Alchemia




2013
ANNUAL REPORT

Alchemia

A commercial stage drug development company with a balanced portfolio of assets

Position

Alchemia is a drug discovery and development company with an FDA approved drug (fondaparinux), a late stage oncology product pipeline (Phase II and III) derived from the HyACT® platform within its wholly owned subsidiary, Audeo Oncology, Inc. (Audeo) and a proprietary drug discovery platform, VAST®.

Key strengths

Generic Fondaparinux – Marketed

Alchemia's expertise in complex chemistry has enabled it to bring the world's first generic copy of fondaparinux to market. Having been launched by its marketing partner Dr Reddy's Laboratories, Inc. in the US in July 2011, Alchemia recorded its first full year's profits from fondaparinux of $9.6 million in the FY2013. Dr Reddy's has also begun selling fondaparinux in India and has obtained approval for sales in Canada. Alchemia can look forward to further launches of fondaparinux (pending approvals) in additional territories by Dr Reddy's. Together with improvements in the cost of producing fondaparinux, we may see further growth in profit share in the coming years.

HyACT – A flexible platform for targeting cancer

HyACT targets anticancer agents preferentially to tumours by binding a receptor that is associated with solid tumours such as breast and lung, and therefore may be used to enhance the potency of established chemotherapeutics such as irinotecan. The platform may be broadly deployed and potentially able to increase the effectiveness of multiple drugs against cancers. Eight human clinical studies are in progress or have been completed using HyACT targeted drugs without any increases in toxicity being observed.

HA-Irinotecan – In Phase III clinical studies

HA-Irinotecan is the lead product to come from the HyACT tumour-targeting technology. In December 2011, the first patient was recruited to a pivotal, international, Phase III trial of the drug in metastatic colorectal cancer. In February 2013, the recruitment of 415 patients to this pivotal trial was completed and initial clinical results are expected in the first half of 2014. Alchemia intends to use the data from this trial to file for approval in major markets such as the US and EU.

VAST Drug Discovery – A completely new chemistry for drug discovery

The VAST chemistry was developed by Alchemia to rapidly and efficiently produce molecules with novel 3D shapes. At the core of VAST molecules is nature's pyranose scaffold and using a technique called solid phase synthesis, which allows parallel synthesis of large numbers of molecules, Alchemia has developed a large suite of 3D pyranose compounds. The proprietary chemistry is versatile allowing access to a broad range of shapes and functionalities.

In April 2013, the company signed with AstraZeneca AB to utilise the VAST drug discovery platform. The collaboration opens the opportunity for new drug targets with potential revenue streams and provides financial support to defray the operational costs of the platform.

AGM

Friday 8 November 2013 at 9.30am (Sydney time)
Sofitel Sydney Wentworth
61-101 Phillip Street
Sydney NSW 2000, Australia

2013 HIGHLIGHTS

Key developments for the year include:

SEPTEMBER

Scheme booklet dispatched;

OCTOBER

Appointment of key Audeo Oncology, Inc. Board Members in preparation for demerger of Audeo Oncology, Inc;

OCTOBER

Alchemia receives Federal Court of Australia approval to demerge Audeo Oncology, Inc. from Alchemia;

DECEMBER

Alchemia announces it is to receive over A$3 million from the Federal Government under the R&D Tax Incentive Scheme;

DECEMBER

Alchemia announces that the demerger of Audeo Oncology, Inc will not proceed;

FEBRUARY

New CEO appointed to Alchemia;

FEBRUARY

Recruitment of full patient quota for pivotal HA-Irinotecan Phase III Trial for mCRC announced;

MARCH

Key US patent granted for HyACT targeted chemotherapy in colon cancer which extends monopoly rights for HA-Irinotecan as well as additional colon cancer chemotherapies;

MARCH

Successful completion of an oversubscribed A$10.2 million Institutional Placement;

MARCH

Appointment of key US Non-Executive Directors to the Alchemia Board;

APRIL

Successful completion of an oversubscribed A$2.75 million Share Purchase Plan to shareholders;

APRIL

Fondaparinux launched in India by Dr Reddy's. This is the first launch of the product outside the US;

APRIL

US HyACT patent expiry date further extended to 24 March 2025. Key fondaparinux US patent granted;

APRIL

A multi-target drug discovery collaboration worth up to $240 million with AstraZeneca AB announced; and

MAY

Establishment of a collaboration with Merck to support an investigator led Phase II Trial of HA-Irinotecan and Erbitux®.

KEY ALCHEMIA FIGURES

Figure	30 June 2013
Fully paid ordinary shares	324,043,819
Options held by non-employees	50,000
Options held by employees	5,450,500
Share price 52 week high-low (cents)	61-30
Cash, cash equivalents and term deposits	$13.0 million

Chairman's Letter

Alchemia is a diverse late stage biotechnology company with an FDA approved product on the market generating revenue, a Phase III oncology trial near conclusion, two Phase II oncology trials ongoing or near initiation, two underlying novel technology platforms, and multiple partnerships with global pharmaceutical companies. We are proud to be a commercially focused company that is developing important and innovative cancer treatments with our next-generation HyACT technology to help extend lives for patients with limited alternatives.

Our pivotal Phase III trial of HA-Irinotecan for the treatment of metastatic colorectal cancer is fully recruited at 415 patients and we expect top line data to be reported in the first half of 2014. We believe the market for this drug is compelling with peak sales estimates of $465 million to $1.7 billion, depending on data and market positioning. We have generated significant interest from pharmaceutical partners in the HA-Irinotecan program and our licensing discussions are currently underway.

In addition to a compelling clinical development pipeline, we have a strong financial position with net working capital at the year ended 30 June 2013 of $20 million and our Phase III trial is fully funded through the top-line data readout.

In this financial year, we began to see revenue from our first product, fondaparinux, with total net profit share to Alchemia from our marketing partner, Dr Reddy's, at $9.6 million for the year. In the final quarter of our financial year, we reported record gross revenue to Alchemia of $3.9 million. These cash flows are becoming more stable and we hope to see further benefits with potential approvals and launches in additional markets. We are currently pursuing a range of strategic options to maximise shareholder value, including assessing the potential monetisation of fondaparinux and other ways to best optimise the value of this cash flow stream. As these initiatives materialise, we will provide guidance to the market.

We have maintained our strong working capital position by securing strategic partnerships, such as our collaboration with Merck Serono on an investigator sponsored Phase II trial of HA-Irinotecan with cetuximab, and our partnership with AstraZeneca on VAST. In addition, prudent capital budgeting, a successful finding under the R&D Tax Incentive program, and an oversubscribed financing earlier this year of $12.95 million, have all contributed to our strong cash position at the close of the financial year.

As our portfolio progresses towards commercialisation, we have refined our corporate messaging, improved relationships with shareholders, and increased US institutional ownership. As a result, our achievements are starting to be recognised by the broader market. We believe there is phenomenal potential upside on successful Phase III data, future regulatory approval, possible partnerships, and other strategic initiatives.

The demerger and listing of our subsidiary, Audeo Oncology, was unsuccessful last year due to a range of factors, including market timing. During 2014, we will consider revisiting another US listing, depending on our strategic positioning and valuation, which should be significantly enhanced by achieving our operational goals. Our focus will be to determine the best way to maximise shareholder value and on ensuring that the company is optimally positioned to achieve its potential.

The elevation of Mr Charles Walker to CEO strengthened the leadership of the company. In addition, the mix of skills and international expertise of Alchemia's Board of Directors was enhanced this year with the appointment of Dr Susan Kelley and Mr Tim Hughes. Dr Kelley's extensive pharmaceutical industry experience, and Mr Hughes' strong financial experience make them uniquely qualified additions to the Board.

With the restructuring of our board and the departure of several previous directors, I was appointed as Chairman in July 2013 on an interim basis. A formal recruiting process is underway to identify a new Chairman and our intention is to continue to progress this initiative with great care so that we can attract a talented individual and further bolster the Board. When a transfer of responsibility is appropriate, it will be seamless, and our prospects will remain bright.

On behalf of the Board of Directors, we sincerely thank our shareholders for their loyalty and support and recognise our very talented staff for their commitment and hard work. I would like to commend my fellow Board members for their high level of strategic input and continued focus on corporate governance.

I am delighted to present the Annual Report for 2013.

Nathan Drona
Non-Executive Chairman

CEO's Report

In the financial year to June 2013, the Company continued to make impressive progress across its entire portfolio of assets. Fondaparinux completed its first full year of generating profit share, our Phase III trial of HA-Irinotecan completed recruitment of patients in February 2013, AstraZeneca selected our VAST technology as one of the technologies to help it meet its strategic aims, and Merck Serono agreed to collaborate on an investigator-sponsored Phase II trial of HA-Irinotecan in combination with cetuximab. Although our efforts to list our oncology subsidiary Audeo Oncology, Inc. (Audeo) on NASDAQ were ultimately unsuccessful, the Company completed an oversubscribed $12.95 million fundraising in April, and has subsequently emerged stronger than ever. We now have an international board, a strong balance sheet, and several major events to look forward to in the coming year.

Fondaparinux

Fondaparinux, Alchemia's first approved product, is a generic version of the anticoagulant drug marketed with the brand name Arixtra® by GlaxoSmithKline. Arixtra is approved for the treatment of deep vein thrombosis (DVT) and pulmonary embolism (PE) and is also indicated for the prevention of DVT after major surgery, such as knee and hip replacement, in the US and Europe. Fondaparinux is difficult to manufacture at commercial scale and Alchemia has been granted patents that are expected to prevent others from using Alchemia's proprietary manufacturing process until at least 2022. Dr Reddy's Laboratories (Dr Reddy's) is under contract to manufacture fondaparinux in India, and also has a profit share arrangement with Alchemia for the sale of fondaparinux in territories around the world.

Net sales of fondaparinux this year by Dr Reddy's were a total of US$45.3m. This generated a total profit share due to Alchemia of $9.6 million for the year. In April of this year, we announced the launch of fondaparinux by Dr Reddy's in India, the first territory outside of the US, and subsequently Dr Reddy's received approval for sale of fondaparinux in Canada. In 2012 Dr Reddy's submitted fondaparinux for approval in Europe and additional submissions are expected in other territories in the coming year. Dr Reddy's continues to work on improving the manufacturing process and we hope to see the benefits of reduced manufacturing costs for fondaparinux in 2014.

In the meantime, we are aggressively assessing strategic options to best return value from fondaparinux to shareholders, including potential paths such as monetization, a return of capital to shareholders or a demerger of Audeo.

HyACT

HyACT is our proprietary technology which targets new or existing oncology drugs to tumours, with the aim of making these drugs more effective, while making their side effects no worse. By enhancing existing drugs, we aim to use HyACT to more efficiently develop new drugs than would be possible with completely new chemical entities.

Alchemia's HyACT technology relies on the gel-like properties of hyaluronic acid (HA) to entrap cancer drugs in its structure. HA-trapped oncology drugs have been shown in our preclinical studies to possess two mechanisms of action: the HA not only carries the anticancer drug directly to the cancer cells but it also promotes the active uptake of the drug by those cells. In this way, HyACT-targeted oncology drugs should increase the response of cancers to standard chemotherapy, without needing to increase a patient's overall exposure to the chemotherapy.

We believe that our HyACT-targeted oncology drugs, which consist of two already approved agents, offer high sales potential, a lower development risk profile and accelerated development timelines compared with completely new cancer drugs.

Our lead product candidate is HA-Irinotecan which is in a pivotal Phase III trial for the treatment of metastatic colorectal cancer (mCRC). Previously, HA-Irinotecan was able to double the median progression free survival (PFS) in mCRC patients (5.2 months for HA-Irinotecan versus 2.4 months for irinotecan alone) in a randomised Phase II clinical trial, based on 76

patients with mCRC. Enrolment began in November 2011 for our pivotal Phase III clinical trial of HA-Irinotecan and we expect to use the trial results to seek regulatory approval to market the product.

On 28 February, we announced completion of recruitment of 415 patients to the trial, an expanded number over the original target of 390 patients. We increased the number of patients to improve the statistical robustness of the trial, as well as to improve the numbers of patients on an FDA requested substudy.

The overall study progress and patient safety are being monitored closely by an independent Data and Safety Monitoring Board and the trial has proceeded without incident. We expect our target number of patient progressions to be met and top line results to be reported, in the first half of calendar year 2014.

We are currently seeking a commercialisation partner for HA-Irinotecan with sufficient experience to optimally commercialise HA-Irinotecan after health authority approvals. We have significant interest in the project from outside parties and we aim to conclude a partnership before we report the results of the trial, unless we determine that it is more advantageous to execute on a deal shortly afterwards.

In addition to our pivotal Phase III trial, in May of this year we announced that together with Merck Serono, we would support an investigator sponsored Phase II trial of HA-Irinotecan combined with cetuximab, an antibody used in metastatic colorectal cancer. While again validating our technology, this trial is also important to assist with the widespread adoption of HA-Irinotecan after its potential approval. We look forward to announcing the start of patient accrual to this trial.

VAST

VAST represents both a novel chemistry and a novel approach to drug discovery. Over the years, VAST has shown its capability in the identification and development of new drug candidates, and our collaboration with AstraZeneca announced in April this year, is the latest in third party recognition of VAST and its capabilities. We believe VAST has the optimal balance of risk and reward: our collaboration with AstraZeneca reduces our cash burn, while the select internal projects we pursue with our world class academic partners, which are assisted by grant funding, provide the opportunity for high returns. VAST as a whole uses a minimal amount of working capital, but retains the ability to generate significant returns for shareholders.

Demerger of Audeo Oncology, Inc.

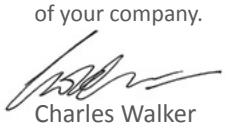
In our Annual Report last year we were looking forward with excitement to the demerger of Audeo from Alchemia. We felt a demerger was a way to provide Audeo and ultimately HyACT, with funds sufficient to maximise its potential, while at the same time maximising the value of fondaparinux cash flow for our shareholders. Our efforts regarding the demerger ultimately were unsuccessful as various factors, including the financial markets, moved against us in our efforts to list Audeo on NASDAQ.

We maintain our focus on maximizing the value of all of our assets, and are actively pursuing business development opportunities for HA-Irinotecan as well as investigating options to create value from fondaparinux. Ultimately, if we conclude a licensing deal with HA-Irinotecan, this may provide us with additional flexibility to be creative in generating value from fondaparinux for our shareholders. We are therefore aggressively pursuing these two initiatives and look forward to updating the market on progress as it is made.

Outlook

We currently find ourselves ideally placed as a company. Alchemia is well financed, fondaparinux is now consistently returning profit share to Alchemia, and HA-Irinotecan is on the threshold of completing its pivotal trial in metastatic colorectal cancer, and with a positive outcome, will be poised to take its place as our second product to be successfully developed by the company. As we contemplate this new financial year, we look forward to positive developments from our business development activities, the critical results of HA-Irinotecan in the second half of the financial year and for new regulatory submissions and potential launch of fondaparinux in territories outside of the US.

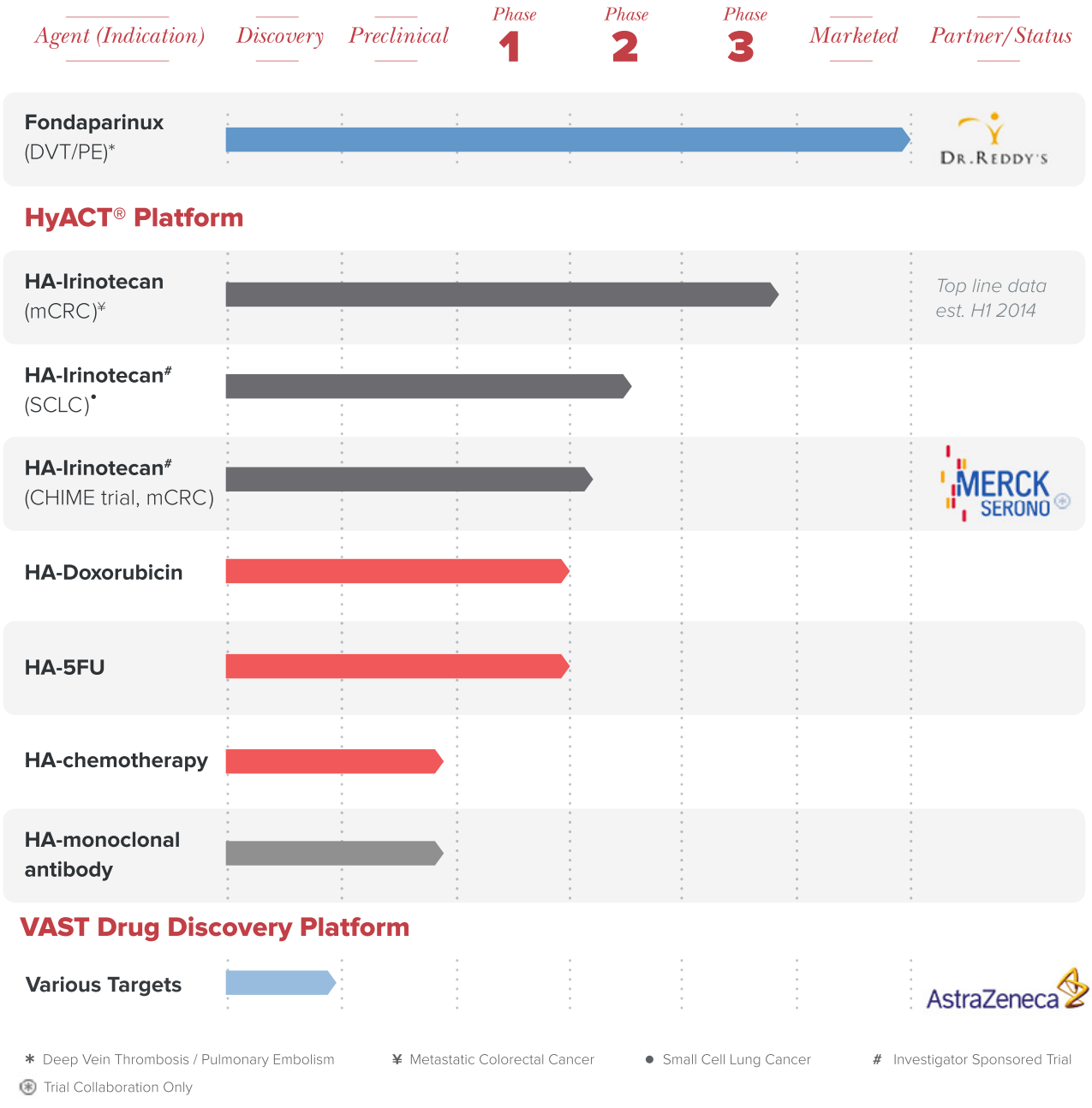
We thank our shareholders for their consistent support, our employees for their hard work and our partners for their engagement in the development of our various technologies and look forward to another important year in the development of your company.



Charles Walker
Chief Executive Officer

Pipeline

Alchemia has a balanced portfolio of assets, with fondaparinux on the market providing revenue, a late stage oncology pipeline based on HyACT and the VAST drug discovery platform.



Generic Fondaparinux

Fondaparinux is a generic version of the anticoagulant drug Arixtra® sold by GSK. Arixtra is approved for the treatment of deep vein thromobosis (DVT) and pulmonary embolism (PE) and is also indicated for the prevention of DVT after major surgery, such as knee and hip replacement in the US and Europe. The use of the original version of fondaparinux is recommended by the American College of Chest Physicians and received the European Society of Cardiology's highest recommendation for use in acute coronary syndrome.

Fondaparinux is difficult to manufacture at commercial scale and Alchemia has been granted patents that will prevent others from using Alchemia's proprietary process. While fondaparinux is a generic drug, Alchemia expects to sustain a competitive advantage in the heparin-drug market by way of patent protection over its fondaparinux synthesis until at least 2022.

Under the Collaboration, Development and Marketing Agreement with Dr Reddy's (DRL), Alchemia receives 50% of the profits from US sales of fondaparinux arising from Dr Reddy's sale of the product after certain development costs are recouped. These development costs have now been recouped and cashflows from the sales of fondaparinux are now being generated for Alchemia. Under the agreement, Dr Reddy's is required to provide a report 60 days after the end of the quarter, setting out the sales and Alchemia's share of profits from the previous quarter.

Alchemia and Dr Reddy's have jointly invested in further process and production improvements with the aim of reducing the cost of the active pharmaceutical ingredient (API) to increase the profitability of fondaparinux over its life. Alchemia and Dr Reddy's have agreed to split additional costs of $10 million equally. Alchemia's share of these costs will be deducted from Alchemia's net quarterly profit receipts over 10 quarters at a rate of $500,000 per quarter with the last payment being for the quarter ending 31 December 2014. The benefits of this investment are expected to flow through into increased profits as the benefit of the API cost reduction is realised. This reduction in manufacturing cost is also expected to play an important role in maximising profits in non-US markets where the selling price of fondaparinux is significantly lower than in the US.

Fondaparinux market

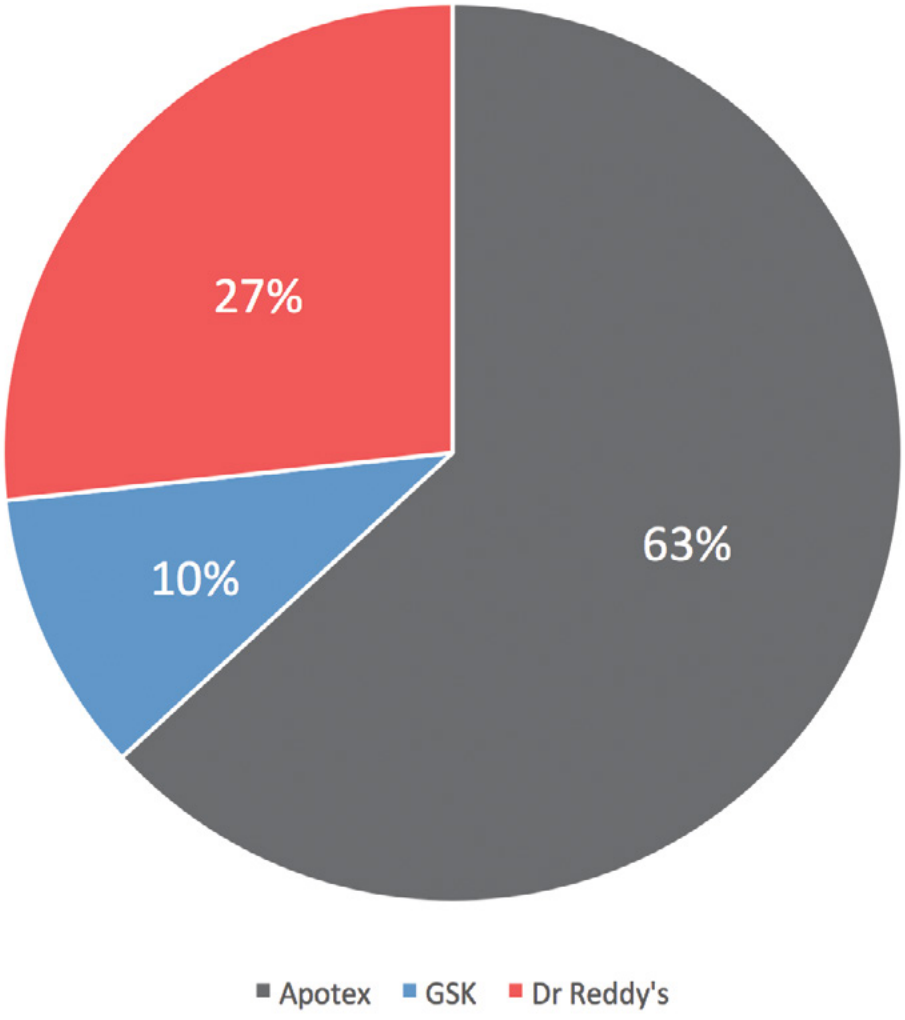
The market for fondaparinux in the US consists of two main segments, being retail and hospital (institutional). The retail segment comprises all non-hospital channels of distribution, including individual pharmacies, wholesalers and the major warehousing chains of pharmacies. The hospital market is highly focused with less than ten group purchasing organisations accounting for the majority of all hospital procurement of drugs and other medical items. The prescription numbers are divided approximately equally between the retail and hospital segments although net pricing in the retail segment tends to be higher.

Initial sales of fondaparinux by Dr Reddy's were targeted at the retail segment. Dr Reddy's has been able to develop the retail segment of the US market and in this segment, market share has steadily increased throughout the year.

As at the June 2013 quarter, Dr Reddy's commands a 53% share of the retail sales by volume for fondaparinux in the US. Market share in the US hospital segment was 7% as at the June 2013 quarter. As of the quarter ending June 30 2013, Dr Reddy's had achieved a total market share of around 27% by volume (Source: IMS). Alchemia recorded a total profit share of $9.6 million for the financial year ending 30 June 2013.

Market Share by Volume

Quarter ending 30 June 2013



Source: IMS

HyACT® Technology

HyACT-targeted therapeutics are designed to exploit the unique structure and inherent biological properties of Hyaluronic Acid (HA), a natural polymer which is a key component of the extracellular matrix in mammals. The specific form of HA used in HyACT-targeted product candidates combines the effective drug entrapment and delivery properties of HA with the active transport and internalisation characteristics resulting from HA's ability to bind to activated CD44, a receptor generally over expressed in cancer cells. HA has been shown in preclinical studies to efficiently transport anticancer drugs to tumours where a drug depot rapidly forms. The passive formation of this intra-tumoural drug depot has the unique advantage of maintaining prolonged concentrations of the anticancer drug within the tumour while enabling the continual active uptake of the drug by cancer cells. The HyACT-targeted product candidates are designed to overcome some of the limitations of current chemotherapies by delivering anticancer drugs preferentially to cancer cells in order to increase the response of cancers to standard chemotherapy.

The Company's initial HyACT-targeted product candidates consist of two FDA approved agents (HA and chemotherapeutics with well characterised toxicity and efficacy profiles), and due to this, we believe that these HyACT-targeted product candidates, which are expected to utilise the FDA's 505(b)(2) regulatory approval pathway may offer a lower development risk profile and accelerated development compared with completely new cancer drugs.

HA-Irinotecan for the treatment of metastatic colorectal cancer (mCRC)

The Company's lead product candidate is HA-Irinotecan for the treatment of mCRC. Irinotecan, which is marketed in major markets by Pfizer as Camptosar®, is an off-patent chemotherapy widely used in the treatment of mCRC. In a 76 patient randomised Phase II clinical trial comparing HA-Irinotecan with irinotecan currently used in the clinic, HA-Irinotecan was able to double the progression-free survival (PFS) of mCRC patients (5.2 months for HA-Irinotecan versus 2.4 months for irinotecan alone).

Based on these findings, in December 2011 Alchemia commenced a pivotal Phase III clinical trial testing HA-Irinotecan in patients with mCRC. This pivotal trial compares the effectiveness of HA-Irinotecan with the current form of irinotecan used by oncologists. HA-Irinotecan is being used as a component of the FOLFIRI chemotherapy regimen (leucovorin, 5-fluorouracil and Irinotecan) in 415 Irinotecan-naïve patients with mCRC who are candidates for second-line or third-line chemotherapy. In the United States, Europe and Australia the FOLFIRI regimen is considered as the leading standard of care for second-line and third-line treatment of mCRC patients.

The randomised, multi-centered, double-blind trial is designed to detect a six week or greater difference in the primary endpoint (PFS) with monitoring for up to 18 months following randomisation. Recruitment commenced in December 2011 and the trial is being conducted at sites in Australia, Bulgaria, Russia, Poland, Serbia, Ukraine and the United Kingdom. Trial sites were selected on the basis of, among other factors, the availability of patients, quality of patient management and experience in data handling and clinical trials. PSI, the contracted research organisation selected by Alchemia for this trial, is an international clinical research company that conducts trials in North and South America, Asia, Australia, Europe and Russia where it has

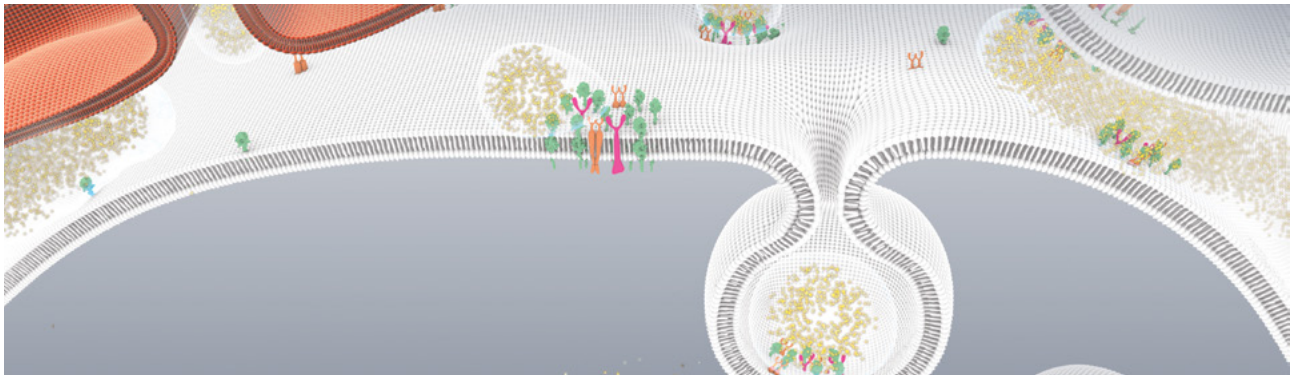
managed over 150 oncology studies, which culminated in the FDA and/or EMA approval of Abraxane, Halaven, Femara, Firmagon, Thalomid, Aloxi, Zarzio and Neulasta. In addition to the primary endpoint of PFS, Alchemia is conducting a small sub-study looking at cardiac anomalies and the pharmacokinetics of HA-Irinotecan when administered as part of the FOLFIRI regimen.

Currently, progress with the pivotal Phase III trial is encouraging. No additional suspected unexpected serious adverse reactions (SUSARs) have been reported and over 4,400 cycles of chemotherapy have been administered to patients since the commencement of the trial. Some patients have received over 30 cycles of chemotherapy. We continue to be encouraged by the progress of this key trial and look forward to reporting headline data in the first half of the calendar year 2014.

In addition to its approved use for mCRC, published studies suggest that irinotecan may have activity in a range of solid tumours such as breast, pancreas, brain, lung and ovarian. According to reports by Pfizer, sales of Camptosar® (proprietary irinotecan which became generic in 2008) were over US$950 million in 2007. To the extent that clinical trials confirm HA-Irinotecan's safety and demonstrate significantly improved clinical efficacy compared with irinotecan alone, HA-Irinotecan has the potential to replace irinotecan in first to third line irinotecan-containing treatment regimens.

Metastatic colorectal cancer market

The American Cancer Society cites colorectal cancer as the third most common form of cancer diagnosed in the US, excluding skin cancers. According to the American Cancer Society, approximately 143,000 new cases of colorectal cancer are expected to be reported in the US in 2013, with approximately 51,000 patients in the US expected to die from colorectal cancer in 2013. Surgery is often the first line treatment for early stage colorectal cancer. When colorectal cancer metastasizes (spreads to other parts of the body such as the liver) chemotherapy is commonly used. Chemotherapy regimens (such as FOLFOX (leucovorin, 5-fluorouracil and oxaliplatin) or FOLFIRI, either with or without bevacizumab (Avastin®) have been shown to increase survival rates in patients with metastatic / advanced colorectal cancer and are among the leading first and second line treatments in the US and Europe. Currently, there are ten FDA approved drugs for patients with mCRC: 5-fluorouracil, bevacizumab (Avastin®), capecitabine (Xeloda®), cetuximab (Erbitux®), irinotecan, oxaliplatin, panitumumab (Vectibix), leucovorin, regorafenib (Stivarga®) and ziv-aflibercept (Zaltrap®). Depending on



HyACT® Technology

the stage of the cancer, two or more of these drugs may be combined at the same time or used after one another. Bevacizumab, a vascular endothelial growth factor monoclonal antibody, is most commonly administered with chemotherapy. Typically, patients who fail 5-fluorouracil, oxaliplatin, irinotecan and bevacizumab containing therapies and who have wild type KRAS status, receive epidermal growth factor receptor monoclonal antibody therapy with either cetuximab or panitumumab, together with chemotherapy. We believe that if approved, HA-Irinotecan could replace irinotecan which is currently used in the FOLFIRI treatment regimen.

Regulatory strategy

As HA-Irinotecan is a formulation of two previously approved products (the cancer drug irinotecan and HA), we intend to utilise an alternative type of New Drug Application (NDA) commonly referred to as a section 505(b)(2) NDA in the US, which enables the Company to rely, in part, on the FDA's previous approval of a similar product or on published literature in support of its application. Irinotecan is marketed by Pfizer as Camptosar®, while HA formulations have been approved by the FDA for use in ocular surgery, dermal fillers and cosmetics. The 505(b)(2) regulatory approach may enable the Company to produce an abbreviated preclinical data package, thereby saving development time and costs.

HA-Irinotecan for Small Cell Lung Cancer

A Phase II clinical trial of HA-Irinotecan in small cell lung cancer (SCLC) started recruitment in September 2011. This investigator-sponsored trial is examining the clinical benefits of HA-Irinotecan/carboplatin compared with irinotecan/carboplatin, and also attempts to evaluate the direct effect of HA-Irinotecan on cancer stem cells and other aggressive cancer cell populations. The objective of this Phase II trial is to demonstrate that, by targeting the CD44 receptor on cancer stem cells, HA-Irinotecan may enhance the killing of the cancer stem cell and cancer cell populations, which may ultimately translate into increased patient survival. Alchemia's primary objective for participating in this investigator sponsored trial is to further validate the HyACT technology and to obtain clinical data on HA-Irinotecan activity on cancer stem cells. To date, 26 patients have been enrolled (63% of total recruitment target) and preliminary experience suggests that HA-Irinotecan in combination with carboplatin is well-tolerated with clinical activity demonstrated in both first and second-line SCLC patients.

HA-Irinotecan – Planned Phase II Chime trial for HA-Irinotecan in combination with Erbitux® (cetuximab) in mCRC patients

In May 2013, Alchemia and Merck Serono began a clinical development collaboration where both organisations agreed to support an investigator-led Phase II clinical trial of Alchemia's HA-Irinotecan in combination with Merck Serono's leading therapeutic antibody, Erbitux (cetuximab) in mCRC patients. If the current HA-Irinotecan Phase III registrational clinical trial (NCT01290783) is successful and the drug obtains broad health authority approval for use in irinotecan-containing chemotherapy regimens, there is the possibility that HA-Irinotecan will progressively replace the current form of irinotecan used by oncologists. According to current treatment guidelines, 50-60% of mCRC patients should be considered for treatment with chemotherapeutic drugs, such as irinotecan, administered in combination with the therapeutic antibody, Erbitux (cetuximab). This Phase II study led by Dr. Gibbs, is intended to generate data supporting the clinical use of HA-Irinotecan with Erbitux® in the treatment of mCRC. The goal of this Phase II trial is to demonstrate that HA-Irinotecan when

administered as part of the FOLFIRI regimen has an acceptable safety profile in combination with Erbitux. The trial will consist of approximately 50 second-line mCRC patients to be enrolled at six to ten sites around Australia where it is expected that the trial will run for approximately 24 months. We expect the trial to be initiated within months and look forward to reporting the first patient enrolled.

Other HyACT programs

HyACT-targeted 5-fluorouracil has been used in a Phase I / IIa clinical trial in 13 patients with mCRC. HyACT-targeted doxorubicin has been used in a Phase I / IIa clinical trial in 16 patients with metastatic cancer with a life expectancy of at least 12 weeks. Preclinical studies have also been conducted that have suggested that HyACT has the potential to improve the efficacy of a number of other cancer drugs, including gemcitabine (Gemzar®), methotrexate (Rheumatrex®), carboplatin (Paraplatin®) and vinorelbine tartrate (Navelbine®). In preclinical studies a number of monoclonal antibodies, including bevacizumab (Avastin®) and cetuximab (Erbitux®) have been tested, and the potential of running a parallel clinical trial comparing an HA-monoclonal antibody with the monoclonal antibody alone is currently being investigated.

VAST®

Versatile Assembly on Stable Templates

NEW CHEMISTRY	Fast	Versatile
NEW MOLECULAR SHAPES	Unique 3D shapes	Greater target selectivity
NEW WAYS OF TREATING DISEASE	New mode of action	Lower side effects

New chemistry

The VAST chemistry was developed by Alchemia to rapidly and efficiently produce molecules with novel 3D shapes. At the core of VAST molecules is nature's pyranose scaffold and using a technique called solid phase synthesis, which allows parallel synthesis of large numbers of molecules, Alchemia was able to develop a large suite of 3D pyranose compounds. The proprietary chemistry is versatile allowing rapid access to a broad range of shapes and functionalities.

New molecular shapes

Classical drug molecules are typically two dimensional in shape and are classified as cylindrical or flat, whereas VAST molecules have three dimensional shapes and are typically globular (Figure 1). The added complexity in shape can lead to higher target selectivity when compared with the simpler 2D molecules, which may lead to safer drugs with lower side effects.

New ways of treating disease

VAST molecules may provide new ways to tackle disease. The different shapes may be able to address targets currently intractable with classical drugs. Molecules with unique shapes can help us determine the shape of the binding pocket, further improving how we approach a disease. Alchemia's VAST drug discovery efforts either focus on novel mode of action or areas where high specificity is critical for success.

VAST drug discovery

The VAST discovery platform includes a suite of 14,000 VAST molecules (Diversity Scanning Array - DSA) and underlying patented chemistries to rapidly optimise hits. A drug discovery project starts with the screening of the DSA against a specific target to identify biologically active molecules. The shortlist of top hits are then entered in the relational heat map, which defines Chemoform® and motif. This unique relational information of active and inactive compounds provides a good starting position from which to initiate the process of refining hits into clinical candidates.

AstraZeneca AB

Alchemia signed a multi-target, drug discovery collaboration worth up to $240 million with AstraZeneca AB (AstraZeneca) in April 2013. This collaboration includes the use of Alchemia's proprietary molecular shapes to discover and develop new small molecule drugs for multiple AstraZeneca targets. Alchemia will apply its VAST drug discovery expertise to develop small molecule clinical candidates for AstraZeneca. By accessing Alchemia's VAST discovery platform, AstraZeneca will seek novel small molecules to treat diseases across a variety of therapeutic areas including oncology, respiratory, cardiovascular, metabolism, infection and neuroscience.

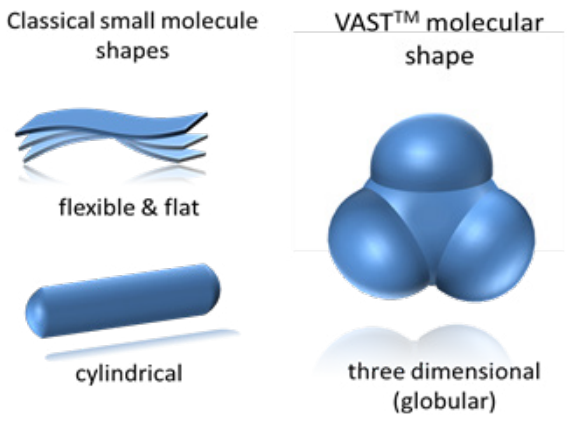


Figure 1: VAST 3D shapes, different to classical drugs

Intellectual Property Portfolio

Alchemia seeks to secure and protect intellectual property (IP) rights over our key technology platforms and therapeutic programs, in order to strengthen our position in the global biotechnology sector and protect our future revenue streams. Alchemia regularly reviews all of its research activities and is proactive in identifying new IP, as well as considering superseded IP and has discontinued several patent applications in line with commercialisation strategy. Alchemia will continue to apply for appropriate patent protection as new and improved technologies are identified, both in the HyACT™ platform and the VAST™ platform. Alchemia intends to protect key project outcomes with pharmaceutical use applications at the appropriate time. This strategy is designed to provide the maximum protection with the longest possible commercialisation life. Where appropriate, Alchemia also maintains selected IP as trade secrets. Alchemia's IP portfolio is maintained by in-house management with extensive patent experience and formal qualifications who work closely with patent attorneys and lawyers in Australia and abroad. Alchemia actively monitors its IP portfolio for potential infringement by its competitors.

Alchemia's published patent portfolio is summarised in the table below.

	Patent Name and Description	Status
	Carbohydrate Technology Patents	
AU97/00544	**Oligosaccharide Synthesis:** Technology patent for the preparation and manipulation of carbohydrates **Priority Date:** 26 August 1996	Granted US.
AU98/00131	**Protected Aminosugars:** Technology patent for the preparation and manipulation of carbohydrates **Priority Date:** 27 February 1997	Granted US.
AU98/00808	**Protecting and Linking Groups for Organic Synthesis:** Technology patent for the preparation and manipulation of carbohydrates **Priority Date:** 24 September 1997	Granted US.
AU00/00025	**Protecting Groups for Carbohydrate Synthesis:** Technology patent for the preparation and manipulation of carbohydrates **Priority Date:** 18 January 1999	Granted in Canada & US.
US 10/676436	**Delivery Systems:** Composition of matter and methods for drug delivery **Priority Date:** 4 July 2002	Granted US.
AU02/01228	**Synthetic Heparin Pentasaccharides:** Composition of matter and process for Synthetic Heparin **Priority Date:** 7 September 2001	Granted in Australia (4 patents), US (3 patents), Japan, China, Europe, Canada (1 patent). National Phase in, US (1 patent), Canada (3 patents).

	Patent Name and Description	Status
	Drug Discovery Technology Patents	
AU01/01307	**Combinatorial libraries of monosaccharides:** Composition of matter for drug discovery **Priority Date:** 17 October 2000	Granted in Australia , US (2 patents). National Phase in Europe.
AU03/00384	**Anomeric Derivatives of Monosaccharides:** Methods and composition of matter for drug discovery **Priority Date:** 28 March 2002	Granted in Australia (2 patents), Canada, China, US, Japan. National Phase in Europe.
AU03/00494	**Disaccharides for Drug Discovery:** Methods and composition of matter for drug discovery **Priority Date:** 3 May 2002	Granted in Australia, Canada, US. National Phase in Europe.
AU03/01008	**Derivatives of Monosaccharides for Drug Discovery:** Methods and composition of matter for drug discovery **Priority Date:** 8 August 2002	Granted in Australia, China, US; National Phase in Europe, Canada, and India.
AU06/001431	**Method of Drug Design:** Method of designing library based on molecular diversity to identify biologically active compounds **Priority Date:** 04 October 2005	Granted in Australia, China (1 patent), US (1 patent), Europe, Japan. National Phase in US (1 application), China (1 application), Canada, India.
	Therapeutic Target Patents	
AU03/01146	**Kinase inhibitors:** Composition of matter and therapeutic use **Priority Date:** 6 September 2002	Granted in Australia, China and US, Europe. National Phase in Canada, Europe, US.
AU2006/ 000129	**Classes of Compounds that Interact with Integrin Receptors:** Composition of matter and therapeutic use **Priority date:** 4 February 2005	Granted in Australia. National Phase in Canada.
2002951995	**Compounds that Interact with GPCRs:** Composition of matter and therapeutic use for GPCRs **Priority Date:** 11 October 2002	Granted in Australia, Canada, US, India.
	Antibiotic Patents	
AU03/001377	**Novel carbohydrate based antibacterials:** Composition of matter and therapeutic use **Priority Date:** 17 October 2002	Granted in Australia, Canada, US, India.
AU06/001939	**Antibacterial Agents:** Composition of matter and therapeutic use **Priority date:** 22 December 2005	Granted in US.
	Alchemia Oncology Key Patent Families	
AU00/00004	**Enhanced efficacy:** Use of HA/chemotherapeutics for overcoming cellular resistance **Priority Date:** 13 Jan 1999	Granted Australia, New Zealand, Europe, Taiwan, China, Canada, Japan. National Phase US.
AU01/00849	**Pre-sensitizing:** Composition comprising prior administration of HA **Priority Date:** 14 July 2000	Granted in Australia, New Zealand, United Kingdom, Canada, US (2 patents). National Phase in China, Japan, US (1 application).
AU/02/01160	**Improved Therapeutics:** Composition comprising high dose of HA/chemotherapeutic **Priority Date:** 27 Aug 2001	Granted in Australia, Canada.
AU 04/01383	**Modulation of HA synthase:** Modulation of HA synthesis **Priority date:** 10 Oct 2003	Granted in Australia, New Zealand, China and US (x2), Europe. National Phase in Canada.
AU2006/001059	**Therapeutic Protocols Using Hyaluronan (Glucuronide):** Compositions comprising HA and methods for reducing toxicity or enhance efficacy of agents **Priority date:** 27 July 2005	Granted Australia. National Phase Canada, China, Europe, India, Japan, US.
AU2006/001293	**Therapeutic compositions and methods of treatment:** Antibody formulations of HyACT™ **Priority date:** 07 September 2005	Granted in Eurasia, Israel, Australia, China; National Phase Canada, Europe, India, Japan, US, Indonesia, Brazil, Mexico, Malaysia.
AU2007/000359	**Method of treatment:** HAS II **Priority date:** 31 March 2006	Granted Australia, Europe, US (2 patents), Japan. National Phase Canada, China, India.

Board of Directors

The new Alchemia board structure with additional domestic and international representation is well placed to steward the company through the next phase of growth.

Nathan Drona, MBA (Finance)
Non-Executive Chairman

Nathan Drona serves on the Board of Alchemia following a fifteen year career in international investment banking, most recently as Managing Director of Challiss in New York and Sydney. Nathan has a strong background in corporate finance and has executed more than 25 global banking and M&A engagements in biotech related fields, leading to the award of the "Pharmaceutical Buy-Side M&A Advisor of the Year" by Frost & Sullivan in 2005. Nathan previously spent two years as Chairman of the Board of Directors of ASX listed Avexa. During his tenure at Avexa, Nathan oversaw the Phase III clinical trial of a nucleoside analogue with over 300 patients in 130 specialist HIV centres in 15 countries. Also at Avexa, Nathan served as Chair of the M&A and Finance Committees and was a member of the Remuneration / Nomination and Audit and Risk Committees.

Nathan is the chairman of Alchemia's Nominations Committee and is a member of Alchemia's Audit and Risk and Remuneration Committees.

Tracie Ramsdale, PhD
Non-Executive Director

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

Tracie is chairman of Alchemia's Remuneration Committee and Scientific Advisory Board and a member of Alchemia's Audit and Risk and Nominations Committees.

Susan Kelley, MD

Non-Executive Director

Susan Kelley served on the Board of Directors of ArQule, Inc. since April 2011. From 2001 to 2008, Susan was employed by Bayer Healthcare Pharmaceuticals and Bayer-Schering Pharma in Germany and the United States. Susan fulfilled the role of Vice President, Global Strategic Drug Development, Cancer and Metabolics from April 2001 to May 2002 and from May 2002 until June 2008 as Vice President, Global Clinical Development and Therapeutic Area Head-Oncology. From July 2008 to March 2011, Susan was Chief Medical Officer of the Multiple Myeloma Research Foundation/ Consortium. Most recently, Susan has been an independent consultant to the pharmaceutical and biotechnology industries in the field of oncology drug development and strategy. Susan holds an MD degree from Duke University School of Medicine, Durham, NC, US and completed her speciality training in Medical Oncology at Dana-Farber Cancer Institute, Harvard Medical School, Boston, MA, US.

Susan is a member of Alchemia's Remuneration, Audit and Risk and Nominations Committees and Alchemia's Scientific Advisory Board.

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

Non-Executive Director

Tim Hughes has over thirty years' experience in investment banking, funds management and as an institutional investor. His most recent roles were as Investment Counsel at NGS Super and as a commentator on economics and finance for a News Corporation paper.

He previously spent thirteen years as a senior executive at Rothschilds including chief investment officer, chief economist, head of fixed interest and currency as well as board director and executive committee member. He was also chief investment officer of the Catholic Superannuation Fund from 2003-2010. He is currently a director of Value Capital Management Pty Limited in Sydney (an advisor to institutional investors) and South Endeavour Pty Limited (a charitable trust managing a portfolio of nature conservation properties). Tim holds a bachelor of science (honours) from the University of Melbourne, and a bachelor of arts (honours) in economics and a master of natural resources from the University of New England. He has a strong track record in business development and strategic thinking and brings a substantial investor focus to the Board.

Tim is chairman of Alchemia's Audit and Risk Committee and a member of Alchemia's Remuneration and Nominations Committees.

Stephen Denaro, CA

Company Secretary

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

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

Senior Management

Charles Walker, BSC (Hons), MBA

Chief Executive Officer

Charles (Charlie) Walker was appointed to the position of Chief Executive Officer in February 2013, following two years as Alchemia's Chief Financial Officer. He brings 20 years' international life science industry experience to the role. Charles originally trained as a pharmacologist in the UK before embarking on a career in the pharmaceutical industry. He subsequently spent more than a decade in corporate finance advising international technology companies, executing more than 40 successful corporate transactions including IPOs, M&A agreements and fundraisings. He also co-founded a successful life sciences investment banking firm in the UK which was sold to Nomura International plc in 2005 realising significant returns for investors.

Tracey Brown, PhD

Chief Scientific Officer and Vice President - Oncology

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

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

Michael L West, PhD

Vice President - Intellectual Property and Technology Transfer

Michael West joined Alchemia in December 1997 as its first employee and has held positions in research and development and is currently the Vice President of Intellectual Property and Technology Transfer. In addition to his role in Intellectual Property and Technology Transfer, Michael is responsible for the manufacturing and scale up activities of Alchemia products and intermediates. Michael has spent over 12 years in collaboration with the DOW Chemical Company and Dr Reddy's Laboratories on the industrial development of fondaparinux sodium. He has undertaken the scale up of a number of VAST compounds, and is responsible for the manufacturing activities for HA-Irinotecan.

Michael holds a PhD in Chemistry and a Masters in Industrial Property. Michael has industrial post-doctoral experience at GlaxoSmithKline US, as well as in academia where he worked as a senior postdoctoral fellow and CARGS fellow at the Centre for Drug Design and Development at the University of Queensland. Michael is a co-inventor on 25 patent families containing 34 issued patents and more than 32 applications. Michael has also co-authored a number of peer reviewed publications. Michael is a registered Australian Patent and Trade Mark attorney.

Wim Meutermans, PhD

Chief Scientific Officer - Audeo Discovery

Wim Meutermans joined Alchemia in April 2000 and as Chief Scientific Officer – Audeo is responsible for all the small molecule drug discovery projects within Alchemia. Wim has over 20 years' experience in all non-clinical aspects of drug discovery and managing multiple discovery programs in diverse therapeutic indications, including Alchemia's ACL16907 which was taken to full preclinical assessment. Wim is also one of the key inventors of the VAST small molecule discovery platform. He is responsible for managing Alchemia's small molecule drug discovery efforts in the field of oncology, respiratory disease, metabolic disorders and pain. He is co-inventor on 12 patents and has published extensively. Prior to his appointment with Alchemia he was employed at the Centre for Drug Design as Senior Research Officer to manage academic and industry sponsored drug discovery projects. Wim obtained a PhD from the Katholieke Universiteit Leuven in Belgium.

Imran Ahamed, CPA, ACMA, CGMA

Group Financial Controller

Imran Ahamed was appointed to the position of Group Financial Controller in February 2013, following one year as Alchemia Oncology's Financial Controller.

He brings over 20 years of accounting and finance experience to the role, having worked in senior finance positions in investment banking, manufacturing, retail and wholesale sectors in Asia, Southern Africa, the Middle East and Australia.

Imran's expertise includes: strong technical skills in financial and management accounting, statutory reporting, budgeting and control, systems and procedures and financial analysis. He has also been involved in corporate finance transactions which include IPOs, M&As, capital restructuring and feasibility studies.

Goslik Schepers, PhD

Vice President of Business Development

Goslik Schepers has served as Vice President of Business Development since May 2009 and has over 15 years' experience in commercialisation and business development.

Prior to this appointment, Goslik served as Business Development Manager for VASTox plc (now Summit plc) where he helped to establish and grow the revenue base for Summit. Prior to Summit, Goslik worked in technology transfer for Oxford University and The University of Queensland.

Goslik graduated from the University of Queensland with a PhD in molecular and developmental biology.

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FINANCIAL REPORT 2013

Directors' Report

For the Year Ended 30 June 2013

Your directors submit their report for the year ended 30 June 2013.

Directors

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

N Drona – Interim Chairman (Appointed to Board 22 March 2013, appointed Interim Chairman 15 July 2013)
M Bridges – Chairman (Retired 15 July 2013)
T Ramsdale
S Kelley - (Appointed to Board 22 March 2013)
N Withnall - (Retired 4 July 2013)
P Smith - (Ceased Employment and resigned from the Board 25 January 2013)
T Hughes - (Appointed to Board 15 July 2013)

Directors' qualifications, experience, special responsibilities and period in office are set out in the section of this report entitled "Board of Directors" on pages 20 - 21.

Directors' relevant interest in Alchemia securities

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

	Number of Ordinary Shares	Options
T Ramsdale	1,303,819	-
N Drona	-	-
S Kelley	-	-
T Hughes	-	-

Secretary

Stephen Denaro
The Secretary's qualifications and experience are set out in the section of this report entitled "Board of Directors" on pages 20 - 21.

Dividends

Alchemia Limited did not declare or pay any dividends during the financial year (2012: nil).

Principal activities

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

Operating and financial review

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

Review of operations

It has been a busy financial year to June 2013 for Alchemia Limited and its consolidated entities ("Alchemia" or the "Group"). Highlights for the year include:

- The Group's receipt of its first profits from the sale of fondaparinux in the US from global marketing partner Dr Reddy's Laboratories ("Dr Reddy's");
- Successful finding from AusIndustry in relation to the eligibility of the Group's overseas R&D expenditure under the R&D Tax Incentive Program;
- Oversubscribed Institutional and Share Placement Plan raising $12.95 million;
- Full recruitment of Alchemia's pivotal HA-Irinotecan Phase III Trial for metastatic colorectal cancer (mCRC);
- Signature of two Collaboration Agreements; AstraZeneca AB on VAST and Merck Serono ("Merck") on HA-Irinotecan; and
- Due to market conditions, the initial public offering of Audeo Oncology, Inc. ("Audeo Oncology") and the proposed demerger of Alchemia Limited's oncology assets were deferred in December 2012.

Key developments for the year include:

- **September:** Scheme booklet dispatched;
- **October:** Appointment of key Audeo Oncology, Inc. Board Members in preparation for demerger of Audeo Oncology, Inc;
- **October:** Alchemia receives Federal Court of Australia approval to demerge Audeo Oncology, Inc. from Alchemia;
- **December:** Alchemia announces it is to receive over A$3 million from the Federal Government under the R&D Tax Incentive Scheme;
- **December:** Alchemia announces that the demerger of Audeo Oncology, Inc will not proceed;
- **February:** Recruitment of full patient quota for pivotal HA-Irinotecan Phase III Trial for mCRC announced;
- **February:** New CEO appointed to Alchemia Limited;
- **March:** Key US patent granted for HyACT targeted chemotherapy in colon cancer which extends monopoly rights for HA-Irinotecan as well as additional colon cancer chemotherapies;
- **March:** Successful completion of an oversubscribed A$10.2 million Institutional Placement;
- **March:** Appointment of key US Non-Executive Directors to the Alchemia Board;
- **April:** Successful completion of an oversubscribed A$2.75 million Share Purchase Plan to shareholders;
- **April:** Fondaparinux launched in India by Dr Reddy's. This is the first launch of the product outside the US;
- **April:** US HyACT patent expiry date further extended to 24 March 2025. Key fondaparinux US patent granted;

- **April:** Key multi-target drug discovery collaboration with AstraZeneca AB announced; and
- **May:** Establishment of a collaboration with Merck to support an investigator led Phase II Trial of HA-Irinotecan and Erbitux®.

Operational Performance and Highlights for the Year:

Generic Fondaparinux

Fondaparinux is an anticoagulant drug used in the prevention and treatment of deep vein thrombosis (DVT) and pulmonary embolism (PE); it is mainly used after major surgery such as knee and hip replacements. The branded version of the drug, Arixtra, was launched in the US in 2003 by Sanofi, a year after the patent on the drug expired. The branded drug was protected by a further five year data exclusivity in the US. Following the merger of Sanofi with Aventis, the drug was sold to GlaxoSmithKline which, like its predecessor, continued to invest heavily in clinical development of the drug.

Alchemia developed a proprietary manufacturing process which it licensed to Dr Reddy's.

Under our Agreement with Dr Reddy's, Alchemia is entitled to receive 50% of the profits from US sales of fondaparinux arising from Dr Reddy's marketing of the product, after the recoupment of development costs. In March 2009, following the expiry of data exclusivity, Dr Reddy's filed an Abbreviated New Drug Application (ANDA) for the approval of fondaparinux manufactured using Alchemia's proprietary process. This application was approved in July 2011 and sale of our drug in the US market commenced soon after.

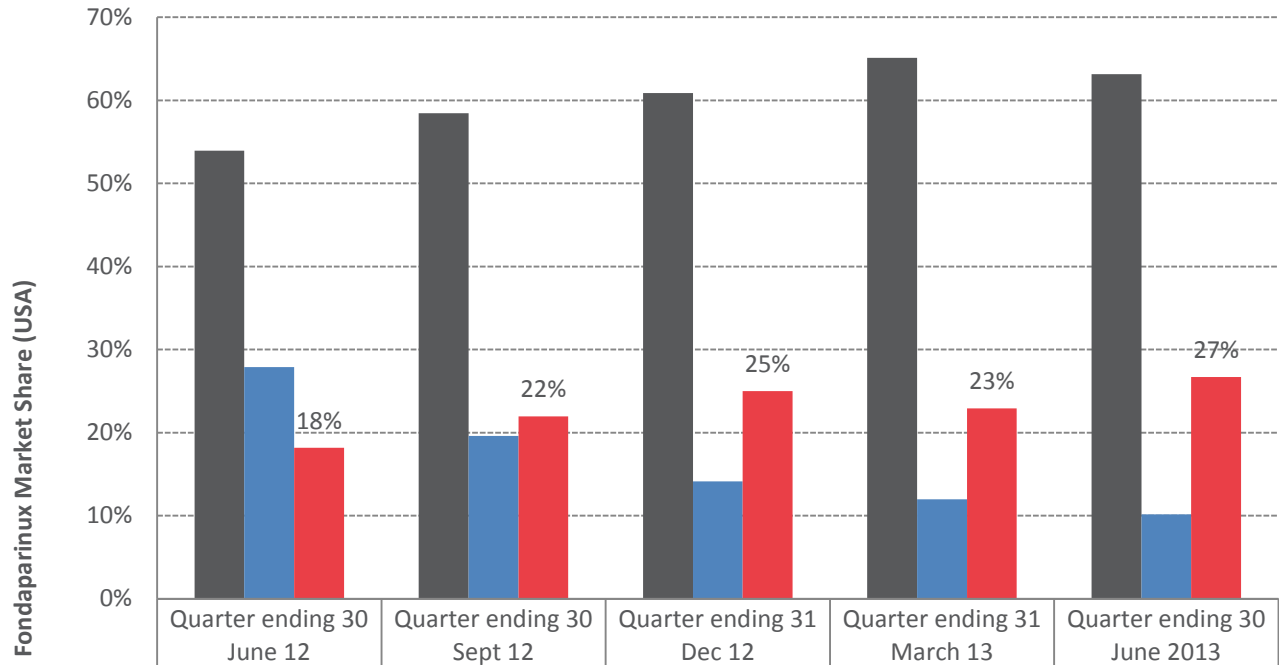
The competitive landscape changed when GSK launched an Authorised Generic (AG) through Apotex, shortly after this.

An "authorised generic" is a product from a brand drug marketer (in this case GSK) which under US law, is authorised for sale through an "authorised" generic player (in this case the Canadian generic company Apotex). Authorised generics do not need approval through the ANDA route as the product has already been approved for marketing.

The market for Fondaparinux in the US consists of two main segments, retail and hospital (institutional). The retail segment comprises all non-hospital channels of distribution including individual pharmacies, wholesalers and the major warehousing chains of pharmacies. The hospital segment is highly focused with less than ten group purchasing organisations accounting for the majority of all hospital procurement of drugs and other medical items. The prescription numbers are approximately equally divided between the retail and hospital segments although due to the high volume nature of the institutional segment, pricing in this segment is usually lower than in the retail segment.

Initial sales of Fondaparinux by Dr Reddy's were targeted at the retail segment. Dr Reddy's has been able to develop the retail segment of the US market and in this segment, market share has steadily increased throughout the year. As at the June 2013 quarter, Dr Reddy's commands a 53% share of the retail sales by volume for fondaparinux in the US. Market share in the US hospital segment was 7% as at the June 2013 quarter. As of the quarter ending June 30 2013, Dr Reddy's has achieved a total market share of around 27% by volume *(Source: IMS).*

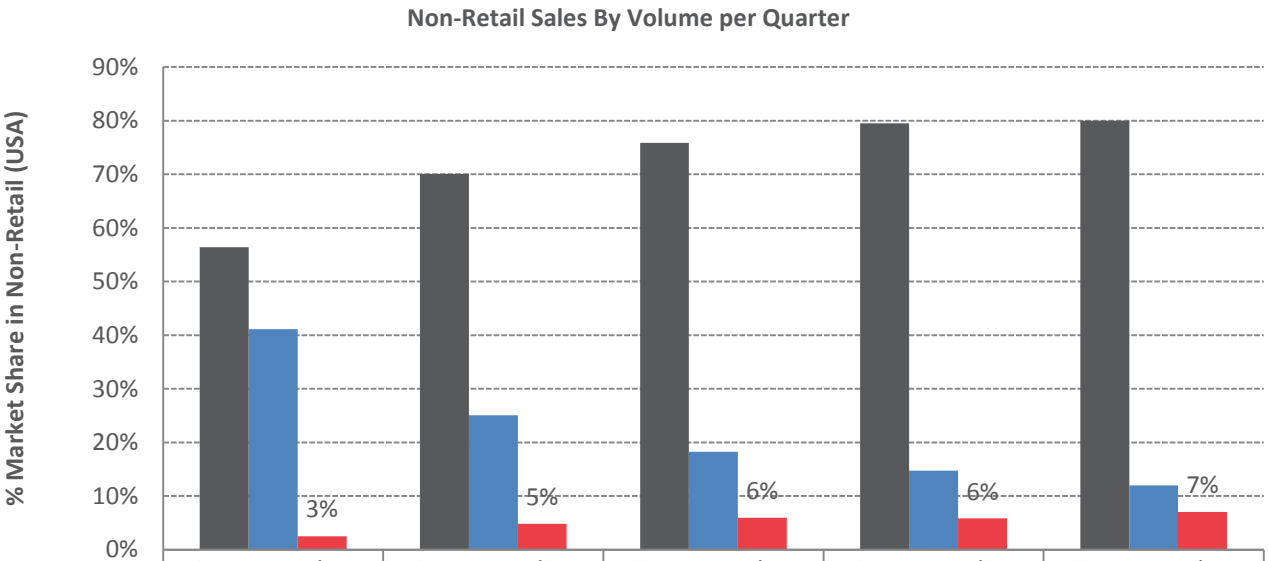
Following is a summary of total market share by volume, achieved by Dr Reddy's in the US:



	Quarter ending 30 June 12	Quarter ending 30 Sept 12	Quarter ending 31 Dec 12	Quarter ending 31 March 13	Quarter ending 30 June 2013
Apotex	54%	58%	61%	65%	63%
GSK	28%	20%	14%	12%	10%
Dr Reddy's	18%	22%	25%	23%	27%

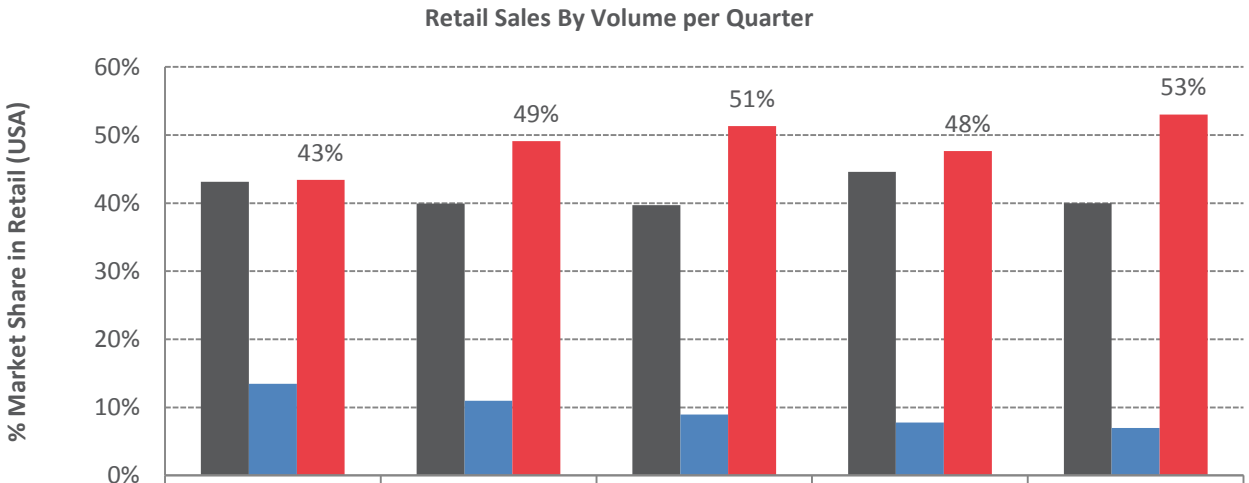
Source - IMS

Following is a summary of the retail vs non retail market share by volume, achieved by Dr Reddy's:



	Quarter ending 30 June 12	Quarter ending 30 Sept 12	Quarter ending 31 Dec 12	Quarter ending 31 March 13	Quarter ending 30 June 2013
Apotex	56%	70%	76%	79%	80%
GSK	41%	25%	18%	15%	12%
Dr Reddy's	3%	5%	6%	6%	7%

Source - IMS

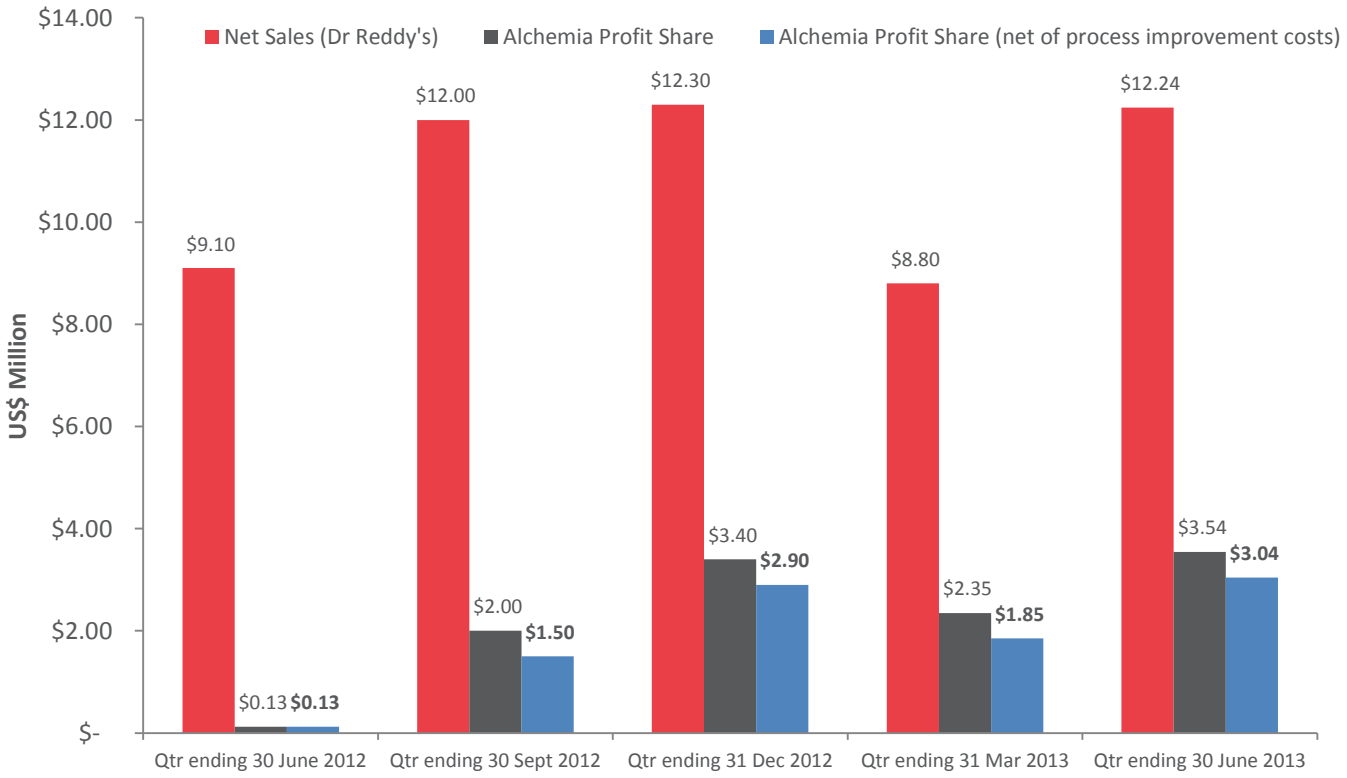


	Quarter ending 30 June 12	Quarter ending 30 Sept 12	Quarter ending 31 Dec 12	Quarter ending 31 March 13	Quarter ending 30 June 2013
Apotex	43%	40%	40%	45%	40%
GSK	13%	11%	9%	8%	7%
Dr Reddy's	43%	49%	51%	48%	53%

Source – IMS

This year was the first year in which we received a profit from the sale of fondaparinux. In total we recorded an income of US$9.5 million ($9.6 million) for the year. The US$9.5 million income is after contributing US$2.0 million to committed process improvement costs. Alchemia has an additional commitment of US$3.0 million which is to be recouped from future profits from the sale of fondaparinux at US$0.5 million per quarter.

Given below is the profit recorded by quarter:



Dr Reddy's has rights to commercialise the product for other territories outside of the US. The largest non-US market is Europe, representing approximately 30% of worldwide fondaparinux sales, although pricing is significantly lower than in the US.

Application for approval in the European Union was filed with the European Medicines Agency (EMA) in April 2012, shortly after the expiry of 10 years of data exclusivity.

Dr Reddy's has also begun selling fondaparinux in India and has obtained approval for sales in Canada. Commercialisation will principally focus on markets where Arixtra is already selling and where Alchemia's fondaparinux can be sold as a generic competitor.

It is anticipated that marketing in other territories and licensing the product in very small territories would enable better utilisation of Dr Reddy's plant which, as a result, is expected to bring in further economies of scale and a reduction in the cost of manufacture.

HyACT Technology:

HyACT is a platform technology that uses the non-toxic and naturally occurring carbohydrate, hyaluronic acid (HA) as a targeting vehicle for a wide range of currently approved anticancer therapeutics. When a chemotherapeutic drug or therapeutic antibody is formulated with HyACT, the proprietary formulation delivers additional drug to the tumour and promotes uptake of the drug into the tumour cells. HyACT drugs provide therapeutic benefit by initially "homing-in" on tumours and then after accumulation within the tumour the HyACT drug binds to the activated HA receptor known as CD44 which initiates the rapid and increased internalisation of the anticancer drug, ultimately resulting in the death of more cancer cells. CD44-targeted HyACT drugs could potentially be used to treat a wide variety of cancer types because numerous studies have shown activated CD44 to be present in high levels on many prevalent solid tumour cancer types but, more importantly, CD44 is generally not activated in healthy tissue which means that the HyACT drugs are preferentially taken up by tumours instead of healthy organs.

Another highly pertinent fact is that CD44 over-expression is associated with more aggressive, metastatic tumours and is also a marker for treatment-resistant cancer stem cells. "Cancer stem cells," sometimes referred to as tumour-initiating cells, is a term used to describe a small subset of cells within the tumour that, although not actual stem cells, demonstrate some stem cell-like characteristics and are thought to be able to contribute to the growth of new tumours. The cancer stem cell population within a tumour is generally more resistant to current chemotherapy regimens, and their persistence after therapy is thought to be one of the key reasons for disease progression and treatment failure. We believe, based on preclinical evaluations of several HyACT drugs, that by targeting the CD44 receptor-based mechanism which is ever-present on cancer stem cells, it will be possible to target cancer stem cells and improve the effectiveness of currently-used drugs which could potentially translate into overcoming treatment resistant cancer and providing a survival benefit to cancer patients.

HA-Irinotecan Phase III Trial for mCRC

Our lead product candidate is HA-Irinotecan, (HyACT-targeted Irinotecan) which is currently in Phase III for the treatment of metastatic colorectal cancer (mCRC). Irinotecan, which has been marketed in major markets by Pfizer as Camptosar, is an off-patent chemotherapy drug widely used in the treatment of mCRC. In a 76 patient, randomised Phase II clinical trial of HA-Irinotecan compared with irinotecan alone, HA-Irinotecan doubled the median Progression Free Survival ((PFS) the time from start of study treatment until tumour progression or patient death) of mCRC patients (5.2 months versus 2.4 months) when compared with irinotecan alone. These encouraging results prompted the further clinical development of HA-Irinotecan.

After having consultations with the US Food and Drug Administration (FDA), and the European Medicines Agency (EMA), we commenced a pivotal HA-Irinotecan Phase III Trial for mCRC in November 2011. The pivotal trial compares the effectiveness of HA-Irinotecan with the current form of irinotecan used by oncologists. HA-Irinotecan is being used as component of the FOLFIRI chemotherapy regimen (leucovorin, 5-fluorouracil and irinotecan) in 415 irinotecan-naïve patients with mCRC, who are candidates for second-line or third-line chemotherapy. In the United States, Europe and Australia, the FOLFIRI regimen is considered the leading standard of care for second-line and third-line treatment of mCRC patients. The primary objective of the Phase III study is to demonstrate that HA-Irinotecan is superior to irinotecan in its effect on PFS. During 2013 the recruitment of 415 patients to the Phase III pivotal trial was completed and initial clinical results are expected in the first half of 2014.

No additional suspected unexpected serious adverse reactions (SUSARs) have been reported and over 4,000 cycles of chemotherapy have been administered to patients since the start of the trial. Some patients have received over 30 cycles of chemotherapy.

We continue to be encouraged by the progress of this key trial and look forward to reporting headline data in the first half of calendar year 2014.

HA-Irinotecan – in Phase II for the treatment of small cell lung cancer

A Phase II clinical trial of HA-Irinotecan in small cell lung cancer (SCLC) started recruitment in September 2011. This investigator-sponsored trial is examining the clinical benefits of HA-Irinotecan/carboplatin compared with irinotecan/carboplatin alone, and also attempts to evaluate the direct effect of HA-Irinotecan on cancer stem cells and other aggressive cancer cell populations. The objective of this Phase II trial is to demonstrate that, by targeting the CD44 receptor on cancer stem cells, HA-Irinotecan may enhance the killing of the cancer stem cell and cancer cell populations, which may ultimately translate into increased patient survival.

Alchemia's primary objective for participating in this investigator-sponsored trial is to further validate the HyACT technology and to obtain clinical data on HA-Irinotecan activity on cancer stem cells. To date, 26 patients have been enrolled (63% of total recruitment target) and preliminary experience suggests that HA-Irinotecan in combination with carboplatin is well-tolerated with clinical activity demonstrated in both first-line and second-line SCLC patients.

HA-Irinotecan – planned Phase II trial for HA-Irinotecan in combination with Merck Serono's leading therapeutic antibody, Erbitux (cetuximab) in mCRC patients

In May 2013, Alchemia and Merck began a commercial collaboration where both organisations agreed to support an investigator-led Phase II clinical trial of Alchemia's HA-Irinotecan in combination with Merck Serono's leading therapeutic antibody, Erbitux (cetuximab) in mCRC patients. If the current HA-Irinotecan Phase III registrational clinical trial (NCT01290783) is successful, and the drug obtains broad health authority approval for use in irinotecan-containing chemotherapy regimens, there is the possibility that HA-Irinotecan will progressively replace the current form of irinotecan used by oncologists. According to current treatment guidelines 50-60% of mCRC patients should be considered for treatment with chemotherapeutic drugs, such as irinotecan, administered in combination with the therapeutic antibody, Erbitux (cetuximab).

This Phase II study led by Dr. Gibbs, is intended to generate data supporting the clinical use of HA-Irinotecan with Erbitux in the treatment of mCRC. The goal of this Phase II trial is to demonstrate that HA-Irinotecan when administered as part of the FOLFIRI regimen has an acceptable safety profile in combination with Erbitux. The trial will consist of approximately 50 second-line mCRC patients to be enrolled at six to ten sites around Australia where it is expected that the trial will run for approximately 24 months. We expect the trial to be initiated within months and look forward to reporting the first patient enrolled.

VAST™ Drug Discovery:

The VAST technology utilises pyranose as a scaffold to generate novel molecules that are more diverse and complex in shape than the typical compounds used in drug discovery. Using these chemistries we have developed an array of compounds termed Diversity Scanning Array (DSA), a suite of approximately 14,000 pyranose-based compounds that systematically arrange typical binding groups in a broad range of possible three-dimensional orientations. This array has the ability to identify the shape and functional requirements of molecules that modulate a target.

On the basis of this technology, Alchemia established a multi-target drug discovery collaboration with AstraZeneca AB in April 2013, where they will apply the technology across a variety of therapeutic areas including oncology, respiratory, cardiovascular, metabolism, infection and neuroscience. This collaboration will exploit the unique shape diversity provided by DSA and versatility offered by the VAST technology to approach difficult therapeutic targets in innovative ways.

Following the signing of the agreement a copy of the DSA has been transferred to AstraZeneca AB, first targets have been selected, and screening efforts are planned to start in September 2013.

We have also put in place strong collaborations with the Institute for Molecular Biosciences (University of Queensland) to discover novel inhibitors of selected ion channels and with the Monash Institute for Pharmaceutical Science to discover novel allosteric modulators of the Family B G-protein coupled receptors. These collaborations aim to discover new treatments for pain, chronic obstructive pulmonary disease and type II diabetes.

The collaborations are supported by government grants, which help fund specialised biology teams in the respective Institutes, fully focussed on the collaborative drug discovery efforts. These types of collaborations maximise the use of the VAST platform in a highly cost efficient manner.

We expect VAST small molecule drug discovery technology will give us the ability to develop new anticancer drug candidates and plan to initiate programs to study inflammation pathways and extracellular matrix remodelling through HA synthesis associated with cancer stem cells.

Performance indicators

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

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

Financial position

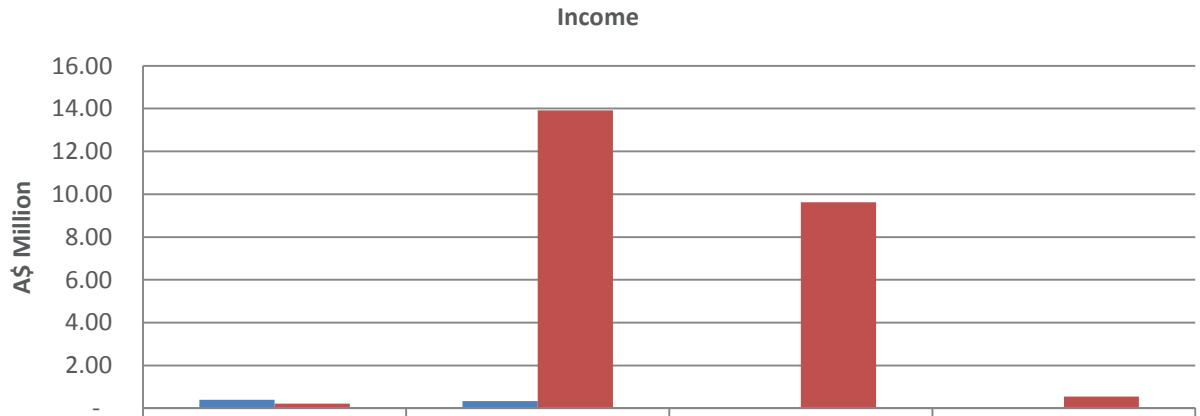
The Group recorded significant revenues for the 2013 financial year. These were due to the receipt of royalty payments, grants and the R&D Tax Incentive, and interest income. However, the Group is not yet profitable.

The Group ended the 2013 financial year with a consolidated cash balance of $13.0 million. In addition, the Group has receivables of $12.3 million ($8.7 million refund for the R&D Tax Incentive and $3.3 million of royalties from Dr Reddy's), which have significantly strengthened its financial position.

Operating results for the year

The Group reported a net loss of $4.8 million for the 2013 financial year, an improvement from its $15.1 million loss in 2012.

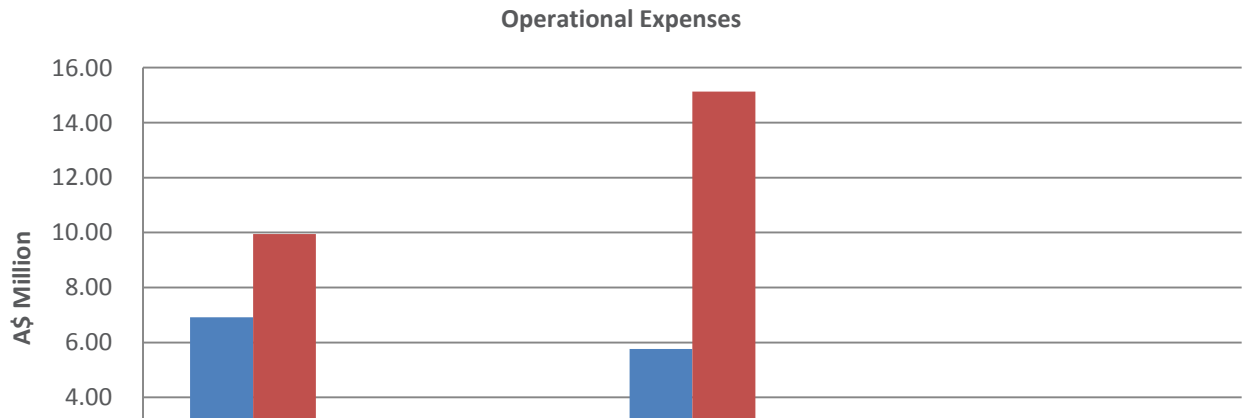
Income



	Interest income	Grant and R&D Tax Incentive	Royalty income	Other income
FY2012	0.39	0.33	-	0.01
FY2013	0.22	13.92	9.62	0.54

Total income for the period was $24.3 million, an increase of $23.6 million from the previous period (2012: $0.7 million). This significant increase was predominantly driven by $13.2 million of R&D tax incentives and royalty income of $9.6 million from sales of fondaparinux by Dr Reddy's in the US. Grant income of $0.7 million was received from the Queensland State Government under the Smart State Innovation Fund for the Company's collaboration with (i) Monash Institute of Pharmaceutical Science to discover new drug candidates for G-Protein coupled receptors (NIRAP) and (ii) University of Queensland to discover novel opioid analgesics with reduced side effects (RIPP). Interest income was lower than the corresponding period due to lower cash balances in interest bearing term deposits.

Operational Expenses



	Admin and corporate costs	IP costs	Phase III Costs	VAST Costs	Other Projects
FY2012	6.92	0.57	5.76	1.40	1.55
FY2013	9.94	0.88	15.13	1.38	1.97

Operating expenditure of $29.3 million was significantly higher than the corresponding period (2012: $16.2 million). In 2013, Administrative and Corporate Costs of $3.9 million related to the deferment of the demerger of the Oncology business and listing of Audeo Oncology, Inc (2012: $1.3 million). The costs associated with HA-Irinotecan Phase III Trial for mCRC for the year have been the highest recorded and are due to the registrational trial progressing as expected. In a protocol amendment, we have also increased the number of patients from the original 390 to 415. The 415th patient was recruited in February 2013.

Other expenses include the impact of foreign exchange movements. In 2013, the Group recognised a $0.2 million exchange loss arising mainly from the exchange movement of the US dollar against the Australian Dollar.

The consolidated cash position of the Group over the reporting period has seen a net decrease in cash balances, from $14.0 million as at 30 June 2012 to $13.0 million as at 30 June 2013 due to increased operational spending.

Net cash outflows from operating activities in 2013 totalled $13.3 million, an increase of $1.5 million from the previous year (2012: $11.8 million). The increase in cash revenues of $10.8 million from the previous year (2012: $1.2 million) offset the total operating activities spend of $25.3 million (2012: 13.0 million). The Group raised $12.5 million (net) from capital raising activities in March and April 2013 through the issue of 43 million shares which has helped strengthen its financial position.

The Directors believe that the Group has the ability to fulfil its obligations and budgeted expenditure over the next twelve months with existing resources, the expected quarterly royalty income from the sale of fondaparinux and R&D Tax Incentive refunds. Management and the Board are confident that the Phase III clinical trial in HA-Irinotecan is fully funded until the expected top-line data readout, which is scheduled for the first half of 2014.

Outlook

Following a key year where the Group received the first year of income from fondaparinux, it completed recruitment of patients to its pivotal HA-Irinotecan Phase III Trial for mCRC, and established key partnerships with AstraZeneca AB on its VAST discovery platform and Merck on HA-Irinotecan. With these positive developments, the Group is very well placed as it goes into the next financial year.

For the next financial year, the Group can look forward to further launches of fondaparinux (pending approvals) in territories outside the US by Dr Reddy's, additional improvements in the cost of producing fondaparinux, additional business development activity and for the Phase III trial to report its top-line clinical results before the end of the next financial year.

The Group is in a financially strong position. With all the potential positive developments to come, the new financial year promises to be an exciting one.

Risk factors

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

- We are dependent on the profits from the sale of fondaparinux to fund the remainder of our Phase III trial and any material variances from our estimated profits would have an adverse impact on our financial position;
- In addition, the receipt of the R&D Tax Incentive claimed in respect of the FY2013 tax year is critical for our funding estimates and financial health;
- We are highly dependent on the success of our lead product candidate, the cancer drug HA-Irinotecan for the treatment of mCRC, and we cannot give any assurance that we will successfully complete its clinical development, that it will receive regulatory approval, that we will find a suitable partner, or if approved, that it will receive adequate labeling that will allow for successful commercialisation for the treatment of mCRC.

Significant events after the balance date

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

Likely developments

The Directors believe all known information on likely developments in the operations of the consolidated entity and the expected results of operations have been included in the Operating and Financial review above.

Corporate structure

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

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

Environmental regulations and performance

Alchemia's activities are subject to licences and regulations under environmental laws that apply in the jurisdiction of its operations. These licences specify limits for and regulate the management of discharges to stormwater run-off associated with the Company's activities, as well as the storage of hazardous materials.

There has been no significant breach of the licence conditions or other environmental regulations.

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

Share options

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

Insurance and indemnification of Directors and Officers

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

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

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

Indemnification of auditors

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

Directors' meetings

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

Member	Board of Directors' Meetings		Meetings of Committees							
			Audit & Risk		Remuneration		Nominations		Sub-Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
M Bridges[1]	13	12	3	2	2	2	1	1	1	-
P Smith [2]	13	4	3	1	2	1	1	-	1	1
T Ramsdale	13	13	3	3	2	2	1	1	1	1
N Withnall [3]	13	13	3	3	2	2	1	1	1	-
N Drona [4]	13	4	3	-	2	-	1	-	1	-
S Kelley [5]	13	4	3	-	2	-	1	-	1	-
T Hughes [6]	13	-	-	-	2	-				

[1] M Bridges retired from Board on 15 July 2013.
[2] P Smith ceased employment and resigned from the Board 25 January 2013.
[3] N Withnall retired from Board on 4 July 2013.
[4] N Drona appointed to the Board on 22 March 2013.
[5] S Kelley appointed to the Board on 22 March 2013.
[6] T Hughes appointed to the Board on 15 July 2013.

Committee membership

As at the date of this Report, the Company had an Audit & Risk Committee, Nomination Committee and a Remuneration Committee. Members acting on the committees of the Board during the year were:

	Audit & Risk	Remuneration	Nomination	Due Diligence
M Bridges	✓ [1]	✓ [1]	✓ (c)[1]	✓ [1]
P Smith	X	X	✓ [4]	✓ [4]
T Ramsdale	✓ (c) [2]	✓ (c)	✓	✓
N Withnall	✓ (c) [3]	✓ [3]	✓ [3]	✓ [4]
N Drona	✓ [5]	✓ [5]	✓ (c) [5]	
S Kelley		✓ [6]	✓ [6]	
T Hughes	✓ [7]	✓ [7]	✓ [7]	

Note: (c) Designates the chairman of the committee.
[1] M Bridges resigned from all Sub-Committees on 15 July 2013.
[2] T Ramsdale appointed as Chair of Audit and Risk Committee following N Withnall's resignation on 4 July 2013.
[3] N Withnall resigned from all Sub-Committees on 4 July 2013.
[4] P Smith resigned from all Sub-Committees on 25 January 2013.
[5] N Drona appointed as Chair of Nominations Sub-Committee on 31 July 2013, member of Audit and Risk Sub-Committee and to Remuneration Committee on 6 May 2013.
[6] S Kelley appointed to Nomination Sub-Committee on 31 July 2013 and to the Remuneration Committee on 12 August 2013.
[7] T Hughes appointed to Audit and Risk Sub-Committee and Nominations Sub-Committee on 31 July 2013 and to the Remuneration Committee on 12 August 2013.

Significant changes in state of affairs

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

Employees

As at 30 June 2013, Alchemia and its subsidiaries had a total of 24 employees (2012: 21 employees).

Corporate governance

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

Tax consolidation

The Company has not formed a tax consolidated group at 30 June 2013.

Rounding

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

Non-audit services

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

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

	2013	2012
Australian scheme of arrangement	-	$53,400
S-1 Related expenses	**668,804**	-
Total	**668,804**	$53,400

Remuneration report (audited)

This Remuneration Report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

For the purposes of this report, key management personnel (KMP) are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

Details of key management personnel

Directors	
M Bridges	Chairman (Non-Executive) – retired 15 July 2013
P Smith	Managing Director and Chief Executive Officer – ceased employment and resigned from the Board 25 January 2013
T Ramsdale	Director (Non-Executive)
N Withnall	Director (Non-Executive) – retired 4 July 2013
N Drona	Director (Non-Executive) – appointed 22 March 2013
S Kelley	Director (Non-Executive) – appointed 22 March 2013
T Hughes	Director (Non-Executive) – appointed 15 July 2013
Executives	
C Walker	Chief Executive Officer – appointed 18 February 2013
T Brown	Chief Scientific Officer and Vice President - Oncology
W Meutermans	Chief Scientific Officer – Discovery
M West	Vice President – Intellectual Property and Technology Transfer
I Ahamed	Group Financial Controller – appointed 18 February 2013
G Schepers	Vice President – Business Development

Nathan Drona assumed the role of Chairman on an interim basis and Timothy Hughes joined the board as a non-executive director on 15 July 2013.

There were no other changes in directors or KMP after the reporting date and before the date the financial report was authorised for issue.

Remuneration committee

The Remuneration Committee of the board of directors of the Company is responsible for determining and reviewing remuneration arrangements for the directors and executives.

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

Remuneration policy

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

The key principles are:

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

Remuneration structure

The remuneration structure is in two parts:

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

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

The key features of incentives to Executives & Employees are tabled below and depend upon the role and responsibilities of the participant:

Staff Level	Bonus Entitlement (% of salary)	Bonus "Split"	
		Cash	Shares
Level 1	10%	50%	50%
Level 2	15%	33.3%	66.6%
Level 3	20%	33.3%	66.6%
Level 4	30%	20%	80%

Hurdles
• 50% subject to positive TSR & comparator group; • 25% on achievement of operational objectives and team work; • 25% on achievement of conduct of duties above and beyond expectations.

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

Performance measure to determining vesting

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

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

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

- 25% of the Bonus Entitlement is payable on achievement of operational objectives and team key performance indicators (KPIs);
- 25% of the Bonus Entitlement is payable on achievement of conduct of duties above and beyond expectations;
- No bonus is payable regardless of the Company's TSR, if all team and individual KPIs are not met; and
- 50% of the Bonus Entitlement is payable if the TSR for the Company is positive and the Company achieves a TSR in the previous 12 months equal to at least the median of a Comparator Group of pre-agreed ASX listed biotech companies. Depending on the comparative performance, the award of shares may be nil, partial or fully allocated, as shown below:

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

The comparator companies for determination of the TSR are:

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

The peer group chosen for comparison is the ASX pharmaceutical constituents at the start of the performance period. This peer group was chosen as it reflects the Group's competitors for capital and talent.

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

For the year ended 30 June 2013, the details of the entitlement and award of incentive payments to the Chief Executive Officer and key management personnel (KMP) executives were as set out below.

	Awarded	Incentive Forfeited
Key Management Personnel – Executives:		
Charles Walker Chief Executive Officer	40%	60%
Tracey Brown Chief Scientific Officer and Vice President – Oncology	50%	50%
Michael West Vice President - Intellectual Property and Technology Transfer	50%	50%
Wim Meutermans Chief Scientific Officer – Audeo Discovery	43%	57%
Imran Ahamed Group Financial Controller	40%	60%
Goslik Schepers Vice President – Business Development	40%	60%

In addition to the above formal entitlements under the executive and employee incentive schemes, the Board may also allocate options under the Officers and Employees Share Option Scheme to executives who have demonstrated exceptional performance in a year. For the year 30 June 2013 2,260,000 options were granted (2012: 690,000).

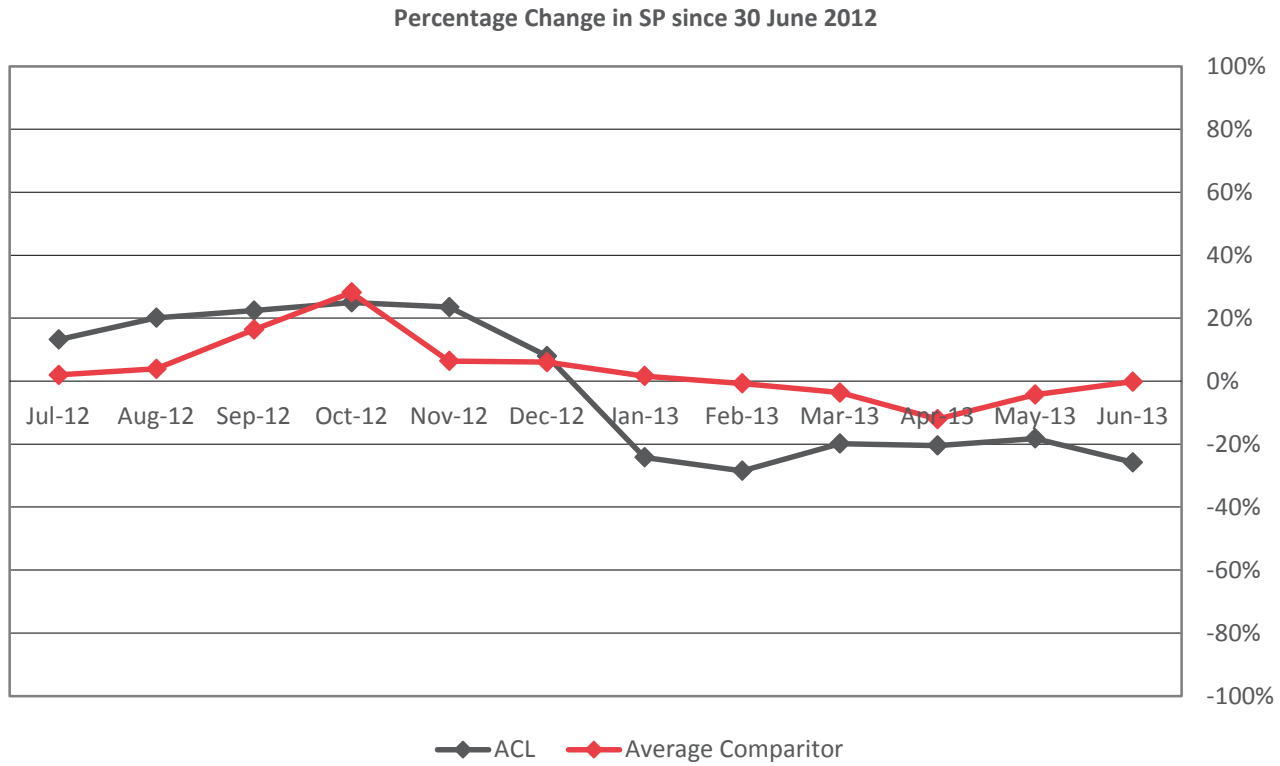
Relating rewards to performance

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

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

	2013	2012	2011	2010	2009
Average share price	$0.440	$0.432	$0.639	$0.606	$0.224
Earnings per share	$(0.016)	$(0.062)	$(0.070)	$(0.050)	$(0.052)
Percentile ranking of TSR against comparator group	8	8	7	5	7
% increase (decrease) in fixed remuneration	(21.35%)	1.09%	(6.34%)	(2.95%)	1.53%
% increase (decrease) in total remuneration	37.64%	6.12%	(18.88%)	(2.14%)	4.27%

Percentage monthly change in Alchemia Limited's share price vs comparator group for the year to 30 June 2013:



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

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
30 June	.32	0.45	0.61	0.52	0.36	0.30	0.86	1.08	0.53	0.61

Remuneration of Non-Executive Directors

Shareholders approve the maximum aggregate remuneration for Non-Executive Directors. The Remuneration Committee considers the level of remuneration required to attract and retain Directors with the necessary skills and experience for the Alchemia Board. This remuneration is reviewed annually with regard to market practice, relativities and Director duties and accountability.

Non-Executive Directors' fees are determined within an aggregate Director's fee pool limit, which is subject to approval by shareholders at general meetings. The maximum available aggregate remuneration approved for Directors is $500,000, approved by shareholders in 2007.

The sum of Directors' fees falls within the aggregate fee pool approved in 2007. Consulting fees paid to Tracie Ramsdale for services to the Company in addition to her role as non executive director are not considered to form part of this aggregate pool. There are no retirement allowances payable to Non-Executive Directors, however all Non-Executive Australian based Directors with the exception of Mel Bridges receive a superannuation guaranteed contribution.

Employment Contracts:

Chief Executive Officer

Charles Walker is employed under an employment contract with no fixed expiry. His contract provides for a salary package of $382,375 including superannuation. In addition there is an annual performance based short term incentive of 30% of his package. The salary is subject to annual review and Board approval. The performance based incentive, which has a maximum payout of 30% of annual salary package, is assessed against individual and company performance and subject to annual review and Board approval. A maximum of 20% of the total payout under the performance based incentive entitlement is payable in cash, with the balance satisfied by the issue of shares.

Under the terms of his existing contract, the company is required to give six months notice of termination, or payment in lieu of notice.

Other Executives

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

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

Remuneration of key management personnel

Table 1: Remuneration for the years ended 30 June 2012 and 30 June 2013

	Short term				Post employment		Long term		Equity-based		Termination	Total	Performance related
	Salary & Fees	Cash Bonus	Non monetary Benefits	Other	Superannuation Contributions	Retirement Benefits	Inceptive plans	Long service leave	Options	Shares			
	$	$	$	$	$	$	$	$	$	$	$	$	%
Non-Executive Directors													
Mel Bridges - Chairman													
2013	132,000	-	-	-	-	-	-	-	-	-	-	132,000	n/a
2012	90,000	-	-	-	-	-	-	-	-	-	-	90,000	n/a
Carlo Montagner													
2013	-	-	-	-	-	-	-	-	-	-	-	-	n/a
2012	27,000	-	-	-	2,430	-	-	-	-	-	-	29,430	n/a
Tracie Ramsdale												-	
2013	59,333	-	-	163,682	5,340	-	-	-	-	-	-	228,355	n/a
2012	54,000	-	-	60,000	4,860	-	-	-	-	-	-	118,860	n/a
Nerolie Withnall												-	
2013	59,333	-	-	-	5,340	-	-	-	-	-	-	64,673	n/a
2012	54,000	-	-	-	4,860	-	-	-	-	-	-	58,860	n/a
Nathan Drona[1]												-	
2013	16,617	-	-	-	-	-	-	-	-	-	-	16,617	n/a
2012	-	-	-	-	-	-	-	-	-	-	-	-	n/a
Susan Kelley[2]												-	
2013	16,617	-	-	-	-	-	-	-	-	-	-	16,617	n/a
2012	-	-	-	-	-	-	-	-	-	-	-	-	n/a
Sub-total Non-Executive Director													
2013	**283,901**	**-**	**-**	**163,682**	**10,680**	**-**	**-**	**-**	**-**	**-**	**-**	**458,263**	**n/a**
2012	**225,000**	**-**	**-**	**60,000**	**12,150**	**-**	**-**	**-**	**-**	**-**	**-**	**297,150**	**n/a**
Executive Director													
Pete Smith[3]													
2013	261,738	-	-	-	37,116	-	-	-	6,763	-	370,898	676,515	1.00%
2012	372,917	8,391	-	-	35,787	-	-	6,047	45,757	33,563	-	502,462	17.46%
Other Key Management Personnel													
Charles Walker[4]													
2013	313,464	7,479	-	-	28,784	-	-	4,022	1,288	29,915	-	384,952	10.05%
2012	288,960	6,502	-	-	26,322	-	-	399	116,755	26,006	-	464,944	32.10%
Tracey Brown													
2013	220,146	6,604	6,988	-	20,244		-	4,811	36,634	26,418	-	321,845	21.64%
2012	217,535	4,895	6,568	-	21,367	-	-	5,529	17,433	19,578	-	292,905	14.31%
Wim Meutermans													
2013	207,133	5,346	-	-	21,810	-	-	4,622	22,233	21,386	-	282,530	17.33%
2012	201,196	4,661	-	-	26,234	-	-	5,365	12,203	18,646	-	268,306	13.24%
Michael West													
2013	209,663	6,290	-	-	19,230	-	-	4,681	25,640	25,160	-	290,663	19.64%
2012	194,981	4,661	-	-	32,263	-	-	5,538	12,203	18,646	-	268,292	13.24%
Imran Ahamed[5]													
2013	149,553	3,528	-	-	13,389	-	-	1,330	24,006	14,113	-	205,920	20.22%
2012	-	-	-	-	-	-	-	-	-	-	-	-	n/a
Goslik Schepers													
2013	180,252	4,323	-	-	16,346	-	-	3,307	9,078	17,293	-	230,598	13.31%
2012	-	-	-	-	-	-	-	-	-	-	-	-	n/a
Sub-total executive KMP													
2013	1,541,948	33,570	6,988	-	156,920	-	-	22,773	125,642	134,285	370,898	2,393,024	12.26%
2012	1,275,589	29,110	6,568	-	141,973	-	-	22,878	204,351	116,439	-	1,796,909	19.47%
Total Remuneration													
2013	**1,825,849**	**33,570**	**6,988**	**163,682**	**167,600**	**-**	**-**	**22,773**	**125,642**	**134,285**	**370,898**	**2,851,287**	**10.29%**
2012	1,500,589	29,110	6,568	60,000	154,123	-	-	22,878	204,351	116,439	-	2,094,059	16.71%

1 Pete Smith ceased employment 25 January 2013.
2 Nathan Drona and Susan Kelley appointed 22 March 2013.
3 Nerolie Withnall retired 4 July 2013.
4 Mel Bridges retired 15 July 2013.
5 Charles Walker appointed Chief Executive Officer 18 February 2013.
6 Imran Ahamed appointed Group Financial Controller 18 February 2013.

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

The table below discloses the number of share options granted to executives as remuneration during FY13.

Share options do not carry any voting or dividend rights and can be exercised once the vesting conditions have been met until their expiry date.

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

		Terms & Conditions for each Grant						Vested	
30 June 2013	Granted No.	Grant Date	Fair Value per option at grant date ($)	Exercise price per option ($)	Expiry Date	Vesting Date	Last Exercise Date	No.	%
Directors									
P Smith (i)	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Executives									
C Walker (ii)									
T Brown	702,250	14 March 13	$0.1639	$0.3368	14 Mar 18	14 Mar 14	14 Mar 18	-	-
M West	491,500	14 March 13	$0.1639	$0.3368	14 Mar 18	14 Mar 14	14 Mar 18	-	-
W Meutermans	421,250	14 March 13	$0.1639	$0.3368	14 Mar 18	14 Mar 14	14 Mar 18	-	-
I Ahamed	495,000	14 March 13	$0.1639	$0.3368	14 Mar 18	14 Mar 14	14 Mar 18	-	-
G Schepers	150,000	14 March 13	$0.1639	$0.3368	14 Mar 18	14 Mar 14	14 Mar 18	-	-
Total	**2,260,000**							**-**	**-**
30 June 2012									
Directors									
P Smith	400,000	23 Nov 11	$0.1313	$0.3286	16 Aug 17	28 Nov 12	16 Aug 17	-	-
Executives									
T Brown	100,000	18 Aug 11	$0.2001	$0.3286	16 Aug 17	01 Sep 12	16 Aug 17	-	-
C Walker	50,000	18 Aug 11	$0.2001	$0.3286	16 Aug 17	01 Sep 12	16 Aug 17	-	-
W Meutermans	70,000	18 Aug 11	$0.2001	$0.3286	16 Aug 17	01 Sep 12	16 Aug 17	-	-
M West	70,000	18 Aug 11	$0.2001	$0.3286	16 Aug 17	01 Sep 12	16 Aug 17	-	-
Total	**690,000**							**-**	**-**

(i) 600,000 options to be approved by shareholders, as per a Settlement and Deed of Release dated 25 January 2013. The exercise price would be the weighted average ACL share price of the 7 business days preceding the date of shareholder approval (see Note 30 in 'Notes to the Financial Statements').

(ii) 1,404,500 options granted at an exercise price range of $0.3368-$0.5052 to be approved by shareholders.

For details on the valuation of the options, including models and assumptions used, please refer to Note 25.

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

Table 3: Options granted as part of remuneration

	Value of options granted during the year $	Value of options exercised during the year $	Remuneration consisting of options for the year %
C Walker	-	-	-
T Brown	$115,099	-	11.4%
M West	$80,557	-	8.8%
W Meutermans	$69,043	-	7.9%
I Ahamed	$81,131	-	11.7%
G Schepers	$24,585	-	3.9%
Total	$370,415	-	8.8%

Shares issued on exercise of compensation options (consolidated)

There were no shares issued on exercise of compensation options during the period (2012: Nil).

Signed in accordance with a resolution of the directors.

Director

Signed at Brisbane on 6 September 2013

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Building a better working world

Auditor's Independence Declaration to the Directors of Alchemia Limited

In relation to our audit of the financial report of Alchemia Limited for the financial year ended 30 June 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Winna Brown
Partner
Brisbane
6 September 2013

Corporate Governance

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

Alchemia is committed to a corporate culture which embraces diversity in all aspects of the workplace, including the processes of selecting and appointing directors and employees. Currently 38% of Alchemia's total staff and 50% of the board of directors is female. It is the company's measurable objective to maintain a female composition of at least 30% females amongst both directors and staff.

The Directors are responsible for the corporate governance practices of the Company. This statement sets out the main corporate governance practices of the Company that the Directors, management and employees are required to follow.

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

Role of the Alchemia Limited Board of Directors

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

The primary roles of the Board include:

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

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

This complies with Principle 1.1.

Board composition and independence

From 1 July 2012 until 25 January 2013 the Alchemia Limited Board had four Directors. The Board was comprised of three Non-Executive Directors being M Bridges (Chairman), T Ramsdale and N Withnall and one Executive Director, P Smith (CEO and Managing Director).

On 25 January 2013, Executive Director, P Smith (CEO and Managing Director) resigned his position on the Alchemia Board.

On 22 March 2013 two additional Non-Executive Directors, N Drona and S Kelley were appointed to the Board.

On 4 July 2013, Non-Executive Director, N Withnall, resigned her position on the Alchemia Board.

On 15 July 2013, Non-Executive Director, M Bridges resigned his position on the Alchemia Board. N Drona was appointed Interim Chairman from 15 July 2013. A further Non-Executive Director, T Hughes, was appointed to the Alchemia Board on 15 July 2013. The Board comprises four Non-Executive Directors being N Drona (Interim Chairman), T Ramsdale, S Kelley and T Hughes.

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

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

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

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

- T Ramsdale was a founder of the Company and has been a Board member since 2003. She was Chief Executive Officer of the Company until April 2007 at which time she resigned from that role to assume a non-executive directorship position with the Company. As a period of 6 years has now expired since serving in an executive capacity that relationship is no longer deemed to affect T Ramsdale's independence. T Ramsdale also provides consulting services to, and chairs Alchemia's Scientific Advisory Board. Notwithstanding these past and present associations the Board is satisfied that these do not affect her ability nor her willingness to operate independently as a director, and is satisfied, through her demonstrated history of participation in robust and energetic board debate, that these have not and will not interfere with the independent exercise of her judgement.
- N Drona, S Kelley and T Hughes do not have any previous association with the Company or any other relationships that are relevant to their independence.

The Chairman is independent and runs the Board in such a manner as to facilitate the effective contribution of all Directors and promote constructive and respectful relations among the Board members and between Board and management. To ensure that the principles inherent in good Board practice are adhered to, the Chairman implements the following:

- Proper meeting procedure ensuring that all members of the Board are given a reasonable opportunity to put forward views and discuss issues in a constructive and robust environment. This ensures that effective communication and decision-making can be achieved.
- The requirement that detailed Board papers be prepared and distributed, ensuring that Board members are fully informed on relevant issues in a timely manner.
- The requirement that draft minutes of meetings be circulated within a reasonable period after each meeting. This ensures proper follow up and informed reporting of resolutions passed and issues discussed at Board meetings.
- If a potential conflict of interest arises, the Director concerned does not receive the relevant Board papers and leaves the Board meeting while the matter is being considered. Directors must advise the Board immediately of any interests that could potentially conflict with those of Alchemia.

The roles of Chairman and CEO are exercised by different individuals, providing for clear division of responsibility at the head of the company. Their roles and responsibilities, and the division of responsibilities between them, are clearly understood and there is regular communication between them.

The company's Board structure is compliant with Principles 2.1, 2.2, 2.3 and 2.6.

Directors' access to independent professional advice

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

This complies with Principles 2.1 and 2.6.

Review of Board performance

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

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

This complies with Principles 1.2, 2.5 and 2.6.

Access to information

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

Directors receive comprehensive reports from management and have unrestricted access to company records and information.

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

This complies with the recommendations under Principles 2.5.

Board committees

Alchemia's Board has established three standing committees to assist in meeting its responsibilities — the Audit and Risk Committee, the Remuneration Committee and the Nomination Committee. These committees review matters on behalf of the Board and make recommendations for consideration by the entire Board. Copies of the charters of these committees can be accessed from our website.

Remuneration Committee

The Board has established a Remuneration Committee, the objective of which is to meet at least two times per year.

The Remuneration Committee comprises the following Non-Executive Directors:

- T Ramsdale (Chairman);
- N Withnall (until 4 July 2013);
- M Bridges (until 15 July 2013);
- N Drona (appointed to Committee 6 May 2013);
- S Kelley (appointed to Committee 12 August 2013); and
- T Hughes (appointed to Committee 12 August 2013).

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

The Remuneration Committee undertakes the procedure for setting the Company's remuneration policies and establishing and reviewing remuneration for senior Executives and Non-Executive members of the Board.

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

The Remuneration Committee complies with Principles 8.1 and 8.2.

Audit and Risk Committee

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

The Audit and Risk Committee comprises three Independent Non-Executive Directors, and its current members are:

- T Ramsdale (Chairman appointed after N Withnall's resignation 4 July 2013);
- N Withnall (until 4 July 2013);
- M Bridges (until 15 July 2013);
- N Drona (appointed to Committee 6 May 2013); and
- T Hughes (appointed to Committee 31 July 2013).

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

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

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

The Audit and Risk Committee also reports to and advises the Board and makes recommendations in relation to policy and procedures, and the application of the principles of corporate governance.

The committee addresses issues of proper corporate governance procedures and practices to ensure that the company maintains the highest integrity and best practice with respect to the Company's financial reporting.

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

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

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

Nomination Committee

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

The Nomination Committee structure and functions comply with Principles 2.4.

Risk management

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

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

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

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

The identified risks are monitored by regular reports to the Board and, where appropriate, by management presentations to the Board and to the Audit Committee during the year. The Board determines the Company's risk profile and is ultimately responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control.

This oversight function is performed by the Audit and Risk Committee and its findings are reported to, reviewed and discussed by the Board. The Audit and Risk Committee oversees an annual assessment of the effectiveness of risk management and internal compliance and control.

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

Management is required by the Board to carry out risk assessments of all specific management activities including strategic risk, operational risk, reporting risk, compliance and regulatory risk and funding risk.

The effectiveness of the Company's efforts are benchmarked by management in accordance with Australian / New Zealand Standard for Risk Management (AS/NZS 4360 Risk Management) and the Committee of Sponsoring Organisations of the Treadway Commission (COSO) risk framework and the Company's benchmark performance is reported to the Board.

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

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

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

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

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

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

Code of conduct

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

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

Share trading

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

1. Directors, Officers and employees will not engage in short term trading of the Company's shares.
2. Directors, Officers and employees will neither buy nor sell at a time when they possess information which, if disclosed publicly, would be likely to materially affect the market price or value of the Company's shares.
3. Directors, Officers and employees will notify the Board in advance of any material intended transactions involving the Company's shares (through the Chairman or Secretary).
4. Subject to points 1 to 3 above, Directors, Officers and employees can only buy or sell shares in the Company during a four week period starting immediately after the occurrence of one of the following events:
   a) Release of yearly results to the ASX; or
   b) Release of half yearly results to the ASX; or
   c) The Annual General Meeting.
5. Points 1 to 4 above apply to Directors, Officers and employees (including their nominee companies) and their associates, such as spouses, dependent children, family trusts and family companies where the transactions are known to the Director.

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

The share trading policy complies with Principle 3.2.

Corporate Governance

Reporting to Stakeholders

The Board is committed to keeping shareholders and other legitimate stakeholders accurately informed in a timely manner of material developments that affect the Company.

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

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

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

The Company's policies and procedures comply with Principles 5 and 6.1.

Certifying financial reports

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

This complies with Principles 7.2 and 7.3.

Audit governance

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

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

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

Statement of Financial Position

As at 30 June 2013

	Note	Consolidated 2013 $'000	Consolidated 2012 $'000	Alchemia Limited 2013 $'000	Alchemia Limited 2012 $'000
Assets					
Current assets					
Cash and cash equivalents	9	**5,064**	12,346	**4,890**	4,811
Term deposits	10	**7,912**	1,677	**7,912**	1,677
Trade and other receivables	11	**12,380**	79	**4,181**	186
Other current assets	12	**679**	1,572	**86**	98
Total current assets		**26,035**	15,674	**17,069**	6,772
Non-current assets					
Property, plant and equipment	13	**426**	391	**60**	143
Intangible assets and goodwill	14	**14,730**	16,055	**-**	-
Investment in controlled entities	15	**-**	-	**54,676**	54,448
Other non-current assets	12	**235**	236	**-**	-
Deferred tax assets	7	**60**	15	**24**	6
Total non-current assets		**15,451**	16,697	**54,760**	54,597
Total assets		**41,486**	32,371	**71,829**	61,369
Liabilities					
Current liabilities					
Trade and other payables	16	**4,987**	3,319	**587**	1,383
Provisions	17	**434**	548	**164**	399
Deferred revenue		**495**	351	**495**	351
Rights	21	**-**	466	**-**	-
Total current liabilities		**5,916**	4,684	**1,246**	2,133
Non-current liabilities					
Provisions	17	**448**	327	**295**	299
Deferred tax liability	7	**2,743**	3,095	**24**	6
Total non-current liabilities		**3,191**	3,422	**319**	305
Total liabilities		**9,107**	8,106	**1,565**	2,438
Net assets		**32,379**	24,265	**70,264**	58,931
Equity					
Contributed equity	18	**151,149**	138,522	**151,149**	138,522
Reserves	19	**4,155**	3,898	**4,155**	3,898
Accumulated losses	19	**(122,925)**	(118,155)	**(85,040)**	(83,489)
Total equity		**32,379**	24,265	**70,264**	58,931

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

Statement of Comprehensive Income

For the Year Ended 30 June 2013

	Note	Consolidated		Alchemia Limited	
		2013	2012	**2013**	2012
		$'000	$'000	**$'000**	$'000
Continuing operations					
Interest revenue		**216**	389	**163**	386
Royalty income		**9,624**	-	**9,624**	-
Grant revenue & R&D refunds		**13,916**	331	**1771**	331
Other revenue		**541**	6	**130**	-
Total revenue		**24,297**	726	**11,688**	717
Depreciation and amortisation	6b	**(1,603)**	(1,730)	**(96)**	(169)
Payroll and staff expenses	6c	**(4,670)**	(3,807)	**(2,025)**	(2,774)
Business development		**(160)**	(5)	**(2)**	(3)
Research and development costs		**(16,889)**	(7,209)	**(669)**	(817)
Administration and corporate expenses	6d	**(5,463)**	(2,771)	**(2,428)**	(1,927)
Rent and occupancy expense		**(528)**	(321)	**(217)**	(320)
Share based payment expense		**(257)**	(261)	**(66)**	(219)
Provision for intercompany loan	23f	**-**	-	**(8,778)**	(1)
Changes in fair value of rights	21	**466**	(466)	**-**	-
Other income/(expense)	6a	**(236)**	363	**1,042**	21,485
Profit/(loss) from continuing operations before income tax		**(5,043)**	(15,481)	**(1,551)**	15,972
Income tax benefit	7	**273**	398	**-**	-
Net income/(loss) from continuing operations		**(4,770)**	(15,083)	**(1,551)**	15,972
Other comprehensive income		**-**	-	**-**	-
Total comprehensive income/(loss) attributable to equity holders of the parent		**(4,770)**	(15,083)	**(1,551)**	15,972
Earnings per share (cents per share)					
- Basic earnings/(loss) per share (cents)	8	**(1.6)**	(6.2)		
- Diluted earnings/(loss) per share (cents)	8	**(1.6)**	(6.2)		
Dividends per share (cents)		**-**	-		

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

Statement of Changes in Equity

For the Year Ended 30 June 2013

Consolidated	Contributed Equity $'000	Accumulated Losses $'000	Reserves $'000	Total Equity $'000
At 1 July 2011	**118,249**	**(103,072)**	**3,637**	**18,814**
Loss for the year	-	(15,083)	-	(15,083)
Comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	(15,083)	-	(15,083)
Cost of share based payment	-	-	261	261
Issuance of shares – executive and employee incentive plans shares	180	-	-	180
Capital placement	21,146	-	-	21,146
Cost of capital placement	(1,053)	-	-	(1,053)
Total as at 30 June 2012	**138,522**	**(118,155)**	**3,898**	**24,265**
Loss for the year	-	(4,770)	-	(4,770)
Comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	(4,770)	-	(4,770)
Cost of share based payment	-	-	257	257
Issuance of shares – executive and employee incentive plans shares	145	-	-	145
Capital placement	12,950	-	-	12,950
Cost of capital placement	(468)	-	-	(468)
Total as at 30 June 2013	**151,149**	**(122,925)**	**4,155**	**32,379**

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

Statement of Changes in Equity

For the Year Ended 30 June 2013

Parent	Issued Capital $'000	Accumulated losses $'000	Reserves $'000	Total Equity $'000
At 1 July 2011	**118,249**	**(99,461)**	**3,637**	**22,425**
Net loss from continuing operations	-	15,972	-	15,972
Comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	15,972	-	15,972
Cost of share based payment	-	-	261	261
Issuance of shares – executive and employee incentive plans shares	180	-	-	180
Capital placement	21,146	-	-	21,146
Cost of capital placement	(1,053)	-	-	(1,053)
Total as at 30 June 2012	**138,522**	**(83,489)**	**3,898**	**58,931**
Net profit from continuing operations	-	(1,551)	-	(1,551)
Comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	(1,551)	-	(1,551)
Cost of share based payment	-	-	257	257
Issuance of shares – executive and employee incentive plans shares	145	-	-	145
Capital placement	12,950	-	-	12,950
Cost of capital placement	(468)	-	-	(468)
Total as at 30 June 2013	**151,149**	**(85,040)**	**4,155**	**70,264**

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

Statement of Cash Flows

For the Year Ended 30 June 2013

	Note	Consolidated		Alchemia Limited	
		2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Cash flows from operating activities					
Receipts from grants & R&D refunds		**5,162**	841	**1,666**	841
Receipts from royalties		**6,295**	-	**6,295**	-
Payments to suppliers and employees		**(25,307)**	(13,020)	**(5,360)**	(4,878)
Other income received		**411**	6	**-**	-
Interest received		**136**	373	**82**	370
Net cash flows used in operating activities	20	**(13,303)**	(11,800)	**2,683**	(3,667)
Cash flows from investing activities					
Purchase of property, plant and equipment	13	**(94)**	(71)	**(13)**	(44)
Advances to subsidiary		**-**	-	**(8,778)**	(15,571)
Redemption of short term deposits		**(6,234)**	373	**(6,234)**	373
Net cash flows from (used in) investing activities		**(6,328)**	302	**(15,027)**	(15,242)
Cash flows from financing activities					
Proceeds from issues of ordinary shares	18	**12,950**	21,146	**12,950**	21,146
Payment of share issue costs	18	**(468)**	(1,053)	**(468)**	(1,053)
Net cash flows from financing activities		**12,482**	20,093	**12,482**	20,093
Net increase/(decrease) in cash and cash equivalents		**(7,149)**	8,595	**139**	1,184
Net foreign exchange difference relating to cash		**(133)**	215	**(60)**	263
Cash and cash equivalents at beginning of year		**12,346**	3,536	**4,811**	3,364
Cash and cash equivalents at end of year	9	**5,064**	12,346	**4,890**	4,811

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

Notes to the Financial Statements

For the Year Ended 30 June 2013

1. Corporate Information

The financial report of Alchemia Limited (the "Company" or the "Parent") for the year ended 30 June 2013 was authorised for issue in accordance with a resolution of the directors on 6 September 2013.

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

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

2. Summary of Significant Accounting Policies

Basis of preparation

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

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

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

(a) Compliance with IFRS

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

(b) New accounting standards and interpretations

(i) Changes in accounting policy and disclosures
The accounting policies adopted are consistent with the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as at 1 July 2012.

Reference	Title	Application date of standard	Application date for Group
AASB 2011-9	**Amendments to Australian Accounting Standards - Presentation of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, s132, 133, 134, 1039 & 1049]** This standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.	1 July 2012	1 July 2012

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

2. Summary of Significant Accounting Policies (continued)

(b) New accounting standards and interpretations (continued)

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2013. The Group does not believe that there will be a material financial impact to either the statement of comprehensive income or the balance sheet once these accounting standards are adopted. These are outlined in the table below:

Reference	Title	Application date of standard	Application date for Group
AASB 10	Consolidated Financial Statements	1 January 2013	1 July 2013
AASB 11	Joint Arrangements	1 January 2013	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	1 January 2013	1 July 2013
AASB 13	Fair Value Measurement	1 January 2013	1 July 2013
AASB 119	Employee Benefits	1 January 2013	1 July 2013
Annual Improvements	Annual Improvements to IFRSs 2009–2011 Cycle	1 January 2013	1 July 2013
AASB 2012-2	Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013	1 July 2013
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle	1 January 2013	1 July 2013
AASB 2012-9	Amendments to AASB 1048 arising from the withdrawal of Australian Interpretation 1039	1 January 2013	1 July 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	1 July 2013	1 July 2013
AASB 1053	Application of Tiers of Australian Accounting Standards	1 July 2013	1 July 2013
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	1 January 2014	1 July 2014
AASB 9	Financial Instruments	1 January 2015	1 July 2015

2. Summary of Significant Accounting Policies (continued)

(c) Basis of consolidation

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

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

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

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

The directors have applied Class Order CO 10/654 in order to present the consolidated financial statements of the group together with separate financial statements of the parent entity.

(d) Segment reporting

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

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

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

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

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

(e) Foreign currency translation

Functional and presentation currency
The Group’s consolidated financial statements are presented in Australian dollars, which is also the parent company’s functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. As at 30 June 2013, the functional currency of the subsidiaries have been determined to be Australian dollars.

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

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

2. Summary of Significant Accounting Policies (continued)

(f) Cash and cash equivalents

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

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

(g) Trade and other receivables

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

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

(h) Investments and other financial assets

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

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

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

- Held-to-maturity investments
  Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. All of the Group's term deposits are captured by this category.
- Loans and receivables
  Loans and receivables including loans to subsidiaries and receivables from Dr Reddy's are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at the lesser of their carrying value or recoverable amounts. Any diminution in value is recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.
- Available-for-sale securities
  Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the two preceding categories. After initial recognition available-for sale securities are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

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

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

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

2. Summary of Significant Accounting Policies (continued)

(i) Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Asset Class	Estimated Life	Depreciation Method
Leasehold improvements	6 years	Straight Line
Plant and equipment	3 to 8 years	Straight Line except for Software which uses diminishing method

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

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

(j) Leases

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

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

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

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

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

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

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

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

(l) Goodwill and intangibles

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

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

2. Summary of Significant Accounting Policies (continued)

(l) Goodwill and intangibles (continued)

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

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

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

Impairment losses recognised for goodwill are not subsequently reversed.

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

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired (see note 4 for methodology). The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

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

The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable.

If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

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

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

(m) Trade and other payables

Trade payables and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. These amounts are unsecured and are usually paid within 30 days of recognition.

(n) Provisions and employee benefits

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

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

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

2. Summary of Significant Accounting Policies (continued)

(n) Provisions and employee benefits (continued)

Employee leave benefits

Wages, salaries, annual leave and sick leave

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

Long service leave

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

(o) Share-based payment transactions

The Company provides benefits to employees (including key management personnel) in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

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

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

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

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value measured at grant date takes into account market performance conditions only, and spread over the vesting period during which the employees become unconditionally entitled to the options.

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

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

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

(p) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(q) Revenue recognition

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

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

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

Grant income
Revenue is recognised as per note 2 (s).

(r) Income tax and other taxes

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

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

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

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

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

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.
- That it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

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

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

(s) Government grants

Government grants are recognised as deferred revenue when the grant is received.

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

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

The amounts shown in the balance sheets under the deferred revenue account represent grant funding received for which the related expenditure had not been incurred at the balance sheet date.

(t) Earnings per share

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

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

3. Financial Risk Management Objectives and Policies

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

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

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

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

(a) Risk exposure and responses

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

At 30 June 2013, the Group's cash and cash equivalents with terms up to 90 days, and term deposits with terms up to 180 days.

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

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

	Consolidated		Parent	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
Financial assets				
Term deposits	**7,912**	1,677	**7,912**	1,677
Cash and cash equivalents	**5,064**	12,346	**4,890**	4,811
	12,976	14,023	**12,802**	6,488
Financial liabilities				
	-	-	**-**	-
	-	-	**-**	-
Net exposure	**12,976**	14,023	**12,802**	6,488

Sensitivity Analysis	Post Tax Loss Higher/(Lower)		Equity (Excluding Accumulated Losses) Higher/(Lower)	
	2013	2012	**2013**	2012
Judgement Of Reasonably Possible Movements:	**$'000**	$'000	**$'000**	$'000
Consolidated				
Interest rate strengthens +0.25% or 25 basis points (2012: +0.25% or 25 basis points)	**(32)**	(35)	**-**	-
Interest rate weakens –1% or 100 basis points (2011: -1% or 100 basis points)	**130**	140	**-**	-
Parent				
Interest rate strengthens +0.25% or 25 basis points (2012: +0.25% or +25 basis points)	**(32)**	(14)	**-**	-
Interest rate weakens -1% or 100 basis points (2012: -1% or 100 basis points)	**128**	65	**-**	-

3. Financial Risk Management Objectives and Policies (continued)

(a) Risk exposure and responses (continued)

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

Significant assumptions used in the interest rate sensitivity analysis include:

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

Foreign currency risk

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

The Group maintains US dollar bank accounts to fund US denominated expenditures mainly relating to the Phase III clinical trial.

At 30 June 2013 the consolidated balance of the USD bank accounts amounted to USD$1.4 million (30 June 2012: USD$7.4 million). In the future, the Group will determine the appropriate hedging strategy which will be based mainly on a natural hedge of the USD Phase III exposure from receipt of fondaparinux revenues which will also be US dollar denominated.

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

Whilst Audeo Oncology is incorporated in the United States, the operations of its main subsidiary, Alchemia Oncology Pty Ltd ("AOL"), is currently based in Australia. Audeo Oncology does not have operations and exists for the sole purpose of undertaking the initial public offering of the Oncology business.

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

	Consolidated		Alchemia Limited	
	2013	2012	**2013**	2012
	$'000	$'000	**$'000**	$'000
Financial assets				
Cash and cash equivalents	**1,511**	7,337	**1,472**	2,395
	1,511	7,337	**1,472**	2,395
Financial liabilities				
Trade and other payables	**1,472**	407	**37**	47
Net exposure	**39**	6,930	**1,435**	2,348

3. Financial Risk Management Objectives and Policies (continued)

(a) Risk exposure and responses (continued)

Based on the financial instruments held at 30 June 2013, had the Australian dollar strengthened/weakened by 10% against the above currencies, with all other variables held constant, the Group's post-tax loss for the year would have been (reduced)/higher by:

Sensitivity Analysis	Post Tax Loss Higher/(Lower)		Equity (Excluding Accumulated Losses) Higher/(Lower)	
	2013	2012	**2013**	2012
	$'000	$'000	**$'000**	$'000
Consolidated				
AUD strengthens +10% (2012: +10%)	**(4)**	(630)	**-**	-
AUD weakens -10% (2012: -10%)	**4**	770	**-**	-
Parent				
AUD strengthens +10% (2012: +10%)	**(128)**	(214)	**-**	-
AUD weakens -10% (2012: -10%)	**162**	261	**-**	-

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

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

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

Credit risk

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

The Parent's exposure to credit risk for intercompany loans made to subsidiaries arises because those subsidiaries are still in research and development stage, and are not expected to be cash flow positive for some time. The Parent's policy is to write down those balances to the extent such balances are not supported by cash and cash equivalents in the subsidiaries (see Note 23).

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

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

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

Liquidity risk

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

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

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

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

4. Significant Accounting Judgements, Estimates and Assumptions

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

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

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

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences as to the extent management consider that it is probable that future taxable profits will be available to utilise those temporary differences. Deferred tax assets for losses are not recognised because at this stage, it is not considered prudent until revenues are derived in sufficient amount from the sale of the Company's various technology platforms.

Taxation
The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows.

These depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions.

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

Impairment of goodwill and intangibles with indefinite useful lives
The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated.

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

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

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

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

5. Segment Information

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

Inter segment revenues, costs and balance sheet items are eliminated on consolidation.

Business Segment	Fondaparinux		HyACT/VAST		Eliminations		Consolidated Total	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000	**2013 $'000**	2012 $'000	**2013 $'000**	2012 $'000
Revenues								
Inter-segment revenues	**1**	3	**-**	-	**(1)**	(3)	**-**	-
Other revenues	**11,687**	386	**12,610**	340	**-**	-	**24,297**	726
Total segment revenues	**11,688**	389	**12,610**	340	**(1)**	(3)	**24,297**	726
Depreciation and amortisation	**(76)**	(131)	**(1,527)**	(1,599)	**-**	-	**(1,603)**	(1,730)
Payroll and staff expenses	**(1,911)**	(2,017)	**(2,759)**	(1,792)	**-**	2	**(4,670)**	(3,807)
Business development	**(2)**	(3)	**(158)**	(2)	**-**		**(160)**	(5)
Research and development costs	**(548)**	(95)	**(16,341)**	(7,114)	**-**	-	**(16,889)**	(7,209)
Administrative and corporate expenses	**(2,418)**	(1,839)	**(3,045)**	(932)	**-**	-	**(5,463)**	(2,771)
Rent and occupancy expense	**(217)**	(320)	**(311)**	(1)	**-**	-	**(528)**	(321)
Share based payment expense	**(66)**	(221)	**(191)**	(40)	**-**	-	**(257)**	(261)
Provision for intercompany loans	**(8,778)**	(1)	**-**	-	**8,778**	1	**-**	-
Changes in fair value of rights	**-**	-	**466**	(466)	**-**	-	**466**	(466)
Other income (expense)	**1,042**	21,484	**(1,278)**	(4,640)	**-**	(16,481)	**(236)**	363
Segment profit/(loss) before tax	**(1,286)**	17,246	**(12,534)**	(16,246)	**8,777**	(16,481)	**(5,043)**	(15,481)
Consolidated entity loss from continuing activities							**(5,043)**	(15,481)
Income tax benefit							**273**	398
Consolidated loss							**(4,770)**	(15,083)

5. Segment Information (continued)

Business Segment	Fondaparinux		HyACT/VAST		Eliminations		Consolidated Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Other segment information								
Segment assets	**71,786**	61,290	**16,477**	19,974	**(46,777)**	(48,893)	**41,486**	32,371
Segment liabilities	**1,070**	5,158	**12,077**	6,342	**(4,040)**	(3,394)	**9,107**	8,106
Depreciation and amortisation	**(76)**	(131)	**(1,527)**	(1,599)	**-**	-	**(1,603)**	(1,730)
Other non-cash expenses	**66**	(376)	**191**	(110)	**-**	-	**(257)**	(486)
Cash flow information								
Net cash flow from (used in) operating activities	**1,172**	(3,105)	**(5,697)**	6,876	**(8,778)**	(15,571)	**(13,303)**	(11,800)
Net cash flow from (used in) investing activities	**(15,027)**	(15,238)	**(79)**	(31)	**8,778**	15,571	**(6,328)**	302
Net cash flow from financing activities	**12,482**	20,093	**-**	-	**-**	-	**12,482**	20,093
Capital expenditure	**(13)**	(40)	**(81)**	(31)		-	**(94)**	(71)

Reconciliation of profit

	2013	2012
	$'000	$'000
Segment profit	**(13,820)**	1,000
Inter-segment sales (elimination)	**(1)**	(3)
Inter-segment provision (elimination)	**8,778**	(16,478)
Group profit/(loss)	**(5,043)**	(15,481)

Reconciliation of assets

	2013	2012
	$'000	$'000
Segment operating assets	**88,263**	81,264
Intercompany receivables	**(879)**	(165)
Loans to controlled entities (Note 23)	**8,778**	5,720
Investments in controlled entities (Note 23)	**(54,676)**	(54,448)
Group operating assets	**41,486**	32,371

Reconciliation of liabilities

	2013	2012
	$'000	$'000
Segment operating liabilities	**13,147**	11,500
Intercompany payables	**(879)**	(165)
Loans to controlled entities (Note 23)	**(3,162)**	(3,162)
Inter-segment (elimination)	**1**	(67)
Group operating liabilities	**9,107**	8,106

5. Segment Information (continued)

Geographic Information

	2013 $'000	2012 $'000
Revenues		
Australia (includes interest, grant and other revenue)	**14,673**	726
United States (100% of royalty income from Dr Reddy's is from sales in the US)	**9,624**	-
Total revenues per consolidated statements of comprehensive income	**24,297**	726
Non-current assets		
Australia	**15,451**	16,697
United States	**-**	-
Total non-current assets per consolidated balance sheets	**15,451**	16,697

6. Other Income and Expenses

	Consolidated		Alchemia Limited	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
(a) Other income (expenses)				
Recharge of shared costs to AOL*	**-**	-	**995**	4,732
Reversal of provision of intercompany loan 23f	**-**	-	**-**	16,480
Net foreign currency gains (losses)	**(189)**	373	**50**	283
Other expenses	**(47)**	(10)	**(3)**	(10)
	(236)	363	**1,042**	21,485

* These pertain to operating expenses, primarily salaries and benefits of officers and other employees of Alchemia Limited that were allocated to AOL in the current year.

(b) Depreciation and amortisation				
Depreciation of property, plant and equipment	**278**	405	**96**	169
Amortisation of patent	**1,325**	1,325	**-**	-
	1,603	1,730	**96**	169
(c) Employee benefits expense				
Wages and salaries	**3,297**	3,107	**1,292**	2,330
Workers compensation costs	**17**	9	**5**	5
Defined contribution plan expense (superannuation)	**277**	265	**102**	
Annual leave provision	**55**	81	**28**	66
Long service leave provision	**42**	58	**14**	42
Payroll and Fringe Benefit Tax	**188**	150	**85**	108
Termination payments and related expenses	**371**	-	**371**	-
Other employee benefit expenses	**423**	137	**128**	25
	4,670	3,807	**2,025**	2,774
(d) Administration and corporate expenses				
Administration and corporate expenses	**1,576**	1,459	**1,109**	1,284
Listing expenses and demerger costs	**3,887**	1,312	**1,319**	643
	5,463	2,771	**2,428**	1,927

7. Income Tax

	Consolidated		Alchemia Limited	
	2013	2012	**2013**	2012
	$'000	$'000	**$'000**	$'000
Income Tax Expense				
The major components of income tax expense are:				
Statement of comprehensive income				
Current income tax				
Current income tax charge	**(1,513)**	(4,497)	**(465)**	(109)
Deferred income tax				
Unrecognised tax losses	**1,240**	4,099	**465**	109
Income tax expense/(benefit) reported in the statement of comprehensive income	**(273)**	(398)	**-**	-

7. Income Tax (continued)

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

	Consolidated		Alchemia Limited	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Accounting loss before income tax	**(5,043)**	(15,481)	**(1,551)**	15,972
At the statutory income tax rate of 30% (2012: 30%)	**(1,513)**	(4,644)	**(465)**	4,792
R&D grant income not assessable for income tax purposes	**(4,021)**	-	**(491)**	-
Expenditure not allowable for income tax purposes – share based payment	**77**	147	**20**	114
Expenditure not allowable for income tax purposes – entertainment	**4**	-	**1**	-
Expenditure not allowable for income tax purposes – R&D	**6,016**	-	**431**	-
Expenditure not allowable for income tax purposes – other	**87**	-	**-**	-
Temporary differences unrecognised during the current year	**409**	-	**2,587**	-
Prior year adjustment – over/under stated unrecognised tax losses:				
– R&D grants/incentives	**2,726**	-	**651**	-
– Other	**50**	-	**62**	-
Unrecognised tax losses	**-**	4,099	**-**	109
Utilisation of previously unrecognised tax losses recognised – prior year	**(2,777)**	-	**(713)**	-
Utilisation of previously unrecognised tax losses recognised	**(1,331)**	-	**(2,083)**	(5,015)
Income tax benefit reported in the statement of comprehensive income	**(273)**	(398)	**-**	-
Deferred income tax				
Deferred income tax at 30 June relates to the following:				
Deferred tax liabilities				
Unrealised foreign exchange gains	**36**	10	**-**	1
Deferred income	**24**	5	**24**	5
Patents	**2,683**	3,080	**-**	-
Deferred tax liability	**2,743**	3,095	**24**	6
Deferred tax assets				
Employee entitlements	**182**	180	**55**	127
Intercompany loan provision	**-**	-	**3,582**	949
Accruals and provisions	**282**	314	**282**	273
Losses available for offset against future taxable income	**41,786**	45,894	**20,811**	23,607
Deferred depreciation for tax purposes	**267**	327	**267**	327
S40-880 costs	**1,363**	257	**811**	257
Rights	**-**	140	**-**	-
Patent costs	**845**	790	**425**	409
	47,725	47,902	**26,233**	25,949
Deferred tax assets not recognised	**(47,665)**	(47,887)	**(26,209)**	(25,943)
Gross deferred income tax assets	**60**	15	**24**	6

7. Income Tax (continued)

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

	2013 $'000	2012 $'000
Alchemia Limited	**69,369,745**	78,691,850
Alchemia Oncology Pty Ltd	**69,918,298**	74,288,984
Audeo Discovery Pty Ltd	**-**	-
Total	**139,288,043**	152,980,834

8. Earnings Per Share

	2013	2012
	(1.6)	(6.2)

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

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

	2013 $'000	2012 $'000
Net loss used in calculating basic and diluted earnings per share	**4,770**	15,083

	Number of Shares	
Weighted average number of ordinary shares used in calculating basic earnings per share:	**292,400,115**	242,209,502

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

	Consolidated		Alchemia Limited	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
9. Current Assets - Cash and Cash Equivalents				
Cash at bank and on hand	**1,664**	7,453	**1,503**	2,449
Short term deposits	**3,400**	4,893	**3,387**	2,362
	5,064	12,346	**4,890**	4,811

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

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

10. Current Assets - Term Deposits				
Short term deposits*	**7,912**	1,677	**7,912**	1,677
	7,912	1,677	**7,912**	1,677

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

	Consolidated		Alchemia Limited	
	2013	2012	**2013**	2012
	$'000	$'000	**$'000**	$'000
11. Current Assets – Trade and Other Receivables				
Security deposit	**10**	20	**-**	-
R&D tax incentive receivable	**8,774**	-	**623**	-
Royalty receivable	**3,329**	-	**3,329**	-
Intercompany receivable from AOL	**-**	-	**-**	164
Others	**267**	59	**229**	22
	12,380	79	**4,181**	186

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. As at 30 June 2013, there were no receivables balances that were past due (30 June 2012: $nil).

12. Current Assets - Other Current Assets				
Prepayments	**679**	902	**86**	98
Capital raising costs (a)	**-**	670	**-**	-
	679	1,572	**86**	98

(a) The capital raising costs related to the amounts unbilled in relation to the proposed Initial Public Offering of Audeo Oncology.

Other Non-Current Assets				
Prepayments	**235**	236	**-**	-
	235	236	**-**	-

	Consolidated		Alchemia Limited	
	2013	2012	**2013**	2012
	$'000	$'000	**$'000**	$'000
13. Non-Current Assets - Property, Plant and Equipment				
Leasehold improvements				
At cost	**1,607**	1,607	**1,607**	1,607
Accumulated depreciation	**(1,607)**	(1,607)	**(1,607)**	(1,607)
Net carrying amount	**-**	-	**-**	-
Plant and equipment				
At cost	**8,568**	8,255	**7,509**	7,496
Accumulated depreciation	**(8,142)**	(7,864)	**(7,449)**	(7,353)
Net carrying amount	**426**	391	**60**	143
Total property, plant and equipment				
At cost	**10,175**	9,862	**9,116**	9,103
Accumulated depreciation and amortisation	**(9,749)**	(9,471)	**(9,056)**	(8,960)
Total written down value	**426**	391	**60**	143
Reconciliations				
Leasehold improvements				
Carrying amount at start of period	**2**	2	**2**	2
Depreciation expense	**(2)**	(2)	**(2)**	(2)
Carrying amount at period end	**-**	-	**-**	-
Plant and equipment				
Carrying amount at start of period	**391**	723	**143**	266
Additions	**94**	71	**13**	44
Capital in progress	**219**	-	**-**	-
Depreciation expense	**(278)**	(403)	**(96)**	(167)
Carrying amount at period end	**426**	391	**60**	143

	Consolidated			Alchemia Limited		
	Patents	**Goodwill**	**Total**	**Patents**	**Goodwill**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
14. Non-Current Assets - Intangible Assets and Goodwill						
At 1 July 2012	10,268	5,787	16,055	-	-	-
Amortisation at 30 June 2013	(1,325)	-	(1,325)	-	-	-
Net of accumulated amortisation at 30 June 2013	8,943	5,787	14,730	-	-	-
Cost (gross carrying amount) at 1 July 2012	18,330	5,787	24,117	-	-	-
Accumulated amortisation	(9,387)	-	(9,387)	-	-	-
Net carrying amount at 30 June 2013	8,943	5,787	14,730	-	-	-
At 1 July 2011	11,593	5,787	17,380	-	-	-
Amortisation at 30 June 2012	(1,325)	-	(1,325)	-	-	-
Net of accumulated amortisation at 30 June 2012	10,268	5,787	16,055	-	-	-
Cost (gross carrying amount) at 1 July 2011	18,330	5,787	24,117	-	-	-
Accumulated amortisation	(8,062)	-	(8,062)	-	-	-
Net carrying amount at 30 June 2012	10,268	5,787	16,055	-	-	-

14. Non-Current Assets - Intangible Assets and Goodwill (continued)

The patents and goodwill arose from the acquisition of AOL and represents the allocation of the excess of the purchase price over the net tangible assets of AOL. As part of the "fair value" accounting associated with the acquisition, Alchemia recognised the value of the patents and associated IP of Meditech at $18.3 million.

The goodwill balance resulted from the requirement on an acquisition to recognise a deferred tax liability, calculated as the difference between the tax effect of the fair value of the acquired assets and liabilities and their tax bases.

These patents are amortised on a straight line basis over the remaining lives of the patents of between 8 to 20 years. The patents that were acquired with the acquisition of AOL, are all current and relate entirely to intellectual property attached to the AOL's HyACT technology and active research and development programs based on that technology.

Accounting standards require that all intangible assets with indefinite useful lives, such as goodwill, be tested for impairment, at least, annually by comparing their carrying value with their recoverable amount.

The standard further requires that goodwill be allocated to each "cash generating units" within AOL. Whilst there are a number of potential cash generating streams – (the lead HyACT product candidate, HA-Irinotecan, is currently in a pivotal Phase III clinical trial for metastatic colorectal cancer, or mCRC. HA-Irinotecan is also in an investigator-sponsored Phase II clinical trial for small cell lung cancer, or SCLC) all arise from the central technology platform HyACT and are inseparable from it at the time of acquisition. Accordingly the Company attributes the goodwill to HyACT and does not seek to arbitrarily allocate its value to the numerous potential commercial applications of that technology. For the purpose of testing this goodwill for impairment, any of the related deferred tax liabilities recognised on acquisition that remain at balance date are treated as part of the relevant CGU.

The Group performed its annual impairment test at 30 June 2013. The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 30 June 2012, the market capitalisation of the Group was significantly above the carrying value of its equity. The Group did not identify an impairment for the CGU to which the goodwill is allocated.

	Note	Consolidated		Alchemia Limited	
		2013	2012	**2013**	2012
		$'000	$'000	**$'000**	$'000
15. Non-Current Assets - Controlled Entities					
Investments in controlled entities	23	**-**	-	**54,676**	54,448
Non-current receivable from controlled entities (net of provision)	23	**-**	-	**-**	-
		-	-	**54,676**	54,448
16. Current Liabilities - Trade and Other Payables *					
Trade creditors	(i)	**2,257**	1,037	**278**	721
Other creditors	(ii)	**2,730**	2,282	**309**	662
		4,987	3,319	**587**	1,383

Terms and conditions relating to the above financial instruments:
(i) Trade creditors are non-interest bearing and are normally settled on 30 day terms.
(ii) Other creditors are non-interest bearing and have an average term of 30 days.

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

17. Current Liabilities - Provisions

	Surplus Lease $'000	Make good provision $'000	Long service leave $'000	Annual leave $'000	Total $'000
Consolidated					
At 1 July 2012	26	249	285	315	875
Provided for/(Utilised) during the year	(26)	26	11	(4)	7
At 30 June 2013	-	275	296	311	882
Current 2013	**-**	**-**	**222**	**212**	**434**
Non-current 2013	**-**	**275**	**74**	**99**	**448**
	-	**275**	**296**	**311**	**882**
Current 2012	26	-	207	315	548
Non- current 2012	-	249	78	-	327
	26	249	285	315	875

	Surplus Lease $'000	Make good provision $'000	Long service leave $'000	Annual leave $'000	Total $'000
Parent					
At 1 July 2012	26	249	211	212	698
Provided for/(Utilised) during the year	(26)	26	(140)	(99)	(239)
At 30 June 2013	-	275	71	113	459
Current 2013	**-**	**-**	**63**	**101**	**164**
Non-current 2013	**-**	**275**	**8**	**12**	**295**
	-	**275**	**71**	**113**	**459**
Current 2012	26	-	161	212	399
Non-current 2012	-	249	50	-	299
	26	249	211	212	698

Make good provision
In accordance with the lease agreement, the Group must restore the leased premises in Brisbane to their original condition upon expiration of the lease. A provision was made in respect to the Group's obligation to remove leasehold improvements from these leased premises.

The lease agreement was not renewed by Alchemia Limited in August 2012, the legal lessee in the prior lease agreement. Instead, AOL entered into a new lease agreement with the lessor which expires July 2016 and the make good provision has been capped at $275,000 payable by Alchemia Limited.

	Consolidated		Alchemia Limited	
	2013	2012	**2013**	2012
	$'000	$'000	**$'000**	$'000
18. Contributed Equity				
(a) Ordinary shares				
Issued and fully paid	**151,149**	138,522	**151,149**	138,522

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

Movements in ordinary shares on issue	**No of Ordinary Shares**	**$'000**
At 1 July 2011	**191,960,644**	**118,249**
Shares issued to employees under the Employee Share Bonus Scheme	548,013	180
Private Capital Placement	28,790,000	6,910
Share Purchase Plan	20,833,422	5,000
Tranche 2 Placement	38,485,000	9,236
Transaction costs on share issue	-	(1,053)
At 1 July 2012	280,617,079	138,522
Shares issued to employees under the Employee Share Bonus Scheme	**260,376**	**145**
Institutional Capital Placement	**34,000,000**	**10,200**
Share Purchase Plan	**9,166,364**	**2,750**
Tranche 2 Placement	**-**	**-**
Transaction costs on share issue	**-**	**(468)**
At 30 June 2013	**324,043,819**	**151,149**

(a) Capital management

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

19. Accumulated Losses and Reserves

Movement in accumulated losses were as follows:

	Consolidated		Alchemia Limited	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Balance at 1 July	**(118,155)**	(103,072)	**(83,489)**	(99,461)
Net profit/(loss)	**(4,770)**	(15,083)	**(1,551)**	15,972
Balance at 30 June	**(122,925)**	(118,155)	**(85,040)**	(83,489)

Other reserves:

	Consolidated			Alchemia		
	Options Reserve – employee related $'000	**Options Reserve – non employee related $'000**	**Total $'000**	**Options Reserve – employee related $'000**	**Options Reserve – non employee related $'000**	**Total $'000**
At 1 July 2011	3,149	488	3,637	3,149	488	3,637
Share based payments	256	5	261	219	-	219
Share based payments*	-	-	-	37	5	42
At 30 June 2012	**3,405**	**493**	**3,898**	**3,405**	**493**	**3,898**
Share based payments	246	11	257	55	11	66
Share based payments*	-	-	-	191	-	191
At 30 June 2013	**3,651**	**504**	**4,155**	**3,651**	**504**	**4,155**

*Expense relating to options issued to AOL employees.

Nature and purpose of reserves

Options reserve

Non employee options

The Company has issued 50,000 Alchemia options to a consultant of Alchemia Limited. An expense of $10,904 has been recognised in relation to these options in the 30 June 2013 financial statements (2012: $5,230).

2013

No of options	Exercise price	Vesting date	Expiry date
50,000	$0.5551	03 Oct 2013	03 Oct 2017

Share options

The Company has a share based payment option scheme under which options to subscribe for the Company's shares have been granted to certain executives and other employees (refer to Note 24).

20. Cash Flow Statement Reconciliation

	Consolidated		Alchemia Limited	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Reconciliation of net loss after tax to net cash flows from operations				
Net loss	**(4,770)**	(15,083)	**(1,551)**	15,972
Adjustments for				
Reversal of provision against non-current assets	**-**	-	**-**	(16,480)
Recharge of shared costs to AOL	**-**	-	**(995)**	(4,732)
Fair value of stock based compensation	**257**	261	**66**	219
Provision for intercompany loans	**-**	-	**8,778**	1
Depreciation of non-current assets	**278**	405	**96**	169
Amortisation of intangibles	**1,325**	1,325	**-**	-
Changes in fair value of rights	**(466)**	466	**-**	-
Net foreign exchange differences relating to cash	**133**	(215)	**60**	(263)
Changes in assets and liabilities				
Decrease/(Increase) in trade and other receivables	**(12,400)**	227	**(2,869)**	262
Decrease/(Increase) in other current assets	**893**	(1,502)	**12**	(59)
Decrease/(Increase) in other non-current assets	**10**	(24)	**-**	10
Decrease/(Increase) in deferred tax assets	**(45)**	31	**(18)**	-
Increase/(Decrease) in deferred revenue	**145**	277	**145**	277
Increase/(Decrease) in trade and other payables	**1,683**	2,555	**(819)**	1,082
Increase/(Decrease) in current provisions	**(16)**	(144)	**(223)**	(164)
Increase/(Decrease) in deferred tax liabilities	**(352)**	(429)	**18**	-
Increase/(Decrease) in non-current provisions	**22**	50	**(17)**	39
Net cash used in operating activities	**(13,303)**	(11,800)	**2,683**	(3,667)

21. Rights

As part of the fundraising undertaken by the company in November 2011, Alchemia agreed that if the Oncology Business is demerged from Alchemia by 31 December 2012 and shares are quoted on a stock exchange, the investors that took part in the fundraising would be issued options to subscribe for shares in the listed company ("Audeo Oncology rights").

As at 30 June 2012, the rights were assessed to have a fair value of $466,000. The Rights expired as the Audeo listing did not occur before 31 December 2012, the expiry date, and this liability has been derecognised in the current year ended.

22. Dividends Paid and Proposed

There were no dividends paid or proposed as at 30 June 2013.

23. Related Party Disclosure

(a) Subsidiaries

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

Name	Country of Incorporation	Percentage of Equity interest held by the consolidated entity		Investment $'000	
		2013	2012	**2013**	2012
Direct subsidiaries					
Alchemia Inc. (i)	United States of America	**100%**	100%	**2**	2
Audeo Oncology Inc. (ii)	United States of America	**100%**	100%	**54,674**	54,446
Indirect subsidiaries (iii)					
Alchemia Oncology Pty Ltd	Australia	**100%**	100%	**-**	-
Audeo Discovery Pty Ltd	Australia	**100%**	100%	**-**	-
				54,676	54,448

No provision in investments in subsidiaries is required as their recoverable amounts assessed to be higher than their carrying amounts.
(i) An application has been made for the dissolution of Alchemia Inc in August 2013.
(ii) Audeo Oncology was incorporated in June 2012 as a fully owned subsidiary of the Company. On 28 June 2012, in preparation of the planned Initial Public Offering of Audeo Oncology, the Company carried out a reorganisation whereby it capitalised all of the loans outstanding ($36.6 million) from AOL to equity of AOL and then transferred 100% of its equity holding in AOL for 7.5 million shares of Audeo Oncology. Audeo Discovery Pty Ltd was incorporated on 21 June 2012 as a fully owned subsidiary of Audeo Oncology.
(iii) Audeo Oncology owns 100% of these subsidiaries.

(b) Ultimate parent

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

(c) Key management personnel (KMP)

Details relating to KMP, including remuneration paid, are included in note 23.

(d) Transactions with Directors

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

Director	**2013 $'000**	2012 $'000
T Ramsdale	**164**	60

(e) Loan to controlled entities

	Consolidated		Parent	
	2013 $	2012 $	**2013 $**	2012 $
At cost	**-**	-	**11,940**	3,162
Provision for diminution (f)	**-**	-	**(11,940)**	(3,162)
	-	-	**-**	-

23. Related Party Disclosure (continued)

(f) Movements of provision of diminution

	Consolidated		Parent	
	2013	2012	**2013**	2012
	$	$	**$**	$
Movements in the provision for impairment loss were as follows:				
At beginning of year	**-**	-	**(3,162)**	(19,641)
Charge for the year	**-**	-	**(8,778)**	(1)
Reversal of provision for intercompany loan	**-**	-	**-**	16,480
At end of year	**-**	-	**(11,940)**	(3,162)

On 28 June 2012, the Company carried out a reorganisation whereby it capitalised all of the loans outstanding ($36.6 million) from AOL to equity and then transferred 100% of its equity holding in AOL for 7.5 million shares of Audeo Oncology. As such, all of the loan provision relating to the intercompany loan with AOL which was $16.5 million as at 30 June 2011 was written back. However, since the proposed demerger did not go through, a write down for the amounts that was advanced to AOL in the FY2013 has been carried out.

24. Key Management Personnel

(a) Compensation for key management personnel

	Consolidated		Parent	
	2013	2012	**2013**	2012
	$	$	**$**	$
Short-term employee benefits	**2,030,089**	1,596,267	**1,183,345**	1,367,269
Post-employment benefits	**167,600**	154,123	**89,970**	132,756
Termination benefits	**370,898**	-	**370,898**	-
Other long-term benefits	**22,773**	22,878	**5,352**	17,349
Equity-based payment	**259,927**	320,790	**76,085**	283,779
Total compensation	**2,851,287**	2,094,058	**1,725,650**	1,801,153

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

30 June 2013	Balance at Beginning of Period 1 July 2012	Granted as Remuneration	Options Exercised	Options Forfeited/Expired Cancelled	Balance at End of Period 30 June 2013	Vested at 30 June 2013		
						Total	Not Exercisable	Exercisable
Directors								
M Bridges[4]	-	-	-	-	-	-	-	-
P Smith [1]	1,000,000	-	-	600,000	400,000	400,000	-	400,000
T Ramsdale	-	-	-	-	-	-	-	-
N Withnall[3]	-	-	-	-	-	-	-	-
N Drona [2]	-	-	-	-	-	-	-	-
S Kelley[2]	-	-	-	-	-	-	-	-
Executives								
C Walker	680,000	-	-	50,000	630,000	630,000	-	630,000
T Brown	400,000	702,250	-	400,000	702,250	702,250	702,250	-
M West	320,000	491,500	-	320,000	491,500	491,500	491,500	-
W Meutermans	320,000	421,250	-	320,000	421,250	421,250	421,250	-
I Ahamed		495,000	-	-	495,000	495,000	495,000	-
G Schepers	270,000	150,000	-	270,000	150,000	150,000	150,000	-
Total	**2,990,000**	**2,260,000**	**-**	**1,960,000**	**3,290,000**	**3,290,000**	**2,260,000**	**1,030,000**

1 Pete Smith ceased employment 25 January 2013.
2 Nathan Drona and Susan Kelley appointed 22 March 2013.
3 Nerolie Withnall retired 4 July 2013.
4 Mel Bridges retired 15 July 2013.

24. Key Management Personnel (continued)

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

30 June 2012	Balance at Beginning of Period 1 July 2011	Granted as Remuneration	Options Exercised	Options Forfeited/Expired Cancelled	Balance at End of Period 30 June 2012	Vested at 30 June 2012		
						Total	Not Exercisable	Exercisable
Directors								
M Bridges[4]	-	-	-	-	-	-	-	-
P Smith [2]	2,600,000	400,000	-	2,000,000	1,000,000	1,000,000	400,000	600,000
C Montagner[1]	-	-	-	-	-	-	-	-
T Ramsdale	-	-	-	-	-	-	-	-
N Withnall[3]	-	-	-	-	-	-	-	-
Executives								
D Green	450,000	-	-	450,000	-	-	-	-
C Walker	630,000	50,000	-	-	680,000	680,000	50,000	630,000
T Brown	547,266	100,000	-	247,266	400,000	400,000	100,000	300,000
W Meutermans	470,000	70,000	-	220,000	320,000	320,000	70,000	250,000
M West	470,000	70,000	-	220,000	320,000	320,000	70,000	250,000
Total	**5,167,266**	**690,000**	**-**	**3,137,266**	**2,720,000**	**2,720,000**	**690,000**	**2,030,000**

1 Carlo Montagner resigned 22 November 2011.
2 Pete Smith ceased employment 25 January 2013.
3 Nerolie Withnall retired 4 July 2013.
4 Mel Bridges retired 15 July 2013.

(c) Shareholding of key management personnel (consolidated)

Ordinary shares held in Alchemia Limited (number)

30 June 2013	Balance 1 July 12	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 13
Directors					
M Bridges[4]	739,258	-	-	53,750	793,008
P Smith [1]	1,285,503	64,493	-	(29,591)	1,320,405
T Ramsdale	1,303,819	-	-	-	1,303,819
N Withnall[3]	-	-	-	-	-
N Drona[2]	-	-	-	-	-
S Kelly[2]	-	-	-	-	-
Executives					
C Walker	46,013	49,973	-	-	95,986
T Brown	422,889	37,620	-	-	460,509
M West	705,798	19,155	-	-	724,953
W Meutermans	313,926	19,155	-	-	333,081
I Ahamed	-	2,584	-	-	2,584
G Schepers	-	7,889	-	-	7,889
Total	**4,901,221**	**200,869**	**-**	**24,159**	**5,126,249**

1 Pete Smith ceased employment 25 January 2013.
2 Nathan Drona and Susan Kelly appointed 22 March 2013.
3 Nerolie Withnall retired 4 July 2013.
4 Mel Bridges retired 15 July 2013.

24. Key Management Personnel (continued)

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

30 June 2012	Balance 1 July 11	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 12
Directors					
M Bridges[4]	450,485	-	-	288,773	739,258
P Smith [2]	1,074,349	211,154	-	-	1,285,503
T Ramsdale	1,244,637	-	-	59,182	1,303,819
C Montagner[1]	84,015	-	-	-	84,015
N Withnall[3]	-	-	-	-	-
Executives					
C Walker	-	46,013	-	-	46,013
T Brown	307,423	115,466	-	-	422,889
W Meutermans	256,181	57,745	-	-	313,926
M West	623,321	82,477	-	-	705,798
Total	**4,040,411**	**512,855**	**-**	**347,955**	**4,901,221**

1 Carlo Montagner resigned 22 November 2011.
2 Pete Smith ceased employment 25 January 2013.
3 Nerolie Withnall retired 4 July 2013.
4 Mel Bridges retired 15 July 2013.

25. Share-Based Payment Plan

Recognised share-based payment expenses

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

	Note	Consolidated 2013 $'000	Consolidated 2012 $'000	Alchemia Limited 2013 $'000	Alchemia Limited 2012 $'000
Expenses arising from equity-settled share-based payment transactions	19	**257**	261	**66**	219

Types of share-based payment plan

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

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

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

	2013 Number of options	2013 Weighted average exercise price	2012 Number of options	2012 Weighted average exercise price
Balance at beginning of year	**3,730,000**	**0.51**	6,698,404	0.75
- granted	**4,462,500**	**0.34**	993,000	0.33
- lapsed	**(2,692,000)**	**0.47**	(3,961,404)	0.70
- forfeited	**-**	**-**	-	-
- exercised	**-**	**-**	-	-
Balance at end of year	**5,500,500**	**0.39**	3,730,000	0.51
Exercisable at end of year	**1,038,000**	**0.58**	2,737,000	0.51

25. Share-Based Payment Plan (continued)

Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding as at 30 June 2013 is 4.45 years (2012: 2.45 years)

Range of exercise price

The range of exercise prices for options outstanding at end of the year was $0.28 - $0.742 (2012: $0.28 - $1.015).

Weighted average fair value

The weighted average fair value of options granted during the year was $0.1639 (2012: $0.1730).

Options held as at the end of the reporting period

The following table summarises information about options held by the employees and contractors as at 30 June 2013:

Number Issued	Grant date	Vesting date	Exercise Price	Expiry Date
630,000	27 May 2011	26 May 2012	$0.742	26 May 2016
400,000	28 Nov 2011	28 Nov 2012	$0.329	16 Aug 2017
8,000	09 Mar 2012	08 Mar 2013	$0.280	08 Mar 2017
110,000	03 Oct 2012	03 Oct 2013	$0.555	03 Oct 2017
4,352,500	14 Mar 2013	14 Mar 2014	$0.337	14 Mar 2018
5,500,500				

Option pricing model

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

The following table lists the inputs to the model used for the year ended 30 June 2013 and 30 June 2012.

	2013	2012
Expected volatility (%)	**58%**	68%
Risk free interest rate (%)	**3.12%**	3.41%
Expected life of options (years)	**3.0**	2.9
Dividend yield (%)	**0%**	0%
Option exercise price ($)	**$0.34**	$0.33
Weighted average share price at grant date ($)	**$0.34**	$0.35

The expected volatility was determined using the 12 month historical average of the Company's share price.

	Note	Consolidated 2013 $'000	Consolidated 2012 $'000	Alchemia Limited 2013 $'000	Alchemia Limited 2012 $'000
26. Employee Benefits and Superannuation Commitments					
Employee benefits					
Current					
The aggregate employee benefit liability is comprised of:					
Accrued wages, salaries, bonus and on-costs		**225**	228	**34**	127
Annual and long-service leave provisions (current)		**434**	522	**164**	373
		659	750	**198**	500
Non current					
Annual and long-service leave provisions (non-current)		**173**	78	**20**	50
		832	828	**218**	550

27. Expenditure Commitments

(a) Capital expenditure commitments

There were no capital expenditure commitments as at 30 June 2013 and 2012.

	Note	Consolidated 2013 $'000	Consolidated 2012 $'000	Alchemia Limited 2013 $'000	Alchemia Limited 2012 $'000
(b) Lease expenditure commitments					
(i) Operating leases (non-cancellable):	(i)				
Minimum lease payments					
– not later than one year		**447**	73	**-**	73
– later than one year and not later than five years		**963**	-	**-**	-
Aggregate lease expenditure contracted for at reporting date		**1,410**	73	**-**	73
(c) R&D Project commitments	(ii)				
– not later than one year		**-**	339	**-**	-
– later than one year and not later than five years		**-**	-	**-**	-
Total commitments		**-**	339	**-**	-

(i) The operating leases are in respect of the lease of the premises in Brisbane and eleven items of equipment. In FY2013, an expense of $400,000 was recorded as lease payments for the premises in Brisbane (2012:$382,000). There were no contingent rents paid during FY2013.

(ii) The Group has entered into agreements with certain organisations for ongoing research and clinical trials. Under these agreements the Group is committed to providing funds over future periods as set out in note 27(c).

27. Expenditure Commitments (continued)

(d) Novozymes Biopharma DK royalty agreement

The Company entered into a royalty agreement with Novozymes in July 2009 whereby the Company is committed to pay Novozymes a 1.0% royalty on the net sales from any HA-Irinotecan product and a 0.5% royalty on net sales of any other product containing HA developed under the HyACT patents in return for Novozymes having funded a portion of the Phase II clinical trials of HA-Irinotecan. If Novozymes is capable of supplying HA to the Company's specifications and the Company do not use them as its supplier for HA, the Company is committed to pay a 2.0% royalty on the net sales from any HA-Irinotecan product and a 1.0% royalty on net sales of any other product containing HA. Subject to certain termination events, including breach of the agreement by the other party, certain insolvency events relating to the other party or if it becomes unlawful for the other party to perform under the agreement, this agreement will remain in effect until the expiry of the last of Company's HyACT patents. As of 30 June 2013, the latest date on which any of the Company's HyACT patent expires was in 2026.

(e) PSI CRO AG clinical research services agreement

The Company entered into a Clinical Research Services Agreement with PSI CRO AG, or PSI, an international clinical trial management company. Pursuant to this agreement, PSI is managing and coordinating the HA-Irinotecan Phase III clinical trial. The amount payable to PSI is milestone driven with a total estimated cost of approximately US$9.5 million if those milestones are achieved, of which an amount of US$7.2 million has been expensed as at 30 June 2013. In addition, the Company is obliged to reimburse PSI for out-of-pocket expenses and third party vendor costs. This contract is cancellable at any time at the Company's sole discretion.

(f) BioClinica, Inc general services agreement

The Company entered into a general services agreement with BioClinica Inc, an international medical image management provider for clinical trials, to provide medical imaging services for the Phase III clinical trial. The overall project cost is estimated at approximately US$1.4 million, of which an amount of US$1.1 million has been expensed as at 30 June 2013. This contract is cancellable at any time at the Company's sole discretion.

28. Collaboration Agreements

(a) AstraZeneca AB, collaboration agreement

The Company has established a multi-target, drug discovery collaboration with AstraZeneca AB (AstraZeneca). This collaboration includes the use of the proprietary Diversity Scanning Array (DSA) and associated Versatile Assembly on Stable Templates (VAST) chemistry platform to discover and develop novel small molecules against multiple AstraZeneca targets. Alchemia will provide VAST chemistry expertise to develop small molecule clinical candidates for AstraZeneca. By accessing Alchemia's VAST discovery platform, AstraZeneca will seek novel small molecules to treat diseases across a variety of therapeutic areas including oncology, respiratory, cardiovascular, metabolism, infection and neuroscience.

(b) Merck Serono, collaboration agreement

The Company and Merck Serono (Merck) have established a commercial collaboration between them. This collaboration begins with an investigator-led Phase II clinical trial of Alchemia's HA-Irinotecan in combination with Merck Serono's leading therapeutic antibody, Erbitux (cetuximab), for patients with metastatic colorectal cancer (mCRC). Initial patient enrolment is expected by Q3 2013. Approximately 45 patients, who are candidates for second-line treatment of mCRC, are to be enrolled at six to ten sites around Australia, with the trial scheduled to run for approximately 24 months. The Phase II study led by Associate Professor Peter Gibbs of the Walter and Eliza Hall Institute, is intended to generate data supporting the clinical use of HA-Irinotecan with Erbitux in the treatment of mCRC. Specifically, this study will primarily evaluate the safety of Alchemia's lead HyACT drug, HA-Irinotecan, as part of the FOLFIRI treatment regimen, in combination with Merck Serono's Erbitux.

	Consolidated		Alchemia Limited	
	2013	2012	**2013**	2012
	$	$	**$**	$
29. Auditors' Remuneration				
The auditor of Alchemia Limited is Ernst & Young. Amounts received or due and receivable by the auditor of the company for:				
• An audit or review of the financial report of the entity and any other entity in the consolidated entity	**100,000**	964,665	100,000	110,965
• Other assurance related services in relation to the entity and any other entity in the consolidated entity:	**668,804**	53,400	590,304	53,400
	768,804	1,018,065	988,024	164,365
Amounts received or due and receivable by non Ernst & Young audit firms for:				
• Accounting and taxation services	**210,133**	67,155	38,500	67,155
	210,133	67,155	38,500	67,155

30. Contingent Assets and Liabilities

On 25th January 2013 Dr Pete Smith, by mutual agreement with the Board, ceased employment as the CEO and Managing Director with the parent company ACL and its subsidiaries. As part of the separation agreement between the Company and Dr Smith, the Company has committed to issue 600,000 options subject to shareholder approval. If this approval is not granted, the Board has agreed to compensate Dr Smith with the fair value of these options, which cannot be estimated at this time.

There are no other contingent assets or liabilities as at 30 June 2013.

31. Subsequent Events

The Board of Directors resolved to issue 1,617,000 options over shares in ACL to the executive and staff of the Group on 12 August 2013. The CEO was approved the grant of 383,000 options which requires shareholder approval.

Subsequent to the balance date, the Group has entered into a professional services agreement to assist the company with its business development activities. The agreement requires payment of an initial retainer fee and a success fee on consummation of a qualifying transaction. The success fee consists of single digit percentage fees on all non contingent consideration on closing of a transaction and all contingent consideration when they are earned.

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

Directors' Declaration

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

(1) In the opinion of the Directors:

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

(i) Giving a true and fair view of the Company's financial position as at 30 June 2013 and of their performance for the year ended on that date; and

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

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

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

(2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial period ending 30 June 2012.

On behalf of the Board

Director

Signed at Brisbane on 6 September 2013

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Independent auditor's report to the members of Alchemia Limited

Report on the financial report

We have audited the accompanying financial report of Alchemia Limited, which comprises the balance sheets as at 30 June 2013, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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

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Opinion

In our opinion:

a. the financial report of Alchemia Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the company's and consolidated entity's financial positions as at 30 June 2013 and of their performance for the year ended on that date; and

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

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Alchemia Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Winna Brown
Partner
Brisbane
6 September 2013

Shareholder Information

Distribution of Holdings - as at 20 September 2013

Range	Securities	%	No. Of Holders	%
100,001 and over	262,137,976	80.90%	301	5.37%
10,001-100,000	51,798,342	15.98%	1,582	28.22%
5,001-10,000	5,539,193	1.71%	721	12.86%
1,001-5,000	3,967,772	1.22%	1,500	26.76%
1-1,000	600,536	0.19%	1,501	26.78%
Total	**324,043,819**	**100.00%**	**5,605**	**100.00%**
Unmarketable parcels	454,868	0.14%	1,349	24.07%

Substantial Shareholders

Name	No. of Shares in which a Relevant Interest is Held	%
Various Australian domiciled pooled vehicles for which Allan Gray is an investment manager	29,697,088	9.16%
Various pooled vehicles, for which Orbis Investment Management Limited (an entity affiliated with Allan Gray), is investment manager	29,415,489	9.07%
		18.23%
Armada Trading Pty Ltd and its relevant associated entities	16,502,281	5.09%

Twenty Largest Shareholders – as at 20 September 2013

	Shareholder	Shares	%
1	Citicorp Nominees Pty Limited	41,587,956	12.83%
2	National Nominees Limited	30,636,238	9.45%
3	HSBC Custody Nominees	14,356,439	4.43%
4	Jagen Nominees Pty Ltd	12,735,464	3.93%
5	HSBC Custody Nominees	12,501,231	3.86%
6	Armada Trading Pty Limited	10,919,974	3.37%
7	Sandhurst Trustees Ltd	9,612,345	2.97%
8	Phillip Asset Management Ltd	9,602,856	2.96%
9	J P Morgan Nominees Aust Ltd	7,684,870	2.37%
10	California Capital Equity Llc	5,854,719	1.81%
11	Amp Life Limited	5,224,885	1.61%
12	Cameron Richard Pty Ltd	4,954,695	1.53%
13	BNP Paribas Noms Pty Ltd	4,503,524	1.39%
14	Pinwillow Pty Ltd	3,759,100	1.16%
15	Asia Union Investments	3,000,000	0.93%
16	Erdnarp Enterprises Pty	2,493,323	0.77%
17	Maxlen Nominees Pty Ltd	2,292,730	0.71%
18	Heather Fleming Andrews &	2,000,000	0.62%
19	Laliber Pty Ltd	1,965,257	0.61%
20	Rosherville Pty Ltd	1,850,000	0.57%
	Total	**187,535,606**	**57.87%**

Glossary

A

ANDA Abbreviated New Drug Application (ANDA) contains data for the review and approval of a generic drug product by the FDA. Generic drug applications are 'abbreviated' because they are not required to include preclinical and clinical data to establish safety and effectiveness

Antithrombotic An agent used for the prevention or treatment of a blood vessel blockage caused by a clot formed at the site of obstruction

API Active pharmaceutical ingredient, the chemical substance used in the manufacture of a drug

Arixtra The brand name for the antithrombotic Fondaparinux sodium and a registered Trademark of GlaxoSmithKline

B

Bioequivalent Two drugs are said to be bioequivalent if they have the same potency and bio-availability, assuming equal doses

Board The board of directors of Alchemia Limited

C

Carbohydrate Found in plants and animals carbohydrates are large complex molecules made up of sugars such as glucose

Chemotherapy A term used to describe the use of chemical agents to kill cancer cells

Clinical trial A structured study conducted in a hospital or clinic in which a drug is evaluated for its effects on humans

Company Means Alchemia Limited

Cytotoxic A substance that causes cell death. Many drugs used to treat cancer are cytotoxic

D

Drug delivery Manner by which patients receive formulated drugs. Routes of administration include oral, nasal, pulmonary, transdermal, intravenous and subcutaneous

Drug development In broad terms, the process of taking a drug candidate through preclinical testing, IND submission, clinical trials and NDA filing

Drug discovery The process by which chemical compounds with possible therapeutic benefits in man are identified

DVT Deep vein thrombosis. The formation of a blood clot in a 'deep vein'. Deep veins occur in arms, legs and the torso

E

Efficacy A measure of a drug's effectiveness. The ability of a drug to control or cure an illness

F

FDA US Food and Drug Administration; the regulatory body for the approval of drugs in the United States

Fondaparinux The international non-proprietary name for Arixtra

G

Generic A generic drug is one that is equivalent to an original drug product in dosage form, strength, route of administration, quality, performance characteristics and intended use

GlaxoSmithKline The pharmaceutical company that produces Arixtra

GPCR g-Protein Coupled Receptors (GPCRs) are important targets in many diseases including pain, inflammation, cancer, metabolic, gastrointestinal, cardiovascular and central nervous systems disorders

H

HA-Irinotecan A HyACT formulation of irinotecan for the treatment of metastatic colorectal cancer

HyACT Hyaluronic acid chemotransport technology. Alchemia's proprietary technology for the delivery of anti-cancer agents to tumour sites

Hyaluronic acid (HA) A naturally occurring, linear polysaccharide molecule that is approved and widely used as an injected medical device for the treatment of arthritis and for ophthalmic procedures. In solution HA forms a sponge-like mesh which entraps smaller molecules, forming the basis for the HyACT platform

I

Indication The specific approved or potential use for a specific drug

Irinotecan A cytotoxic drug used for the treatment of metastatic colorectal cancer, marketed by Pfizer under the tradename Camptosar

L

Library A collection of chemical compounds, often related by a core structure or function, used for drug discovery

LMWH Low molecular weight heparin. A mixture of smaller fragments of heparin produced by artificially breaking down heparin using either chemical or enzymatic means

Lovenox A low molecular weight heparin (LMWH) produced by the Pharmaceutical Company Sanofi-Aventis

N

NCE New Chemical Entity. A chemical compound which has not been approved by the FDA for human use

NDA New Drug Application. A document in which a drug sponsor formally proposes that the FDA approve a new drug for sale and marketing

O

Oncology The branch of medicine which studies cancer

P

Phase I clinical trial The first phase of testing a new drug or formulation in humans; primarily designed to demonstrate safety and obtain some information on the appropriate human dose

Phase II clinical trial The second phase of testing a new drug or formulation in humans; designed to demonstrate safety of the dose (chosen on the basis of Phase I results) and to provide evidence for efficacy (e.g. an anti-tumour effect in the case of cancer drugs)

Phase III clinical trial The third phase of testing a new drug or formulation in humans; designed to demonstrate safety and/or efficacy that are equivalent or superior to existing therapies, providing the necessary data for obtaining formal approval from the FDA

Platform technology A proprietary technology which offers an ongoing stream of product opportunities

Preclinical The testing of a compound/treatment in animals to measure efficacy and safety prior to testing in humans

PFS (progression-free survival) A term referring to the length of time, during and after treatment, a cancer does not grow

Pulmonary embolism Blood clot in one of the major arteries that carry blood depleted of oxygen to the lungs

S

Sanofi-Aventis The Pharmaceutical Company that produces Lovenox®

Scale-up Production of large, industrial, quantities of a drug

Secondary endpoint A clinical endpoint supportive of the primary endpoint, through additional clinical characterisation of the treatment effect

Statistical significance A result from a statistical test which indicates whether differences between experimental groups are real or due to chance

Super generic A "high-barrier-to-entry" generic product, differing from the original in formulation or method of delivery

Synthesis The formation of a man made chemical compound from simpler compounds by chemical reactions, usually over a number of steps

T

TGA Therapeutic Goods Administration. The Australian Government agency which assesses and monitors activities to ensure medicines in Australia are of an acceptable standard

Thrombosis A blood vessel blockage by a clot formed at the site of obstruction. This is distinguished from an "embolism", which travels through the bloodstream and lodges, obstructing a blood vessel

Time to treatment failure An aggregate end point comprised of time to disease progression, time to toxicity or death, or time to initiation of alternate therapy

Tumour An abnormal mass of tissue that results from excessive cell division. Tumours perform no useful body function. They may be either benign (not cancerous) or malignant (cancerous)

Tumour response Evidence of tumour shrinkage by clinical or radiological data

V

VAST Versatile Assembly on Stable Templates. Alchemia's carbohydrate based drug discovery platform technology. VAST enables rapid synthesis of libraries of compounds that effectively scan three dimensional space

Acronyms

ANDA
Abbreviated New Drug Application

AFSSAPS
Health Products Safety Agency (France)

CDER
Centre for Drug Evaluation & Research (FDA)

EMA
European Medicines Agency (Europe)

FDA
Food & Drug Administration (United States)

GMP
Good Manufacturing Practice

GPCR
g-Protein Coupled Receptor

GSK
GlaxoSmithKline

HTS
High Throughput Screening

IND
Investigational New Drug

LMWH
Low Molecular Weight Heparin

MPA
Medical Products' Agency (Sweden)

NCE
New Chemical Entity

NDA
New Drug Application

PFS
Progression-free survival

TGA
Therapeutic Goods Administration (Australia)

VTE
Venous Thromboembolism

Corporate Directory

Directors

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

Company Secretary

Mr Stephen Denaro

Registered Office

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

Principal Place of Business

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

Share Register

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

Stock Exchange Listing

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

Solicitors

Corrs Chambers Westgarth
Brisbane
Australia

Bankers

Westpac Bank
Garden City
Australia

Auditors

Ernst & Young
Australia

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Alchemia

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