables at 30 June 2016 includes the right to receive US$3.2 million (2015: US$3.6 million) of Axiron royalties for the fourth quarter of the 2015/16 financial year. A change of 10% in the AUD/USD exchange rate at 30 June 2016 would change the consolidated net profit and equity by approximately $0.4 million (2015: $0.4 million).

The consolidated entity does not enter into forward exchange contracts. At balance date, there were nil (2015: nil) forward exchange contracts.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 3: FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (Continued)

The accounting policy for forward exchange contracts is detailed in Note 1(n).

In future periods, material amounts of revenue are expected to be received in US dollars as royalties and potential sales milestone payments under the Axiron agreement are payable in US dollars.

(c) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The maximum exposure to credit risk of recognised financial assets at balance date, excluding the value of any collateral or other security, is the carrying amount of those assets, net of any provisions for impairment of those assets, as disclosed in consolidated statement of financial position and notes to the consolidated financial statements.

Cash reserves form the majority of the consolidated entity's financial assets at 30 June 2016. Acrux Limited is a Pooled Development Fund. The Pooled Development Fund Act restricts the investment of cash reserves to deposits with an Australian bank licensed to take deposits. This policy is also followed for all cash held by the other companies within the consolidated entity.

At 30 June 2016 the consolidated entity had a material credit risk exposure to Eli Lilly and Company and its subsidiaries. The receivables recorded on the consolidated entity's balance sheet contains an amount of AUD$4.3 million due from Eli Lilly under the license agreement for the commercialisation of Axiron. During future reporting periods, the consolidated entity is expected to continue to have a material credit exposure to Eli Lilly and Company and its subsidiaries, due to the royalties and milestone payments expected. At 30 June 2016, Eli Lilly's credit ratings were AA- (S&P) and A2 (Moodys). The credit rating and financial health of Eli Lilly are monitored regularly. The grant of the license under the license agreement is subject to payment by Eli Lilly of the amounts in accordance with the agreement.

(d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The financial liabilities of the consolidated entity at the balance date are all expected to mature within three months of the balance date. The consolidated entity has sufficient cash reserves, $29.4 million (2015: $23.1 million) to settle these liabilities and to fund operating expenditure for the foreseeable future. The consolidated entity does not have an overdraft or loan facility. The maturity profile of the consolidated entity's cash term deposits is actively managed and compared with forecast liabilities to ensure that sufficient cash is available to settle liabilities as they fall due.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 3: FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (Continued)

(e) Fair values

The fair value of financial assets and financial liabilities approximates their carrying amounts as disclosed in the consolidated statement of financial position and notes to the consolidated financial statements.

Financial asset and liabilities measured and recognised at fair value have been determined by the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: Input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Inputs for the asset or liability that are not based on observable market data

NOTE 4: REVENUE

	2016 $'000	2015 $'000
Revenues from operating activities		
Revenue from licensing agreements	28,009	24,616
Grant revenue	-	23
Total revenues from operating activities	28,009	24,639
Other revenues		
Interest	548	564
Foreign exchange gain	-	165
Total revenues from non-operating activities	548	729
Total revenues from continuing operations	28,557	25,368

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 5: PROFIT FROM CONTINUING OPERATIONS

	2016 $'000	2015 $'000
Profit from continuing operations before income tax has been determined after the following specific expenses:		
Employee benefits expense		
Wages and salaries	3,166	2,412
Workers' compensation costs	12	8
Superannuation costs	245	181
Payroll taxes	142	109
Training expenses	17	59
Total employee benefits expense	3,582	2,769
Depreciation of non-current assets		
Plant and equipment	65	52
Buildings	1	-
Total depreciation of non-current assets	66	52
Amortisation of non-current assets		
Intellectual property	94	95
Capitalised research and development	1,332	1,278
Total amortisation of non-current assets	1,426	1,373
Total depreciation and amortisation expenses	1,492	1,425
Rental expense on operating leases	297	294
Foreign exchange loss	772	-

(a) Research and development related costs

The Company incurs the following expenditure which is related to product research and development including direct costs and indirect management and overhead costs.*

	2016 $'000	2015 $'000
Employee costs	3,312	2,544
Laboratory costs	985	179
Facility costs	688	528
Other costs	551	529
Research and development related costs	5,536	3,780

* This differs from the classification of research and development costs pursuant to AASB138 which only comprises direct costs.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 6: INCOME TAX

	2016 $'000	2015 $'000
(a) Income tax recognised in profit or loss:		
Current tax	6,016	5,949
Deferred tax	(922)	(448)
(Over)/under provision in prior years	17	175
Income tax expense/(credit) attributable to profit	5,111	5,676
(b) Reconciliation of income tax expense		
The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:		
Profit before tax from continuing operations	18,092	16,806
Prima facie income tax payable on profit before income tax at 30.0% (2015: 30.0%)	5,428	5,042
Add/(subtract) tax effect:		
Parent entity net adjustment on franked dividend income	(789)	(1,839)
Non deductible expenses	31	269
Research and development tax incentive	(89)	(59)
Over provision in prior years	17	175
Tax losses utilised not previously brought to account	(606)	-
Tax losses and temporary differences not brought to account	1,119	2,088
	(317)	634
Income tax expense attributable to profit	5,111	5,676
(c) Current tax		
Opening balance	1,764	4,526
(Over)/under provision in prior years	17	175
Provision for current year	6,016	5,949
Prior year refund received	179	0
Tax payments	(4,473)	(8,886)
Current tax liability	3,503	1,764

The parent entity, Acrux Limited is a Pooled Development Fund (PDF):

- PDF's are taxed at 15% on income and gains from investments in small to medium enterprises;
- PDF's are taxed at 25% on other income
- PDFs are not permitted to consolidate for tax purposes.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 6: INCOME TAX (Continued)

	2016 $'000	2015 $'000
(d) Deferred tax		
Deferred tax relates to the following:		
Deferred tax assets		
The balance comprises:		
Accruals and provisions	93	90
Leasehold improvements	177	183
Patent expenses	831	799
Tax losses	547	92
	1,648	1,164
Deferred tax liabilities		
The balance comprises:		
Exchange differences	(8)	35
Intangible assets	5,366	5,749
Accrued interest	17	8
Prepayments	-	21
	5,375	5,813
Net deferred tax assets/(liabilities)	(3,727)	(4,649)
(e) Deferred tax assets not brought to account		
Temporary differences	(313)	2
Tax losses	11,258	10,431
	10,945	10,433

NOTE 7: DIVIDENDS

	2016	2015
Dividends paid at 6 cents per share, franked (2015: 8 cents per share, franked)	9,992	13,322
Balance of franking account on a tax paid basis at financial year-end adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and any credits that may be prevented from distribution in subsequent years:	36,492	36,479

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 8: EARNINGS PER SHARE

	2016 $'000	2015 $'000
Profit from continuing operations	12,981	11,130
Profit used in calculating basic and diluted earnings per share	12,981	11,130

	No. of shares	No. of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	166,521,711	166,521,711
Effect of dilutive securities:		
Employee Share Options	-	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	166,521,711	166,521,711
Basic earnings per share (cents)	7.80	6.70
Diluted earnings per share (cents)	7.80	6.70

NOTE 9: CASH AND CASH EQUIVALENTS

	2016 $'000	2015 $'000
Cash at bank	8,802	19,068
Deposits at call	20,558	4,000
	29,360	23,068

NOTE 10: RECEIVABLES

	2016 $'000	2015 $'000
CURRENT		
Trade receivables	4,561	4,760
Other receivables	149	66
Prepayments	73	117
	4,783	4,943

(a) Provision for impairment

No trade receivables are past due and all trade receivables are non interest bearing with 30 or 60 day terms. An impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. No impairment losses have been recognised for reported periods. All trade receivables are expected to be received within trading terms.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 11: PLANT AND EQUIPMENT

	Notes	2016 $'000	2015 $'000
Leasehold Improvements			
At cost		1,137	1,119
Accumulated amortisation		(1,116)	(1,115)
Total leasehold improvements	11(a)	21	4
Plant and Equipment			
At cost		431	213
Accumulated depreciation		(190)	(125)
Total plant and equipment	11(a)	241	88
Total plant and equipment		262	92

(a) Reconciliations

Reconciliations of the carrying amounts of plant and equipment at the beginning and end of the current financial year:

		2016 $'000	2015 $'000
Leasehold improvements			
Carrying amount at beginning		4	-
Additions		18	4
Amortisation expense		(1)	-
		21	4
Plant and equipment			
Carrying amount at beginning		88	78
Additions		218	62
Disposals		-	-
Depreciation expense		(65)	(52)
		241	88

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 12: INTANGIBLE ASSETS

	Notes	2016 $'000	2015 $'000
Intellectual Property			
At cost		1,200	1,200
Accumulated amortisation		(1,138)	(1,044)
	12(a)	62	156
Capitalised Development			
Ellavie™			
External development expenditure capitalised		766	766
Employee benefits capitalised		169	169
Other capitalised amounts		136	136
Accumulated amortisation		(54)	-
	12(a)	1,017	1,071
Axiron™			
External development expenditure capitalised		17,415	17,415
Employee benefits capitalised		3,353	3,353
Other capitalised amounts		2,403	2,403
Accumulated amortisation		(5,284)	(4,006)
	12(a)	17,887	19,165
Net carrying amount		18,904	20,236
Total intangible assets		18,966	20,392

(a) Reconciliations

Reconciliations of the carrying amounts of intellectual property and capitalised development at the beginning and end of the current financial year.

	2016	2015
Intellectual Property		
Carrying amount at beginning	156	251
Amortisation expense	(94)	(95)
	62	156
Capitalised Development		
Ellavie™		
Carrying amount at beginning	1,071	1,071
Additions	-	-
Amortisation	(54)	-
	1,017	1,071
Axiron™		
Carrying amount at beginning	19,165	20,442
Additions	-	-
Amortisation	(1,278)	(1,277)
	17,887	19,165

The remaining useful life of Axiron Capitalised Development is approximately 14 years.
The remaining useful life of Estradiol Capitalised Development is approximately 10 years.

NOTE 13: PAYABLES

	2016 $'000	2015 $'000
CURRENT		
Trade creditors	606	106
Sundry creditors and accruals	1,294	1,044
	1,900	1,150

NOTE 14: PROVISIONS

	2016 $'000	2015 $'000
CURRENT		
Employee entitlements	335	288
NON-CURRENT		
Employee entitlements	17	19
Aggregate employee entitlements liability	352	307

NOTE 15: CONTRIBUTED EQUITY

	2016		2015	
(a) Issued and paid up capital	**No. of Shares**	**$'000**	**No. of Shares**	**$'000**
Ordinary shares fully paid	166,521,711	95,873	166,521,711	95,873
(b) Movements in shares on issue				
Beginning of the financial year	166,521,711	95,873	166,521,711	95,873
Issued during the year:				
- Employee share option plans	-	-	-	-
Less Capital Raising Expenses	-	-	-	-
Fair value of shares issued on exercise of employee share options	-	-	-	-
Contributions from share issues	-	-	-	-
At reporting date	166,521,711	95,873	166,521,711	95,873

(c) Share Options

Employee Share Option Plan

The consolidated entity operates an employee share option plan. During the financial year no options were exercised (2015: Nil), 1,794,000 new options were issued under the plan during the financial year (2015: 2,000,000). Options hold no participation rights, but shares issued on exercise of options rank equally with existing shares. At 30 June 2016 4,260,000 options were held by key management personnel (2015: 2,915,000).

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 15: CONTRIBUTED EQUITY (Continued)

The closing market value of an ordinary Acrux Limited share on the Australian Stock Exchange at 30 June 2016 was $0.72.

	2016 No.	2015 No.
(i) Movement in the number of share options held under Employee Share Option Plan are as follows:		
Opening balance	3,380,000	1,855,000
Granted during the year	1,794,000	2,000,000
Exercised during the year	-	-
Lapsed during the year	(35,000)	(475,000)
Closing balance	5,139,000	3,380,000
	$'000	**$'000**
(ii) Details of share options exercised during the year:		
Proceeds from shares issued	-	-
Fair value as at issue date of shares issued during the year	-	-

(iii) Details of lapsed options

	2016 No.	2015 No.
Key Management Personnel	-	425,000
Employee	35,000	50,000
Lapsed during the year	35,000	475,000

(d) Capital Management

When managing capital, the Directors' 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.

During 2016, the Board paid dividends of $10.0 million (2015: $13.3 million). The amounts and ratio of future dividends have not been determined.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 16: SHARE BASED PAYMENTS

(a) Employee share option plan

Details of the options granted are provided below:

Grant date	Expiry date	Exercise price	Balance at the beginning of the year	Granted during the year	Exercised during the year	Expired during the year	Balance at the end of the year	Exercisable at the end of the year
31/07/2013	31/07/2016	$4.30	780,000	-	-	(35,000)	745,000	745,000
21/11/2013	31/07/2016	$4.30	600,000	-	-	-	600,000	600,000
3/02/2015	3/02/2018	$1.32	2,000,000	-	-	-	2,000,000	2,000,000
22/07/2015	22/07/2018	$1.11	-	1,000,000	-	-	1,000,000	1,000,000
25/01/2016	25/01/2020	$0.82	-	794,000	-	-	794,000	-
			3,380,000	1,794,000	-	(35,000)	5,139,000	4,345,000

The weighted average remaining contractual life for share options outstanding at the end of the period was 1.25 years.

The fair value of the options granted on 25 January 2016 was 15 cents per option at the date of grant. Fair value was determined using the binomial option pricing model. The following inputs were utilised:
Exercise price: $0.82
Grant date: 25 January 2016
Performance period: 12 months from grant date
Expiry date: 25 January 2020, assuming performance metrics achieved
Share price at grant date: $0.64
Expected price volatility of the company's shares: 64%
Expected dividend yield: 8.99%

The fair value of the options granted on 22 July 2015 was 23 cents per option at the date of grant. Fair value was determined using the binomial option pricing model. The following inputs were utilised:
Exercise price: $1.11
Grant date: 22 July 2015
Expiry date: 22 July 2018
Share price at grant date: $0.94
Expected price volatility of the company's shares: 64%
Expected dividend yield: 8.99%

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 16: SHARE BASED PAYMENTS (Continued)

The fair value of the options granted on 3 February 2015 was 38 cents per option at the date of grant. Fair value was determined using the binomial option pricing model. The following inputs were utilised:
Exercise price: $1.32
Grant date: 3 February 2015
Expiry date: 3 February 2018
Share price at grant date: $1.45
Expected price volatility of the company's shares: 57%
Expected dividend yield: 8.99%

The fair value of the options granted on 21 November 2013 was 16 cents per option. Fair value was determined using the binomial option pricing model. The following inputs were utilised:
Exercise price: $4.30
Grant date: 21 November 2013
Expiry date: 31 July 2016
Share price at grant date: $2.56
Expected price volatility of the company's shares: 37%
Expected dividend yield: 5.0%
Risk-free interest rate: 3.08%

The fair value of the options granted on 31 July 2013 was 43 cents per option. Fair value was determined using the binomial option pricing model. The following inputs were utilised:
Exercise price: $4.30
Grant date: 31 July 2013
Expiry date: 31 July 2016
Share price at grant date: $3.35
Expected price volatility of the company's shares: 38%
Expected dividend yield: 5%
Risk-free interest rate: 2.52%

(b) Expenses recognised from share-based payment transactions

The expense recognised in relation to the share-based payment transactions was recorded within share options expense in the statement of comprehensive income were as follows:

	2016 $'000	2015 $'000
Options issued under the employee share option plan	275	760
Total expenses recognised from share based payment	275	760

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 17: RESERVES AND ACCUMULATED LOSSES

	Notes	2016 $'000	2015 $'000
Share based payment reserve	17(a)	1,454	1,194
Accumulated losses	17(b)	(53,438)	(56,442)

(a) Share based payment reserve
(i) Nature and purpose of reserve
This reserve is used to record the value of equity benefit provided to employees and directors as part of their remuneration. Refer note 15 for details.

(ii) Movement in reserve	2016 $'000	2015 $'000
Balance at the beginning of year	1,194	638
Transfer fair value of employee shares options to share capital	-	-
Employee share option expense for the period (including adjustment for service conditions not met)	275	760
Vested employee share options previously expensed, that lapsed during the period	(15)	(204)
Balance at end of year	1,454	1,194

(b) Accumulated losses

	2016 $'000	2015 $'000
Balance at the beginning of year	(56,442)	(54,454)
Vested employee share options that lapsed during the period	15	204
Net profit attributable to members of Acrux Limited	12,981	11,130
Accumulated losses at reporting date	(43,446)	(43,120)
Dividends paid	(9,992)	(13,322)
Accumulated losses at reporting date	(53,438)	(56,442)

NOTE 18: NON-CONTROLLING INTERESTS
The consolidated entity holds nil (2015: nil) Non-controlling interests at balance date.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 19: CASH FLOW INFORMATION

	2016 $'000	2015 $'000
(a) Reconciliation of the cash flow from operations with profit after income tax:		
Profit from ordinary activities after income tax	12,981	11,130
Non-Cash Items		
Depreciation and amortisation	1,492	1,425
Share options expense	275	760
Unrealised foreign exchange (gains)/losses	(14)	(163)
Changes in assets and liabilities		
Increase/(decrease) in tax liabilities	1,739	(2,762)
Decrease/(increase) in trade and other receivables	160	661
Increase/(decrease) in payables	750	21
Increase/(decrease) in employee entitlements	45	(105)
Increase/(decrease) in deferred taxes	(922)	(448)
	3,525	(611)
Net cash (outflows)/inflows from operating	16,506	10,519

(b) Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position is as follows:

	2016 $'000	2015 $'000
– Cash at bank	8,802	19,068
– At call deposits with financial institutions	20,558	4,000
Closing cash balance	29,360	23,068

(c) Credit stand-by arrangement and loan facilities

The consolidated entity has credit card facilities with financial institutions available to the extent of $154,000 (2015: $161,000). As at 30 June 2016 the consolidated entity had unused facilities of $141,114 (2015: $147,599).

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 20: COMMITMENTS

	2016 $'000	2015 $'000
Lease expenditure commitments		
Operating leases (non-cancellable)		
(i) Non cancellable operating leases contracted for but not capitalised in the accounts:		
(ii) Minimum lease payments		
– Not later than one year	306	302
– Later than one year and not later than five years	289	606
– Aggregate lease expenditure contracted for at	595	908

The operating lease relates to office, laboratory and warehouse facilities for which the lease was renewed by Acrux DDS Pty Ltd for a period of 4 years from 1 June 2014, with an option to extend for a further period of 4 years. The lease contract contains market review clauses in the event that Acrux DDS Pty Ltd exercises its option to renew. The company does not have an option to purchase the leased asset at the expiry of the lease period.

NOTE 21: KEY MANAGEMENT PERSONNEL COMPENSATION

Details of Key Management Personnel Compensation are contained within the Remuneration Report section of the Director's Report. A breakdown of the aggregate components of Key Management Personnel's compensation is provided below:

Compensation by category:	2016 $'000	2015 $'000
Short-term employment benefits	1,558	1,282
Post-employment benefits	105	73
Equity	247	760
	1,910	2,115

NOTE 22: LOANS TO KEY MANAGEMENT PERSONNEL

There were no loans made to Key Management Personnel during the reporting period.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 23: RELATED PARTY DISCLOSURES

Wholly-owned group transactions
Loans
Loans were made by Acrux Limited to its subsidiaries under normal terms and conditions. The aggregate amounts receivable from controlled entities by the parent entity at the end of the reporting period were $8,787,894 (2015: $1,520,671).

Non-interesting bearing loans were made by Acrux Commercial Pty Ltd to its subsidiary, Fempharm Pty Ltd. The aggregate amount receivable from Fempharm Pty Ltd at the end of the reporting period was $5,063,995 (2015: $4,895,370).

Other transactions with Key Management Personnel and their personally-related entities

Any payments made to Key Management Personnel during the financial year, other than remuneration entitlements, related to the reimbursement of business expenses incurred on behalf of Acrux Limited and its subsidiaries.

NOTE 24: AUDITOR'S REMUNERATION

	2016 $'000	2015 $'000
Amounts paid and payable to Pitcher Partners for:		
(i) Audit and other assurance services		
− An audit or review of the financial report of the entity and any other entity in the consolidated entity	91	106
− Taxation compliance and consulting	28	-
− Other non-audit services	-	13
	119	119

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 25: SEGMENT INFORMATION

The consolidated entity operates as a single operating segment. Internal management reporting systems present financial information as a single segment. The segment derives its revenue from developing and commercialising products using unique technology to administer drugs through the skin.

Additional information on revenue:

	2016 $'000	2015 $'000
Product/Service		
Axiron	25,335	24,255
Other revenue	3,222	1,113
Total revenue	28,557	25,368
Country of Origin		
Australia	553	752
Outside Australia:		
Switzerland	25,335	24,255
United States	128	144
Other	2,541	217
	28,557	25,368

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 26: PARENT ENTITY DETAILS

Summarised presentation of the parent entity, Acrux Limited, financial statements:

	Parent Entity	
	2016	**2015**
	$'000	**$'000**
(a) Summarised statement of financial position		
Assets		
Current assets	18,248	6,204
Non-current assets	19,000	19,000
Total assets	37,248	25,204
Liabilities		
Current liabilities	9,611	924
Non-current liabilities	-	-
Total liabilities	9,611	924
Net assets	27,637	24,280
Equity		
Share capital	95,873	95,873
Profit reserve	7,390	4,293
Accumulated losses	(77,080)	(77,080)
Share based payments reserve	1,454	1,194
Total equity	27,637	24,280
(b) Summarised statement of comprehensive income		
Profit for the year	13,089	17,615
Other comprehensive income for the year	-	-
Total comprehensive income for the year	13,089	17,615

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

NOTE 27: CONTROLLED ENTITIES

	Country of Incorporation		Percentage Owned 2016	2015
Parent Entity:				
Acrux Limited	Australia			
Subsidiaries of Acrux Limited				
Acrux DDS Pty Ltd	Australia		100%	100%
Acrux Pharma Pty Ltd	Australia	100%	100%	
Acrux Commercial Pty Ltd	Australia		100%	100%
Subsidiaries of Acrux Commercial Pty Ltd				
Fempharm Pty Ltd	Australia		100%	100%

NOTE 28: CONTINGENCIES

There were no contingencies at 30 June 2016 (2015: Nil).

NOTE 29: SUBSEQUENT EVENTS

The Board resolved to issue 1,000,000 Options to the Chief Executive Officer (Mr. Michael Kotsanis) on 22 July 2016 at an exercise price of $0.96 per share. The Options comprise the long term incentive component of the CEO's remuneration package and were issued pursuant to the terms of the Chief Executive Officer Share Option Plan, which was approved at the Acrux Limited Extraordinary General Meeting held on 3 February 2015. Shares allocated on the exercise of these Options will rank equally with the issued capital of the Company from their date of exercise.

Formal trial proceedings concluded in July 2016 in the United States District Court for the Southern District of Indiana against 1) Perrigo Israel Pharmaceuticals Limited ("Perrigo"), 2) Watson Laboratories Inc. ("Actavis"), 3) Amneal Pharmaceuticals LLC ("Amneal") and 4) Lupin Pharmaceuticals Inc. ("Lupin") (collectively, the "Defendants"), respectively for infringement of issued patents covering Axiron®. In each instance, the patents are owned by Acrux DDS, a wholly-owned subsidiary of Acrux Limited and exclusively licensed to Eli Lilly and Company, our licensee for Axiron®. On 22 August 2016, the United States District Court for the Southern District of Indiana ruled the formulation and axilla application patents granted by the US Patent Office for Axiron® have been invalidated and therefore would not be infringed by the commercialisation of generic versions of Axiron® by the generic companies that have challenged these patents. The applicator patent is valid but not infringed by the majority of parties. The decision allows FDA-approved generic versions of Axiron® to enter the U.S. marketplace, pending an appeal. On 23 August 2016, in the United States, Eli Lilly and Company and Acrux announced that they will appeal the Court's decision. In the event that the decision is overturned during the appeal, and the courts determine that the patents are

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 30 June 2016

SUBSEQUENT EVENTS (CONTINUED)

valid and infringed, the generics can be withdrawn from the market and the brand company can seek monetary damages. Appeal proceedings are ongoing at the time of writing this report.

There has been no other matter or circumstance, which has arisen since 30 June 2016 that has significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to 30 June 2016, of the consolidated entity, or
(b) the results of those operations, or
(c) the state of affairs, in financial years subsequent to 30 June 2016, of the consolidated entity.

NOTE 30: COMPANY DETAILS

The registered office of the company is:

Acrux Limited
103 – 113 Stanley Street
West Melbourne VIC 3003

DIRECTORS DECLARATION

The Directors declare that the financial statements and notes set out on pages 22 to 57 in accordance with the *Corporations Act 2001*:

(a) Comply with Accounting Standards and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements;

(b) As stated in Note 1(a) the consolidated financial statements also comply with International Financial Reporting Standards; and

(c) Give a true and fair view of the financial position of the consolidated entity as at 30 June 2016 and of its performance for the year ended on that date.

In the Directors' opinion there are reasonable grounds to believe that Acrux Limited will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made by the Chief Executive Officer and Chief Financial Officer to the Directors in accordance with sections 295A of the *Corporations Act 2001* for the financial year ending 30 June 2016.

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

R Dobinson
Non-Executive Chairman

Melbourne
Dated this 24th day of August 2016

B Parncutt
Director

Melbourne
Dated this 24th day of August 2016

ACRUX LIMITED
ABN 72 082 001 152
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ACRUX LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Acrux Limited and controlled entities, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, 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 judgement, 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 control relevant to the company's preparation of the financial report that gives a true and fair view 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 company's internal control. 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.

PITCHER PARTNERS

ACRUX LIMITED
ABN 72 082 001 152
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
ACRUX LIMITED

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Opinion

In our opinion:

(a) the financial report of Acrux Limited and controlled entities is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 19 of the directors' report for the year ended 30 June 2016. 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 Acrux Limited and controlled entities for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

S SCHONBERG
Partner

24 August 2016

PITCHER PARTNERS
Melbourne