

HEXIMA LIMITED
ABN 64 079 319 314

Annual Financial Report

FOR THE YEAR

ENDED 30 JUNE 2012

HEXIMA LIMITED
ABN 64 079 319 314

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HEXIMA LIMITED
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DIRECTORS' REPORT

The Directors present their report together with the financial report of Hexima Limited (“the Company” or “Hexima”) and of the Group, being the Company and its subsidiaries for the financial year ended 30 June 2012 and the auditor’s report thereon.

DIRECTORS

The Directors of Hexima at any time during or since the end of the financial year are:

Ross Dobinson BBus, (QLD UNIVERSITY OF TECHNOLOGY)
Executive Chairman

Ross Dobinson has extensive corporate advisory and investment banking experience. He has taken two highly successful biotechnology companies from pre-seed stage to listed status with a combined current market capitalisation of over \$1 billion. In addition, he has been involved in successful venture capital initiatives in Australia, Europe and the United States.

Mr Dobinson is Chairman of Acrux Limited, Micronix Pty Ltd, Diagnotech Pty Ltd, Farm By Nature Pty Ltd, and TPI Enterprises Ltd. He is also a Director of Starpharma Holdings Limited, Origin Capital Limited, Healthfarm Fine Foods Pty Ltd and Racing Victoria Limited. He was formerly a director of the listed stockbroking firm of Jacksons Limited, Head of Corporate Advisory Services at the stockbroking firm operated by National Australia Bank Limited (A.C. Goode & Co. Ltd), Director of National Australia Corporate Advisory Limited, and Director of Corporate Advisory of Dresdner Australia Proprietary Limited.

Mr Dobinson was appointed Chairman on 21 July 2010. He is a member of the Audit and Risk Management and Remuneration Committees.

Professor Marilyn Anderson BSC (HONS) (THE UNIVERSITY OF MELBOURNE), PHD (LATROBE UNIVERSITY)
Executive Director, Chief Science Officer

Professor Marilyn Anderson is a founding scientist of Hexima. She has over 30 years experience in scientific research in the area of plant biochemistry and genetics. After completing a BSc Honours at The University of Melbourne and a PhD in Biochemistry at La Trobe University, Professor Anderson spent seven years in the United States working on diabetes at the University of Miami and oncogenes at Cold Spring Harbor Laboratory.

She is a Professor of Biochemistry at La Trobe University and an Associate Professorial Fellow in the Botany School at The University of Melbourne. She was appointed Hexima’s Chief Science Officer in July 2009.

Professor Anderson was a director at South East Water Limited for over 10 years prior to her appointment to the board of City West Water in 2008. She is a Fellow of the Australian Academy of Science, of the Australian Academy of Technological Sciences and Engineering and of the Australian Institute of Company Directors.

She was appointed a Director of the Company on 23 November 2010.

Steven M Skala AO BA, LL.B (HONS) (UNIVERSITY OF QLD), BCL (UNIVERSITY OF OXFORD)
Non-Executive Director

Steven Skala is Vice Chairman, Australia and New Zealand of Deutsche Bank AG. He is Chairman of Wilson HTM Investment Group Limited, and is a Director of the Australian Broadcasting Corporation. Mr Skala is Vice President of the Board of the Walter & Eliza Hall Institute of Medical Research, Deputy Chairman of the General Sir John Monash Foundation and a Director of the Centre for Independent Studies. He is a Member of the International Council of the Museum of Modern Art (MoMA) in New York, the Advisory Council of the Australian Innovation Research Centre, the Global Foundation and the Grievance Tribunal of Cricket Australia.

He is a past Chairman of Film Australia Limited and the Australian Centre for Contemporary Art, a former director of Max Capital Group Limited, the Channel Ten Group, The King Island Company Limited, Rothschild Australia e-Fund Investors Pty Ltd and The Australian Ballet, and a former Trustee of the Sir Zelman Cowen Foundation for Medical Research. Steven practised law in Brisbane, London, and in Melbourne where for almost 20 years he was a Partner and Head of the Corporate and Commercial Practice of Arnold Bloch Leibler, Solicitors. He was appointed an Officer in the Order of Australia in January 2010 for service to the

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DIRECTORS' REPORT

arts, education, business and commerce.

Mr Skala has been a Director of the Company since 17 May 2002. He was Chairman of the Company from 2002 until 30 June 2008. He was reappointed as Chairman on 2 October 2009 and resigned as Chairman on 21 July 2010. He is also a member of the Audit and Risk Management and Remuneration Committees.

Hugh M Morgan AC, LLB, BCOMM (THE UNIVERSITY OF MELBOURNE)
Non-Executive Director

Hugh Morgan is Principal of First Charnock Pty Ltd, Chairman of Biodiem Limited and a member of the Lafarge International Advisory Board. He is also a Trustee Emeritus of The Asia Society New York, President of the National Gallery of Victoria Foundation and Chairman of the Order of Australia Association Foundation.

Mr Morgan was a Director of the Board of the Reserve Bank of Australia for 14 years retiring in 2007 and he was President of the Business Council of Australia from 2003-2005. He is also immediate Past President of the Australia Japan Business Co-operation Committee and immediate Past Co-Chair of the Commonwealth Business Council, and continuing Emeritus Director.

Mr Morgan was Chief Executive Officer of WMC Limited from 1986 to 2003. He was a Director of Alcoa of Australia from 1977 to 1998 and a Director of Alcoa Inc from 1998 to 2001.

Mr Morgan has been a Director of the Company since 10 May 2007. He is Chairman of the Audit and Risk Management Committee and a member of the Remuneration Committee.

Professor Jonathan West BA (UNIVERSITY OF SYDNEY), PHD (HARVARD UNIVERSITY)
Non-Executive Director

Professor Jonathan West is the Director of the Australian Innovation Research Centre. Prior to assuming his current appointment, he taught for 18 years at the Harvard University Graduate School of Business Administration, where he was Associate Professor, founding Director of the Harvard University Life Sciences Initiative, and from 1998-1999 the Novartis Faculty Research Fellow. He has been Visiting Professor at Hitotsubashi University and the Nomura School of Advanced Management in Tokyo, Japan and Visiting Professor at the University de Paris IX-Dauphine, Sorbonne.

Professor West is also Chairman of the Asia Advisory Council of Bunge Ltd, one of the world's largest agribusiness processing and trading companies, and has served as an advisor to other major corporations and several Governments around the world, including in the life sciences field, DuPont, Roche, Novartis, Syngenta and the J.R. Simplot Company, along with the Governments of Singapore, Japan, Hong Kong and France. He was a member of the Scientific Advisory Board of the Novartis Agricultural Discovery Institute in La Jolla, California. In Australia, he has served on the Prime Minister's Science, Engineering, Innovation Council's Working Group on Science and Technology in China and India and in 2006 was 'Eminent Thinker in Residence' with the Premier of NSW. Professor West is a non-executive director of Thomas and Coffey Limited.

Professor West has been a Director of the Company since 7 November 2005. He is Chairman of the Remuneration Committee and a member of the Audit and Risk Management Committee.

COMPANY SECRETARY

Ms Elisha Larkin BComm(Hons) / BAgriSci(Hons) (The University of Melbourne) was appointed as Company Secretary on 4 May 2012. Ms Larkin has been with Hexima since May 2006. She replaces Ms Justine Heath who had held the position since December 2007. Ms Heath left the Company on 4 May 2012.

DIRECTORS' REPORT

DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) and the number of meetings attended by each of the Directors of the Company during the financial year are:

	BOARD MEETINGS		AUDIT AND RISK MANAGEMENT COMMITTEE		REMUNERATION COMMITTEE	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
Ross Dobinson	8	7	2	2	-	-
Marilyn A Anderson	8	7	2	-	-	-
Steven M Skala	8	8	2	-	-	-
Hugh M Morgan	8	6	2	2	-	-
Jonathan West	8	8	2	-	-	-

CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance practices in place throughout the financial year. The Group delisted on 17th June 2011 and during FY11 and the period after delisting, the Group has voluntarily complied with ASX Corporate Governance Council recommendations, unless otherwise stated.

The Board of Directors

The Board is responsible for the direction and supervision of Hexima's business on behalf of the Shareholders, by whom they are elected and to whom they are accountable.

The Board's responsibilities include:

- protecting and enhancing the value of Hexima's assets;
- setting strategies and directions, then monitoring and reviewing progress against these strategic objectives;
- reviewing and ratifying internal controls, codes of conduct and legal compliance;
- ensuring the significant risks facing Hexima have been identified and adequate control, monitoring and reporting mechanisms are in place;
- approving transactions relating to acquisitions, divestments and capital expenditure above delegated authority limits; and
- approving and monitoring financial and other reporting.

DIRECTORS' REPORT

The Board has adopted a Board Charter, which sets out values and business behaviours necessary to maintain confidence in Hexima's integrity. It details the respective roles and responsibilities of the Board and management.

The Board has delegated responsibility for operation and administration of the Company to the Executive Chairman and executive management. Responsibilities are delineated by formal authority delegations.

Directors and Executive Education

Incoming Directors and Executives participate in informal meetings to increase their understanding of the Company, its key assets and the competitive market in which it operates. Through these meetings, Directors and executives review the Company's policies and procedures for good corporate governance, including delegations and reservations of authority and the roles of key personnel and Board committees. They have access to continuing education to update and enhance their skills and knowledge. A review of the performance of the Board will be undertaken annually by the Chairman, in consultation with the Board.

Composition of the Board

The Constitution of the Company provides that the number of Directors shall not be less than three. There are currently five Directors in office at the date of this report and their names and qualifications are set out on pages 3 to 4 of this Directors' Report.

The ASX best practice recommendations require a majority of the Board to be independent Directors and the chairperson to be an independent director. Currently, the Board has one director who satisfies the ASX guidelines for independence (being Professor Jonathan West). Mr Steven Skala AO and Mr Hugh Morgan AC are Non-Executive Directors but do not qualify as independent because of their shareholdings in Hexima. Mr Ross Dobinson and Professor Marilyn Anderson do not qualify as independent as they are executive Directors. The Board considers their significant commitment as shareholders (which aligns their interests with those of other shareholders) and broad experience as directors of other companies provide advantages to the Board which outweigh any disadvantage in them not satisfying the ASX guidelines for independence. The Board will review this position at least annually.

Board Committees

To assist in the execution of its responsibilities, the Board has established a number of board committees including a Nomination Committee, a Remuneration Committee, an Audit and Risk Management Committee and a Communications Committee. These committees have written mandates and operating procedures, which are reviewed on a regular basis.

The full Board has monthly meetings scheduled for the coming year. Extraordinary meetings will be convened at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman. Submissions are circulated in advance. Executives are regularly involved in Board discussions.

Nomination Committee

The Board has in place a Nomination Committee to assist it in ensuring the Board has an effective composition, size and commitment.

The Nomination Committee develops criteria for Board membership, identifies specific individuals for nomination as Directors and establishes processes for the review of the performance of individual Directors and the Board as a whole. In addition, it is the policy of the Nomination Committee to meet as early as practicable prior to the expiration of the term of office of a Director to consider suitably skilled and experienced individuals for nomination as Directors.

Further details of the Nomination Committee's charter form part of the Board Charter, which is available on the Company's website.

Each of the non-executive Directors are currently on the Nomination Committee. The Board reviewed the structure of the Board and senior executive teams throughout the current financial year within existing scheduled Board meetings. Formal meetings of the Nomination Committee will be scheduled for the coming financial year as required.

DIRECTORS' REPORT

Remuneration Committee

The Board reviews and rewards the performance of the senior management team. In doing so, they consider recommendations from the Remuneration Committee.

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to Key Executives and Directors. The Remuneration Committee Charter forms part of the Board Charter, which is available on the Company's website.

The Remuneration Committee will consist of at least three Directors, a majority of whom are Non-Executive Directors and at least one of whom is an independent director. This differs from the ASX best practice recommendations which require a majority of independent Directors and an independent Chairman. Given the current composition of the Board, it is not possible for Hexima to satisfy the ASX recommendations as to independence. The current members are Professor Jonathan West (Chairman), Mr Ross Dobinson, Mr Steven Skala AO and Mr Hugh Morgan AC.

The Remuneration Committee meets as necessary, generally once a year in order to review and make recommendations to the Board. During the financial year ended 30 June 2012, the Remuneration Committee did not meet separately, as remuneration issues were addressed at meetings of the full Board.

The Remuneration Committee may invite any executive management team members or other individuals to attend meetings of the Remuneration Committee as it considers appropriate. The Remuneration Report is set out on pages 12 to 17 and forms part of the Directors' Report for the financial year ended 30 June 2012.

Audit and Risk Management Committee

The Board has in place an Audit and Risk Management Committee to assist it in verifying and safeguarding the integrity of Hexima's financial reporting. The Audit and Risk Management Committee Charter forms part of the Board Charter, which is available on the Company's website.

The Audit and Risk Management Committee reviews the financial information which is provided to shareholders and others, the systems of internal controls which management and the Board have established and the audit process.

The Audit and Risk Management Committee also reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

- discuss the external audit and internal audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- review the half-year and preliminary final report prior to lodgment with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend board approval of these documents, prior to announcement of results;
- review the draft annual and half-year financial report, and recommend board approval of the financial report; and
- review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.

Audit and Risk Management Committee meetings are to be held periodically throughout the year. It is the policy of the Board that the members of the Audit and Risk Management Committee should be Non-Executive Directors, at least one of whom should also be independent. This differs from the ASX best practice recommendations which require a majority of independent Directors and an independent Chairman. Given the current composition of the Board, it is not possible for Hexima to satisfy the ASX recommendations as to independence. The current Audit and Risk Management Committee comprises Mr Hugh Morgan AC (Chairman), Mr Ross Dobinson, Mr Steven Skala AO and Professor Jonathan West.

DIRECTORS' REPORT

Audit and Risk Management Committee (continued)

The Chief Operating Officer/ Chief Financial Officer and external auditors will generally attend all Audit and Risk Management Committee meetings. The Audit and Risk Management Committee met twice during the year and the committee members' attendance record is disclosed in the table of Directors' meetings on page 5.

The Executive Chairman and the Chief Operating Officer/ Chief Financial Officer have declared in writing that the records for the year have been properly maintained, the Company's financial reports for the year ended 30 June 2012 comply with accounting standards and present a true and fair view of the Company's financial condition and operating results. This statement is required annually.

Communication with Shareholders

Hexima's policy is to provide timely, open and accurate information to all stakeholders, including shareholders, regulators and the wider investment community. The Board Charter includes a continuous disclosure protocol to ensure compliance with the *Corporations Act 2001*.

In summary, the Company's continuous disclosure protocol operates as follows:

-
- the full Annual Financial Report and Half-Yearly results commentary are available on the Company's website and are sent to all shareholders who request them; and
- the Annual Financial Report and the Half-Yearly Accounts are sent to any shareholder on request.

Hexima's communications strategy is set out in the Board Charter and is designed to promote effective communication with shareholders and encourage effective participation at general meetings.

Risk Management

The Board is responsible for the assessment of risk.

Intellectual Property

Intellectual Property is Hexima's most important asset and protection of its IP portfolio is critical to the Company's ability to implement its business strategy. Hexima has consistently invested significant amounts in the development and maintenance of this IP portfolio.

Hexima's IP Committee, chaired by Professor Marilyn Anderson, meets regularly to identify and monitor the creation of IP and to monitor and review claims in the same technical field filed by other companies. The Committee works closely with Hexima's US and Australian patent attorneys.

The Committee also develops and maintains appropriate protocols for recording research results and maintaining the confidentiality of know-how and information associated with Hexima's trials and technology.

Regulatory Framework (including Environmental Regulation)

The use of ag-biotechnology is regulated in the majority of countries in which Hexima will seek to commercialise its technology. The regulatory framework, which varies from country to country, is generally based on an assessment of the risk associated with the technology.

In Australia, the use of ag-biotechnology is regulated by the *Gene Technology Act 2000*. Hexima's gene technology research at The University of Melbourne and La Trobe University is overseen by the Office of the Gene Technology Regulator and all field trials conducted by Hexima have been specifically licensed by the Office of the Gene Technology Regulator.

DIRECTORS' REPORT

Financial Reporting

The Executive Chairman and the Chief Operating Officer have declared in writing to the Board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Monthly actual results are reported against budgets approved by Directors and revised forecasts for the year are prepared regularly.

Funds Management

The Company has considerable funds on deposit following its successful IPO in 2007. The Company's policy is to invest these funds in term deposits or bank bills.

Ethical Standards

All Directors, executives and employees are expected to act with the utmost integrity at all times to enhance the reputation and performance of the Company. Every employee has a supervisor to whom they may refer any issues arising from their employment.

Conflicts of Interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The Board has procedures to assist Directors to disclose potential conflicts of interest.

Independent Advice

Each Director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice at the Company's expense. A copy of the advice received by the Director will be made available to all members of the Board.

DIRECTORS' REPORT

PRINCIPAL ACTIVITIES

The principal activity of the Group during the financial year was the research, development and commercialisation of technology for the genetic modification of crops, primarily to enhance their resistance to insects and fungal pathogens.

OPERATING AND FINANCIAL REVIEW OF THE GROUP

	2012	2011
	\$000	\$000
Revenue	2,961	727
Net loss before financing income/expense	(3,918)	(7,480)
Net financing income	712	1,145
Income tax expense	-	-
Net loss after tax attributable to members	(3,206)	(6,335)
Dividends	NIL	NIL

Summary

The Board is pleased with the progress made on the lead fungal disease control program. The Company entered its first development and commercialisation agreement for fungal disease control in corn and soy with DuPont Pioneer (previously Pioneer Hi-Bred International - a DuPont subsidiary) in 2008.

The program is progressing as planned:

- a) A library of proprietary anti-fungal proteins has been developed.
- b) An effective corn transformation program has been established in the Company's glasshouse and tissue culture facilities, with GM corn plants expressing a range of anti-fungal proteins. Transformation efficiency rates compare favourably with those achieved by our commercial partner in their US facilities.
- c) The glasshouse program has entered full scale disease testing, with bioassays performed on corn plants against targeted fungal diseases.
- d) DuPont Pioneer is carrying out equivalent research in the US on soybeans using leads developed by Hexima in the corn program.

The Company has been able to accelerate these programs without incurring an increase in budgeted expenditure. At 30 June 2012, the Group had \$12.4m in cash and receivables, providing a solid base for the remaining development activity.

The Company has also expanded into fee for service contract work, with a project managing GM canola field trials for a multinational partner progressing in three Australian states. Further opportunities for fee for service work will be pursued to reduce the Company's burn rate (without impacting on the core businesses).

Operating and Financial Review

The Group had net cash outflows from operating activities of \$6.2m for the year ended 30 June 2012 compared with \$8.5m for the prior year. Lower R&D costs were the reason for the variance.

The Group received revenue of \$2.961m for the year ended 30 June 2012 compared with revenue of \$0.727m for the previous year due to the introduction of the R&D Tax Incentive.

The Group recorded a loss after tax of \$3.206 million for the year ended 30 June 2012. A loss after tax of \$6.335 million was recorded for the previous financial year.

Net finance income for the Group for the financial year ended 30 June 2012 was \$0.712 million (2011:\$1.144 million), reflecting lower cash balances as cash was utilised in the current reporting period, and lower interest rates.

DIRECTORS' REPORT

Outlook

Hexima's lead fungal disease control technology is being developed with DuPont Pioneer. This agreement provides a path to market for the Company's technology in corn and soy applications, which are two of the current lead GM crops, accounting for more than 80% of the area planted to GM crops globally. The initial target of the program is broad-spectrum fungal disease resistance in corn, which is the market dominant GM crop by value. Fungal pathogens cause extensive damage to corn, which is a growing concern as intensive farming techniques and reduced crop rotations encourage fungal growth. Fungal disease is estimated to cause yield losses in corn costing approximately US\$8 billion each year in the Americas alone. The Company is continuing to develop and commercialise its insect resistance technology and the MGEV technology platform.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group that occurred during the financial year.

DIVIDENDS

The Company has not paid or declared any dividends during or since the end of the financial year ended 30 June 2012.

LIKELY DEVELOPMENTS

Further disclosure of information regarding likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because, in the opinion of the Directors, disclosure of the information may prejudice the interests of the Group.

ENVIRONMENTAL REGULATION

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Board believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group.

DIRECTORS' REPORT

REMUNERATION REPORT – Audited

Principles of Remuneration

Key management personnel (including Directors of the Company and other executives) have authority and responsibility for planning and controlling the activities of the Group. For the financial year ended 30 June 2012, key management personnel comprised all Directors, executives and the Company Secretary. This included Mr Ross Dobinson, Mr Steven Skala AO, Professor Jonathan West, Mr Hugh Morgan AC, Professor Marilyn Anderson, Dr Robyn Heath (resigned effective 31 December 2011), Ms Justine Heath (resigned effective 4 May 2012) and Ms Elisha Larkin (appointed Chief Operating Officer and Company Secretary 4 May 2012). Remuneration levels for key management personnel are set to attract and retain appropriately qualified and experienced directors and executives. The Remuneration Committee obtains independent advice on remuneration packages and reviews remuneration at least on an annual basis.

Remuneration structures take into account the capability and experience of key management personnel. Remuneration includes a mix of fixed and variable remuneration as well as short and long term incentives.

Fixed Remuneration

Fixed remuneration consists of base remuneration, which is calculated on a total cost basis and includes any FBT charges related to employee benefits, as well as employer contributions to superannuation funds.

Performance Linked Remuneration

Performance linked remuneration may include short and long term incentives.

Short term incentive bonuses are based on the satisfaction of specified performance criteria, which may include financial or non-financial objectives. The Remuneration Committee approves the offer and payment of short term incentive bonuses to key management personnel and to other employees.

Long term incentives may be provided as options over the Company's ordinary shares and other securities. Details are provided on page 16 of the Directors' Report.

Consequences of Performance on Shareholder Wealth

Hexima is a development stage company and the remuneration of key management personnel is not determined by the level of revenue, profit or dividends. Instead, consideration is given to the progress of scientific programs, the commercialisation of those programs, the development of the Company's intellectual property and asset base and long-term share price performance.

Service Contracts

The Group has entered into service contracts with key management personnel, which outline the components of compensation paid to key management personnel, but do not prescribe how compensation levels are modified from year to year. Compensation levels are reviewed each year to take into account cost-of-living changes, any change in scope of the role performed by the senior executive and any changes required to meet the principles of the compensation policy.

All employment contracts may be terminated immediately for cause or for material underperformance.

Professor Marilyn A Anderson

Professor Anderson was appointed Chief Science Officer from 1 July 2009. She was formerly Senior Vice President Research and Discovery. Professor Anderson is an employee of La Trobe University and Hexima contracts her services through a Research Agreement with the University. In addition to her employment by the University, Professor Anderson also has an employment contract with the Group. This employment contract has a term of two years from 1 January 2012 and may be terminated with six months' notice by the employee.

Dr Robyn L Heath

Dr Heath, was Senior Vice President Product Development until 31 December 2011, and was also an employee of The University of Melbourne. Hexima contracted her services through a Research Agreement with the University. In addition to her employment by the University, Dr Heath also had an employment contract with the Group. This employment contract had a term of two years from 1 January 2010 and expired on the 31 December 2011.

DIRECTORS' REPORT

REMUNERATION REPORT – Audited (Continued)

Justine C Heath

Ms Heath was Company Secretary and Chief Operating Officer until 4 May 2012. Six months payment in lieu of notice was made in May 2012.

Elisha Larkin

Ms Larkin was appointed Company Secretary on 4 May 2012.

Non-Executive Directors

The Constitution provides that Non-Executive Directors may be paid or provided fees or other remuneration for their services as a Director of Hexima (including as a member of any Directors' committee). The total amount or value of this remuneration must not exceed \$500,000 (including mandatory superannuation) per annum or such other maximum amount determined by the Company in a general meeting.

A Non-Executive Director may be paid remuneration for services outside the scope of ordinary duties of the Director. Non-Executive Directors may also be paid expenses properly incurred in attending meetings or otherwise in connection with the Company's business.

Fees payable to Non-Executive Directors for the financial year ended 30 June 2012 were set at \$55,000 per annum. Additional "per diem" fees are paid where services rendered are above normal requirements. There has been no change to fees paid to non-executive Directors since 2007.

Details of the nature and amount of each major element of the remuneration of each Director of the Company and each of the named officers of the Company, which is consistent with that of the consolidated entity, (including key management personnel) receiving the highest remuneration are included in the table following.

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DIRECTORS' REPORT

REMUNERATION REPORT – Audited (Continued)
Directors' and Executive Officers' Remuneration

Details of the nature and amount of each major element of remuneration of each Director of the Company and each key management personnel are:

		Short term employee benefits		Total Short-term employee benefits	Termination Benefits	Share based payments		Post Employment Benefits - Superannuation	Total Remuneration	Value of Options as proportion of Remuneration
		Fixed Remuneration (Salary & Fees)	Short Term Incentive (cash)			Share Options Issued ⁽¹⁾	Converting Notes Issued			
Non-executive Directors										
Steven M Skala	2012	50,458	-	50,458	-	-	-	4,542	55,000	-
	2011	53,370	-	53,370	-	-	-	5,939	59,309	-
Jonathan West	2012	50,458	-	50,458	-	-	-	4,542	55,000	-
	2011	50,458	-	50,458	-	-	-	4,542	55,000	-
Hugh M Morgan	2012	50,458	-	50,458	-	-	-	4,542	55,000	-
	2011	50,458	-	50,458	-	-	-	4,542	55,000	-
Adrienne E Clarke	2012	-	-	-	-	-	-	-	-	-
(Retired. 23 Nov 10)	2011	-	-	-	-	-	-	22,917	22,917	-
Executive Directors										
Ross Dobinson	2012	200,000	-	200,000	-	75,302	-	-	275,302	27%
	2011	200,000	-	200,000	-	58,414	-	-	258,414	23%
Marilyn A Anderson ⁽²⁾	2012	174,157	-	174,157	-	-	-	15,639	189,796	-
(Chief Science Officer)	2011	143,620	-	143,620	-	-	-	12,936	156,556	-
Joshua T Hofheimer	2012	-	-	-	-	-	-	-	-	-
(Resigned Non Exec Dir. 23 Nov 10)	2011	200,000	-	200,000	-	-	-	50,000	250,000	-
Executives										
Robyn L Heath ⁽³⁾	2012	31,471	-	31,471	-	-	-	18,500	49,971	-
(Senior VP Product Development – Resigned 31 Dec 2011)	2011	46,532	-	46,532	-	-	-	30,643	77,175	-
Justine C Heath	2012	239,412	-	239,412	125,000	-	-	20,819	385,231	-
(COO, Co. Secretary – Resigned 4 May 2012)	2011	250,000	-	250,000	-	-	-	22,500	272,500	-
Elisha Larkin ⁽⁴⁾	2012	25,112	-	25,112	-	-	-	2,260	27,372	-
(Appointed COO and Company Secretary 4 May 2012)	2011	-	-	-	-	-	-	-	-	-
Total	2012	821,526	-	821,526	125,000	75,302	-	70,844	1,092,672	7%
Total	2011	994,438	-	994,438	-	58,414	-	154,019	1,206,871	5%

DIRECTORS' REPORT

REMUNERATION REPORT – Audited (Continued)

Directors' and Executive Officers' Remuneration (Continued)

Notes in relation to the table of directors' and executive officers' remuneration

- 1) The fair value of options is calculated at grant date using the Binomial Approximation Option Pricing model and allocated to each period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognized in this reporting period.
- 2) Professor Anderson is employed by La Trobe University. The Company engages her services through a Research Agreement with the University and through a separate direct employment agreement. Professor Anderson's total remuneration from the Company and La Trobe University (in relation to services performed for Hexima) was \$358,622, comprising \$189,796 paid and payable directly by the Company and \$168,826 paid by La Trobe University (for the services performed for Hexima). The amount shown in the table above represents payments made directly to Professor Anderson by the Group only.
- 3) Dr Heath was employed by The University of Melbourne. The Company engaged her services through a Research Agreement with the University and through a separate direct employment agreement. Dr Heath's total remuneration from the Company and The University of Melbourne was \$146,106, comprising \$49,971 paid and payable directly by the Company and \$96,135 paid by The University of Melbourne. The amount shown in the table above represents payments made directly to Dr Heath by the Group only. Dr Heath resigned from Hexima Limited effective 31st December 2011.
- 4) Ms Elisha Larkin was promoted to Chief Operating Officer and Company Secretary on 4 May 2012. Amounts disclosed relate to the period she was COO and Company Secretary.

HEXIMA LIMITED
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DIRECTORS' REPORT

REMUNERATION REPORT – Audited (Continued)

Equity instruments

All options refer to options over ordinary shares of Hexima Limited, which are exercisable on a one-for-one basis under the employee share option plan.

Options over equity instruments granted as compensation

Details on options over ordinary shares in the company held by key management personnel and executives during the reporting period.

Executive Chairman	No. of Options Granted	Exercise Price	Grant Date	Fair value per option at grant date	Expiry Date	No. of options vested during 2012
Ross Dobinson	1,000,000	\$0.50	1 st December 2010	Tranche 1 \$0.16 Tranche 2 \$0.20 Tranche 3 \$0.23 Tranche 4 \$0.25	4 Tranches of 250,000 options. One tranche vested 15 November 2011, the others to vest 15 November 2012, 15 November 2013 and 15 November 2014	250,000

DIRECTORS' INTERESTS

Set out below are details of the interests of the Directors at the date of this report in the shares of the Company, rights or options over such instruments. Interests include those held directly and indirectly.

Director	Total shares	Options over shares
Steven M Skala	4,167,467	-
Jonathan West	2,000,000	-
Hugh M Morgan	6,454,503	-
Marilyn A Anderson	2,381,935	-
Ross Dobinson	-	1,000,000
Total	15,003,905	1,000,000

HEXIMA LIMITED
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DIRECTORS' REPORT

SHARE OPTIONS

Unissued shares under option

At the date of this report, unissued ordinary shares of the Company under option are:

Expiry Date	Exercise Price	Number of Shares
16 May 2013	\$0.00	90,000
15 November 2019	\$0.50	1,000,000
		1,090,000

Shares issued on exercise of options

The following options lapsed during the financial year ended 30 June 2012.

	Options over shares 1 July 2011	Exercised	Lapsed	Options over shares at date of this report
Balmoral	1,600,000	-	1,600,000	-

The Group's policies prohibit those that are granted share-based payments as part of their remuneration from entering into other arrangements that limit their exposure to losses that would result from share price decreases. The Group requires all executives and Directors to sign annual declarations of compliance with this policy throughout the period.

HEXIMA LIMITED
ABN 64 079 319 314

DIRECTORS' REPORT

AUDITORS

Non-Audit Services

During the year KPMG, the Company's auditor, has performed certain services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Risk Management Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided by the auditor do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amount paid or payable to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below.

Audit Services	2012	2011
	\$	\$
Audit of the annual financial report	40,000	47,800
Review of half year financial report	25,000	25,000
Services other than statutory audit		
Special Grant Audit 2011/2010	6,900	6,900
Special Grant Audit 2012	5,175	-
	<hr/>	<hr/>
	77,075	79,700

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

No indemnities were given or insurance premiums paid during the financial year for any person who was an auditor of the Company. The Company has not indemnified any Directors. During the financial year ended 30 June 2012, the Company paid insurance premiums of \$47,359 (inclusive of taxes) in respect of Directors' and Officers' liability and legal expenses insurance contracts. This covered both current and former Directors and Officers of the Company. The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a willful breach of duty or improper use of information or position to gain personal advantage.

EVENT SUBSEQUENT TO REPORTING DATE

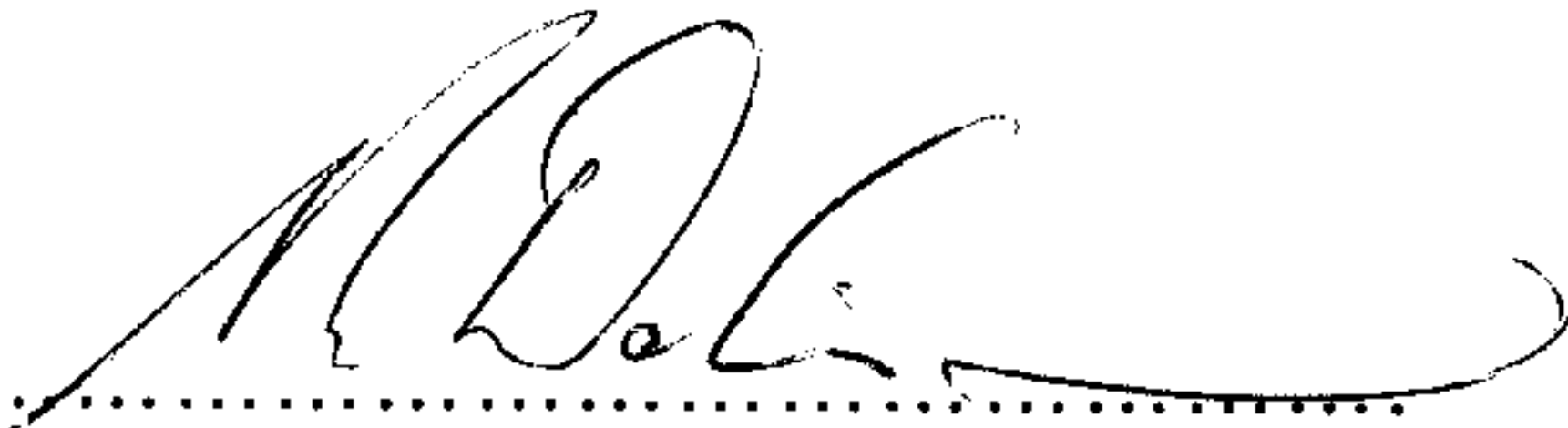
There have been no events subsequent to balance date which would have a material effect on the Group's financial statements as at 30 June 2012.

DIRECTORS' REPORT

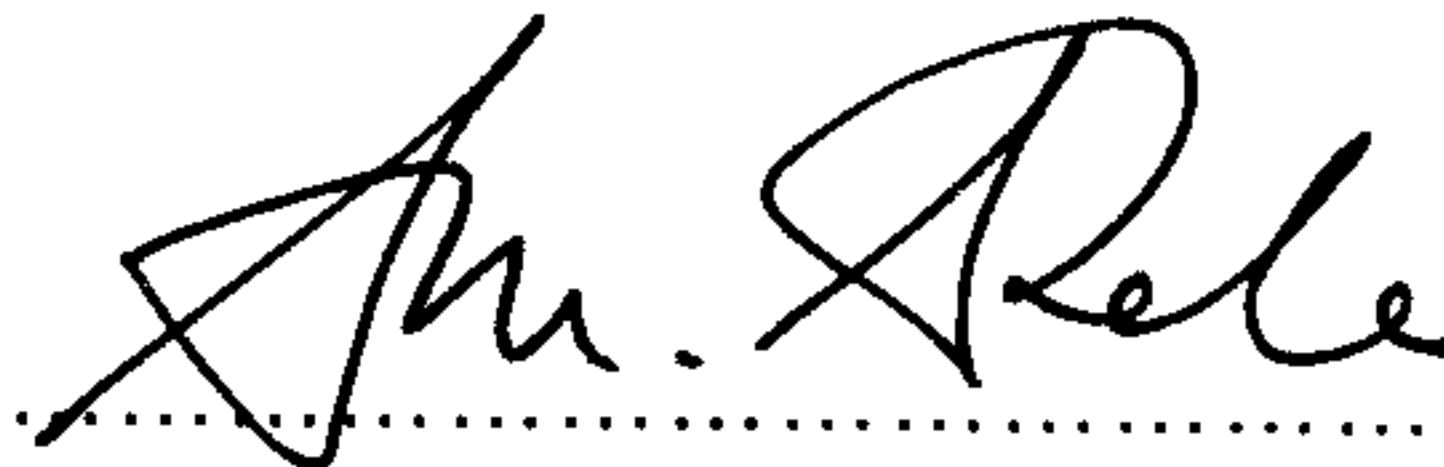
LEAD AUDITORS' INDEPENDENCE DECLARATION UNDER SECTION 370C OF THE CORPORATIONS ACT 2001

The Lead Auditor's Independence Declaration is set out on page 49 and forms part of the Directors' Report for the ended 30 June 2012.

This report is made pursuant to a resolution of the Directors.



.....
Mr Ross Dobinson
Director



.....
Mr Steven M Skala AO
Director

Dated this 31st day of August

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012**

		Consolidated	
	Notes	2012	2011
		\$	\$
Revenue	6	2,960,602	727,104
Contracted research expenditure		(4,023,880)	(4,797,596)
Other research & development expenditure	7	(309,385)	(389,995)
Patent and legal expenses		(290,766)	(370,564)
Field trial expenses		(82,977)	(91,413)
Marketing & business development expenses		(265,534)	(594,365)
Employee benefits expense		(1,354,846)	(1,350,153)
Depreciation expense		(241,169)	(239,115)
Other expenses	8	(309,974)	(373,697)
		(6,878,531)	(8,206,898)
Results from operating activities		(3,917,929)	(7,479,794)
Financial income	9	712,358	1,144,476
Net financing income/(expenses)		712,358	1,144,476
Loss before income tax		(3,205,571)	(6,335,318)
Income tax expense	10(a)	-	-
Loss for the period		(3,205,571)	(6,335,318)
Other comprehensive income for the period, net of income tax		-	-
Total comprehensive income/(loss) for the period		(3,205,571)	(6,335,318)
Loss attributable to:			
Owners of the Company		(3,205,571)	(6,335,318)
Loss for the period		(3,205,571)	(6,335,318)
Total comprehensive loss attributable to:			
Owners of the Company		(3,205,571)	(6,335,318)
Total comprehensive loss for the period		(3,205,571)	(6,335,318)

The accompanying notes form part of these financial statements

HEXIMA LIMITED
ABN 64 079 319 314

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Notes	Consolidated	
		2012	2011
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	11	9,789,777	15,314,971
Receivables	12	2,640,240	545,930
TOTAL CURRENT ASSETS		<u>12,430,017</u>	<u>15,860,901</u>
NON-CURRENT ASSETS			
Plant and equipment	13	2,810,620	2,873,100
TOTAL NON-CURRENT ASSETS		<u>2,810,620</u>	<u>2,873,100</u>
TOTAL ASSETS		<u>15,240,637</u>	<u>18,734,001</u>
CURRENT LIABILITIES			
Trade and other payables	14	1,143,438	1,452,437
Employee benefits	15	57,267	111,363
TOTAL CURRENT LIABILITIES		<u>1,200,705</u>	<u>1,563,800</u>
TOTAL LIABILITIES		<u>1,200,705</u>	<u>1,563,800</u>
NET ASSETS		<u>14,039,932</u>	<u>17,170,201</u>
EQUITY			
Share capital	16	57,659,830	57,659,830
Reserves	16	1,019,484	944,182
Accumulated losses		(44,639,382)	(41,433,811)
TOTAL EQUITY		<u>14,039,932</u>	<u>17,170,201</u>

The accompanying notes form part of these financial statements

HEXIMA LIMITED
ABN 64 079 319 314

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

Consolidated

2012	Note	Ordinary Shares \$	Equity option reserve \$	Equity compen- sation reserve \$	Accumulated Losses \$	Total equity \$
Opening balance at 1 July 2011		57,659,830	200,000	744,182	(41,433,811)	17,170,201
Total comprehensive income for the period						
Net (loss) for the period		-	-	-	(3,205,571)	(3,205,571)
Other comprehensive income		-	-	-	-	-
Total comprehensive income/(loss) for the period		-	-	-	(3,205,571)	(3,205,571)
Transactions with owners recorded directly in equity						
<i>Contributions by and distributions to owners</i>						
Share based payment expenses	16	-	-	75,302	-	75,302
Total contributions by and distributions to owners		-	-	75,302	-	75,302
Closing balance at 30 June 2012		57,659,830	200,000	819,484	(44,639,382)	14,039,932
2011						
Opening balance at 1 July 2010		57,659,830	200,000	685,768	(35,098,493)	23,447,105
Total comprehensive income for the period						
Net (loss) for the period		-	-	-	(6,335,318)	(6,335,318)
Other comprehensive income		-	-	-	-	-
Total comprehensive income/(loss) for the period		-	-	-	(6,335,318)	(6,335,318)
Transactions with owners recorded directly in equity						
<i>Contributions by and distributions to owners</i>						
Share based payment expenses	16	-	-	58,414	-	58,414
Total contributions by and distributions to owners		-	-	58,414	-	58,414
Closing balance at 30 June 2011		57,659,830	200,000	744,182	(41,433,811)	17,170,201

The accompanying notes form part of these financial statements

HEXIMA LIMITED
ABN 64 079 319 314

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012

		Consolidated	
		2012	2011
Notes		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
	Cash receipts from government grants & collaboration agreements	628,914	727,104
	Cash paid to suppliers and employees	<u>(6,820,371)</u>	<u>(9,182,113)</u>
	Net cash (used in) operating activities	<u>18(b) (6,191,457)</u>	<u>(8,455,009)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
	Interest received	844,952	1,289,743
	Payments for plant and equipment	<u>(178,689)</u>	<u>(205,937)</u>
	Net cash (used in) investing activities	<u>666,263</u>	<u>1,083,806</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
	Net cash from financing activities	<u>-</u>	<u>-</u>
	Net (decrease)/ increase in cash and cash equivalents	(5,525,194)	(7,371,203)
	Cash and cash equivalents at 1 July	<u>15,314,971</u>	<u>22,686,174</u>
	Cash and cash equivalents at 30 June	<u>18(a) 9,789,777</u>	<u>15,314,971</u>

The accompanying notes form part of these financial statements

HEXIMA LIMITED
ABN 64 079 319 314

Notes to the financial statements for the year ended 30 June 2012

1. REPORTING ENTITY

Hexima Limited (the “Company”) is a Company domiciled in Australia and is a for-profit entity. The address of the Company’s registered office is Level 1, 379 Collins Street, Melbourne, Victoria, 3000. The consolidated financial statements of the Company as at and for the year ended 30 June 2012 comprises the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”). The Group is actively engaged in the research and development of technology for the protection and enhancement of commercial crops, primarily to enhance their resistance to insects and fungal pathogens.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on 31 August 2012.

(b) Basis of measurement

The financial report has been prepared on the basis of historical cost.

(c) Functional and presentation currency

The financial statements are presented in Australian dollars, which is the Group’s functional currency.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 17 – measurement of share-based payments.

Notes to the financial statements for the year ended 30 June 2012

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods by Group entities.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

(a) Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Financial Instruments

(i) Non-derivative financial instruments

The Group initially recognises receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents comprise cash balances and call term deposits. Term deposits are classified as cash as the Group can convert the deposits as available cash in reasonable time with minimal break costs to the Group.

(ii) Non-derivative financial liabilities

Financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the financial statements for the year ended 30 June 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial Instruments (continued)

(ii) Non-derivative financial liabilities (continued)

The Group has the following non-derivative financial liabilities: trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

(c) Plant and equipment

(i) Recognition and measurement

Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of plant and equipment have different useful lives, they are accounted for as separate items of plant and equipment. Cost includes expenditures that are directly attributable to the acquisition of the asset.

(ii) Subsequent costs

The Company recognises in the carrying amount of an item of plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset.

Depreciation is recognised in profit or loss on a straight-line or diminishing value basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives for the current and comparative periods are as follows:

	2012	2011
Plant and equipment	15% - 37.5%	15% - 37.5%
Office equipment	33% - 66.7%	33% - 66.7%
Plant and equipment -Building	5%	5%

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Notes to the financial statements for the year ended 30 June 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign Currency

Transactions in foreign currencies are translated to the functional currency of Group entities at exchange rates at the dates of the transactions.

(e) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

In respect of assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

The recoverable amount of an asset or cost generating unit is the greater of its fair value and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (the "cash generating unit").

(f) Revenue

Grant revenue

Government grant income that compensates the Group for expenses incurred is recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred.

Notes to the financial statements for the year ended 30 June 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Revenue (continued)

Research grants and collaboration fees

Research grants and collaboration fees represents revenue received from entities who fund and/or participate in the collaborative research initiatives of the Group. When services in respect of collaborative research activities are performed by an indeterminate number of acts over a specified period of time, revenue is recognised on a straight line basis over the period of the collaborative research agreement. Unrecognised revenue, representing payments received during the year for services to be provided in the future, is recognised as deferred income.

(g) Research and development expenditure

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognised in the income statement as an expense as incurred. Patent costs relating to research activities are expensed as incurred. Plant and equipment acquired to perform research activities are capitalised where the plant and equipment are not specific in nature to the Group's research activities and can be sold or leased to third parties. Plant and equipment specific to the research activities of the Group are expensed on acquisition.

Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. No costs were capitalised during the period. Other development expenditure is recognized in the profit and loss as incurred.

(h) Finance income and expenses

Finance income comprises interest income on term deposits. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

(i) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences where the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes to the financial statements for the year ended 30 June 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position. Cash flows are included in the statements of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(k) Segment Reporting

The Group determines and presents operating segments based on the information that internally is provided to the Executive Chairman, who is the Group's chief operating decision maker. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

The Group primarily operates in one sector, being the agricultural biotechnology industry, developing and/or commercialising agricultural biotechnology research. The majority of operations are in Australia. All assets are located in Australia.

(l) Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit under which the entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as a personnel expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Long term employee benefits

The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on costs; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The maturity discount rate is the yield at the reporting date on AA credit-rated or government bonds that have dates approximating the terms of the Group's obligations.

Notes to the financial statements for the year ended 30 June 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Share based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do not meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(n) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(o) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Share-based payment transactions

The fair value of employee share options at grant date is measured using the Binomial Approximation Option Pricing method. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

(p) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2011, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except for AASB9 *Financial Instruments* which becomes mandatory for the Groups 2014 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

Notes to the financial statements for the year ended 30 June 2012

4. FINANCIAL RISK MANAGEMENT

Overview

The Group has exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk.

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the oversight of risks. The Group maintains a control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from the Government in respect of research grants and accrued interest receivable from banks.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group prepares and monitors budgets to manage its liquidity for the short and long term.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The Board of Directors oversee market risk exposures to optimise returns.

Currency risk

The Group's currency risk is limited to trade and other payables that are denominated in a currency other than the functional currency of the Group entities, primarily US dollar (USD). Given the minimal value of foreign currency transactions the Group does not enter into contracts to hedge currency risk. At 30 June 2012, there were no receivables or payables denominated in foreign currencies (2011 receivable: \$NIL, payable: \$NIL).

Interest rate risk

The Group does not have any interest expenses. Interest income is earned on term deposits and cash at bank, which are based on prevailing market rates.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

Notes to the financial statements for the year ended 30 June 2012

4. FINANCIAL RISK MANAGEMENT (continued)

Operational risk (continued)

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management of the Group. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. As the Group is a development stage business, the Board of Directors monitors the Group's performance with particular regard to the progress of scientific programs, the commercialisation of those programs, the development of the Group's intellectual property and asset base and long-term share price performance. There were no changes in the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

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Notes to the financial statements for the year ended 30 June 2012

5. SEGMENT REPORTING

The Group primarily operates in one sector being the agricultural biotechnology industry developing and/or commercialising agricultural biotechnology research and therefore the Group's financial information is the same as the operating segment information. The majority of operations are in Australia.

6. REVENUE

	Consolidated	
	2012	2011
	\$	\$
Government Grant – Other	382,326	502,104
Government – R&D Tax Incentive	2,331,688	-
Research grants and collaboration fees	246,588	225,000
	<u>2,960,602</u>	<u>727,104</u>

7. OTHER RESEARCH AND DEVELOPMENT EXPENDITURE

Other research and development expenditure	309,385	389,995
	<u>309,385</u>	<u>389,995</u>

8. OTHER EXPENSES

Administration and compliance costs	89,723	196,913
Research and development recoupment charge	75,865	-
Other expenses	144,386	176,784
	<u>309,974</u>	<u>373,697</u>

9. FINANCE INCOME AND EXPENSE

Interest income on term deposit and cash at bank	712,358	1,144,476
Finance income	<u>712,358</u>	<u>1,144,476</u>

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Notes to the financial statements for the year ended 30 June 2012

10. INCOME TAX

	Consolidated	
(a) Income tax expense	2012	2011
	\$	\$
Loss before tax	(3,205,571)	(6,335,318)
Income tax using the domestic corporation tax rate of 30% (2011: 30%)	(961,671)	(1,900,596)
Increase/(decrease) in income tax expense due to:		
R & D adjustment	1,554,458	(395,783)
Non-assessable R&D tax incentive	(699,506)	-
Non-deductible share based payment	22,591	17,443
Other	28,231	-
Temporary differences not brought to account	(132,688)	(72,122)
Tax losses not brought to account	188,585	2,351,058
Income tax expense/(benefit) on pre-tax net profit	-	-

(b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

Temporary differences	435,243	567,931
Tax losses	11,257,710	11,069,125
Total	11,692,953	11,637,056

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group could utilise the benefits. Comparative amounts have been restated to reflect assessed balances.

11. CASH AND CASH EQUIVALENTS

	Consolidated	
	2012	2011
	\$	\$
Cash on hand	3,259	4,000
Cash at bank	451,637	326,090
Term deposits	9,334,881	14,984,881
	9,789,777	15,314,971

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Notes to the financial statements for the year ended 30 June 2012

12. RECEIVABLES

	Consolidated	
	2012	2011
	\$	\$
Current		
Trade receivables	39,784	24,208
R&D Tax Incentive Receivable - ATO	2,331,688	-
Accrued interest	111,914	244,508
Prepayments	156,854	277,214
	<u>2,640,240</u>	<u>545,930</u>

The Group's exposure to credit and currency risks and impairment losses related to trade receivables is disclosed in note 20.

13. PLANT AND EQUIPMENT

Consolidated	Plant and Equipment	Office Equipment	Total
Cost	\$	\$	\$
Balance at 1 July 2011	3,320,326	87,787	3,408,113
Additions	155,188	23,501	178,689
Balance at 30 June 2012	<u>3,475,514</u>	<u>111,288</u>	<u>3,586,802</u>
Balance at 1 July 2010	3,124,985	77,191	3,202,176
Additions	195,341	10,596	205,937
Balance at 30 June 2011	<u>3,320,326</u>	<u>87,787</u>	<u>3,408,113</u>
Accumulated depreciation			
Balance at 1 July 2011	465,134	69,879	535,013
Depreciation for the year	230,033	11,136	241,169
Balance at 30 June 2012	<u>695,167</u>	<u>81,015</u>	<u>776,182</u>
Balance at 1 July 2010	232,372	63,526	295,898
Depreciation for the year	232,762	6,353	239,115
Balance at 30 June 2011	<u>465,134</u>	<u>69,879</u>	<u>535,013</u>
Carrying amounts			
At 1 July 2011	2,855,192	17,908	2,873,100
At 30 June 2012	<u>2,780,347</u>	<u>30,273</u>	<u>2,810,620</u>

14. TRADE AND OTHER PAYABLES

	Consolidated	
	2012	2011
	\$	\$
Current		
Trade payables	62,275	591,253
Research & development recoupment charge – ATO	75,865	-
Other payables & accrued expenses	1,005,298	861,184
	<u>1,143,438</u>	<u>1,452,437</u>

Exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 20.

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Notes to the financial statements for the year ended 30 June 2012

15. EMPLOYEE BENEFITS

	Consolidated	
	2012	2011
Current	\$	\$
Superannuation	23,124	27,808
Liability for annual leave	34,143	83,555
	57,267	111,363

16. CAPITAL AND RESERVES

Reconciliation of movement in capital and reserves

Consolidated and the Parent Entity

Ordinary Shares	Number of shares		Amount	
	2012	2011	2012	2011
			\$	\$
On issue at 1 July	81,067,469	80,059,469	57,659,830	57,659,830
Issued at \$0.00 per share on exercise of options	34,000	1,008,000	-	-
			57,659,830	57,659,830
On issue at 30 June – fully paid	81,101,469	81,067,469	57,659,830	57,659,830

The Company does not have authorised capital or par value in respect of its issued shares. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company

Equity option reserve	Number of options		Amount	
	2012	2011	2012	2011
			\$	\$
On issue at 1 July	1,600,000	1,600,000	200,000	200,000
Lapse of share options	(1,600,000)	-	-	-
			200,000	200,000
On issue at 30 June – fully paid	-	1,600,000	200,000	200,000

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Notes to the financial statements for the year ended 30 June 2012

16. CAPITAL AND RESERVES (continued)

Equity compensation reserve	Number of options		Amount	
	2012	2011	2012 \$	2011 \$
On issue at 1 July	2,724,000	3,132,000	944,182	685,768
Issued as compensation	-	1,000,000	75,302	58,414
Exercise of share options	(34,000)	(1,008,000)	-	-
Lapse of share options	(1,600,000)	(2,000,000)	-	-
On issue at 30 June – fully paid	1,090,000	1,124,000	1,019,484	744,182
Total reserve at 30 June	1,090,000	2,724,000	1,019,484	944,182

Equity Option Reserve

The equity option reserve comprises the accumulated amount of share options issued to other parties.

Equity Compensation Reserve

The equity compensation reserve represents the accumulated amount of share options granted to key management personnel and other personnel under compensation schemes.

17. SHARE-BASED PAYMENTS

The terms and conditions of the grants for options outstanding at 30 June 2012 are as follows. All options are to be settled by physical delivery of shares.

Grant date / parties entitled	Number of instruments	Vesting conditions	Contractual life of options
Option granted to non-key management personnel on 16 May 2008	90,000	3 months service	5 years
Option granted to key management on 1 st December 2010	1,000,000	4 tranches of 250,000 options. 1 tranche vested 15 November 2011, others to vest on 15 November 2012, 15 November 2013 and 15 November 2014	8 years
Total share options	<u>1,090,000</u>		

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Notes to the financial statements for the year ended 30 June 2012

17. SHARE-BASED PAYMENTS (continued)

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2012	Number of options 2012	Weighted average exercise price 2011	Number of options 2011
Outstanding at 1 July	\$1.36	2,724,000	\$1.20	4,732,000
Exercised during the period	\$0.00	(34,000)	\$0.00	(1,008,000)
Lapsed during period	\$0.00	(1,600,000)	\$1.25	(2,000,000)
Granted during the period	-	-	\$0.50	1,000,000
Outstanding at 30 June	<u>\$0.46</u>	<u>1,090,000</u>	<u>\$1.36</u>	<u>2,724,000</u>

The options outstanding at 30 June 2012 have an exercise price in the range of \$nil to \$0.50 and a weighted average remaining contractual life of 7.7 years.

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using a binomial approximation option pricing model, incorporating the probability of the relative total shareholder return vesting condition being met, with the following inputs. No share options were granted in 2012, one million share options were granted in 2011.

<i>Fair value of share options and assumptions</i>	2012	2011
Key management personnel and employees		
Fair value at grant date (weighted average)	-	\$0.21
Share price at grant date	-	\$0.35
Exercise price (weighted average)	-	\$0.50
Expected volatility (weighted average volatility)	-	98.31%
Option life (expected weighted average life)	-	7.96 yrs
Expected dividends	-	0.00%
Risk-free interest rate (weighted average based on government bonds)	-	5.05%

Employee expenses

	Consolidated	
	2012	2011
Current	\$	\$
Share options granted in 2010 – equity settled	75,302	58,414
Total expense recognised as employee costs	<u>75,302</u>	<u>58,414</u>

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Notes to the financial statements for the year ended 30 June 2012

18. NOTES TO THE STATEMENT OF CASHFLOW

18a. RECONCILIATION OF CASH

Reconciliation of cash at the end of the period (as shown in the statement of cash flows) to the related items in the accounts is as follows:

	Note	Consolidated	
		2012	2011
		\$	\$
Cash on hand and at bank	11	9,789,777	15,314,971

18b. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated	
	2012	2011
	\$	\$
Cash flows from operating activities		
Loss for the period	(3,205,571)	(6,335,318)
<i>Adjustments for:</i>		
Interest received – classified as investing activity	(844,952)	(1,289,743)
Depreciation	241,169	239,115
Equity settled share based payment expense	75,302	58,414
Operating loss before changes to working capital	(3,734,052)	(7,327,532)
(Increase)/decrease in trade and other receivables and prepayments	(2,094,310)	(60,122)
Increase/(decrease) in payables and employee benefits	(363,095)	(1,067,355)
Net cash from/(used in) operating activities	(6,191,457)	(8,455,009)

19. AUDITORS' REMUNERATION

Audit Services

Auditors of the Company

KPMG Australia

- Audit of the annual financial report	40,000	47,800
- Review of half year financial statements	25,000	25,000

Other Services

Auditors of the Company

KPMG Australia

- Research grant audit 2011/2010	6,900	6,900
- Research grant audit 2012	5,175	-
	77,075	79,700

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Notes to the financial statements for the year ended 30 June 2012

20. FINANCIAL INSTRUMENTS

Credit Risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at 30 June was:

	Note	Consolidated 2012 \$	2011 \$
Trade receivables	12	39,784	24,208
R&D Tax Incentive - ATO	12	2,331,688	-
Accrued interest on bank term deposits	12	111,914	244,508
Cash on hand and at bank	11	9,789,777	15,314,971
		12,273,163	15,583,687

Cash on hand and at bank include deposits with the National Australia Bank and Bankwest. The accrued interest comes from Term Deposits with both of these banks.

Impairment Losses

None of the Group's receivables are past due (2011: \$NIL) and no impairment losses have been recognised (2011: \$NIL).

The Group is in the development phase of its research and development programme. The Group's income is currently limited to interest on cash and term deposits, Australian government grants and collaborative research agreements where income is received in advance. Accordingly, risk of impairment losses is minimal.

Liquidity Risk

The Group has no financial liabilities except for trade and other payables with a carrying value of \$1,124,840 (note 14,15), which are payable in cash and have a maturity of less than 6 months.

Term deposits included in cash at bank above have maturities as follows: \$2m maturing 16th July 2012, and \$7.3m maturing on the 15th October 2012.

Currency risk

At 30 June 2012, there were no receivables or payables denominated in foreign currencies.

Interest Risk

Exposure to interest rate risks arises in the normal course of the Group's business in respect of interest income on term deposit (note 11) and cash at bank (note 11). The weighted average interest rate in respect of interest income in 2012 was 5.96% (2011 : 6.12%).

Fixed rate instruments

In respect of term deposits a 100 basis points increase in interest rates would have decreased the loss by \$117,724 (2011: \$186,023). A 100 basis points decrease in interest rates would have increased the loss by \$117,724 (2011: \$186,023).

Variable rate instruments

In respect of cash at bank a 100 basis points increase in interest rates would have decreased the loss by \$6,696 (2011: \$9,036). A 100 basis points decrease in interest rates would have increased the loss by \$6,696 (2011: \$9,036).

Notes to the financial statements for the year ended 30 June 2012

20. FINANCIAL INSTRUMENTS (continued)

Estimation of fair values

The fair value of a financial asset or a financial liability is the amount at which the asset could be exchanged, or liability settled in a current transaction between willing parties after allowing for transaction costs. The carrying value of financial assets and liabilities approximates their fair value at 30 June 2012.

Fair value hierarchy

No financial instruments are carried at fair value at 30 June 2012, however, as noted above the carrying amounts approximate fair value in respect of financial assets and liabilities.

21. CONTINGENCIES

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measure.

Guarantee and Indemnification

The Company has an Institutional Biosafety Committee (IBC) to advise on certain aspects of the Group's field trial applications. The Group has agreed to indemnify, release and forever discharge the members of the IBC from and against any claim or liability, incurred by the members, arising in connection with the conduct of field trials and related applications being undertaken by the Group. The financial exposure from this arrangement is expected to be nil.

22. RELATED PARTIES

Directors

The following were key management personnel of the Group and the Company at any time during the reporting period and unless otherwise indicated were Directors for the entire period:

Executive Chairman

Mr Ross Dobinson, Executive Chairman

Executive Directors

Professor Marilyn Anderson, Chief Science Officer and Executive Director

Non-Executive Directors

Mr Steven M Skala AO
 Professor Jonathan West
 Mr Hugh M Morgan AC

Executives

Dr Robyn L Heath (resigned 31 December 2011)
 Ms Justine C Heath (resigned 4 May 2012)
 Ms Elisha Larkin (appointed Chief Operating Officer and Company Secretary 4 May 2012)

The key management personnel compensation included in 'employee benefits expense' is as follows:

	Consolidated	
	2012	2011
	\$	\$
Short term employee benefits	821,526	994,438
Post employment benefits	70,844	154,019
Termination benefits	125,000	-
Share based payments	75,302	58,414
	1,092,672	1,206,871

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Notes to the financial statements for the year ended 30 June 2012

22. RELATED PARTIES (Continued)

Individual directors and executive compensation disclosures

Information regarding individual directors and executives compensation disclosures as permitted by Corporations Regulation 2M.3.03 is provided in the remuneration report section of the Directors' Report.

Apart from the details disclosed in this note, no Director has entered into a material contract with the Group and the Company since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year end.

Options and rights over equity instruments

The movement during the reporting period in the number of options over ordinary shares in the Company held directly, indirectly or beneficially, by each key management person including their related parties, is as follows:

2012	Held at 1 July 2011	Exercised	Expired at 1 July 2011	Granted as Compensation	Held at 30 June 2012	Vested and exercisable at reporting date
Directors						
R Dobinson	1,000,000	-	-	-	1,000,000	250,000
Executives						
J Heath	20,000	(20,000)	-	-	-	-
	1,020,000	(20,000)	-	-	1,000,000	250,000

2011	Held at 1 July 2010	Exercised	Expired at 1 July 2011	Granted as Compensation	Held at 30 June 2011	Vested and exercisable at reporting date
Directors						
R Dobinson	-	-	-	1,000,000	1,000,000	-
J Hofheimer	3,000,000	(1,000,000)	(2,000,000)	-	-	-
Executives						
J Heath	20,000	-	-	-	20,000	20,000
	3,020,000	(1,000,000)	(2,000,000)	1,000,000	1,020,000	20,000

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Notes to the financial statements for the year ended 30 June 2012

22. RELATED PARTIES (Continued)

Movement in shares

The movement during the reporting period in the number of ordinary shares in the Company held directly, indirectly, or beneficially by each key management person, including their related parties, is as follows:

2012	Held at 1 July 2011	Shares from converting notes	Shares issued under offer	Purchases	Received on exercise of options	Sales	Held at 30 June 2012
Directors							
Steven M Skala	4,167,467	-	-	-	-	-	4,167,467
Jonathan West	2,000,000	-	-	-	-	-	2,000,000
Hugh M Morgan	6,454,503	-	-	-	-	-	6,454,503
Marilyn Anderson	2,381,935	-	-	-	-	-	2,381,935
Executives							
Robyn L Heath ⁽¹⁾	2,381,935	-	-	-	-	(54,060)	2,327,875
Justine Heath ⁽²⁾	-	-	-	-	20,000	-	20,000
	17,385,840	-	-	-	-	(54,060)	17,331,780

(1) Robyn Heath resigned effective 31 December 2011

(2) Justine Heath resigned effective 4 May 2012

2011	Held at 1 July 2010	Shares from converting notes	Shares issued under offer	Purchases	Received on exercise of options	Sales	Held at 30 June 2011
Directors							
Steven M Skala	4,167,467	-	-	-	-	-	4,167,467
Jonathan West	1,611,702	-	-	388,298	-	-	2,000,000
Hugh M Morgan	6,454,503	-	-	-	-	-	6,454,503
Adrienne E Clarke ⁽¹⁾	5,417,919	-	-	-	-	-	5,417,919
Marilyn Anderson	2,381,935	-	-	-	-	-	2,381,935
Joshua Hofheimer ⁽²⁾	50,000	-	-	-	1,000,000	(400,000)	650,000
Executives							
Robyn L Heath	2,381,935	-	-	-	-	-	2,381,935
	22,465,461	-	-	388,298	1,000,000	(400,000)	23,453,759

(1) Adrienne Clarke retired on 23 November 2010

(2) Joshua Hofheimer resigned as CEO and MD on 1 July 2010 and continued as a non-executive Director until November 23, 2010.

Notes to the financial statements for the year ended 30 June 2012

22. RELATED PARTIES (Continued)

Key management personnel and directors' transactions

- a) Dr Heath was an employee of The University of Melbourne during the financial year ended 30 June 2012. During the course of the financial year ended 30 June 2012, amounts (including GST) totaling \$933,493 (2011: \$2,781,441) were paid or payable by Hexima to The University of Melbourne for research work carried out on behalf of Hexima. These transactions were conducted on normal commercial terms. Trade accounts and/or accruals payable to The University of Melbourne at 30 June 2012 were \$0 (2011: \$565,872).
- b) Professor Anderson is an employee of La Trobe University. During the course of the financial year ended 30 June 2012, amounts (including GST) totaling \$4,174,133 (2011: \$4,281,482) were paid or payable by Hexima to La Trobe University for research work carried out on behalf of the Group. These transactions were conducted on normal commercial terms. Trade accounts and/or accruals payable to La Trobe University at 30 June 2012 were \$903,423 (2011: \$701,547).
- c) Mr Skala AO was a consultant to Arnold Bloch Leibler. Mr Skala retired as a partner of Arnold Bloch Leibler in 2004. An amount (including GST) of \$18,731 (2011: \$15,843) was paid to Arnold Bloch Leibler during the financial year ended 30 June 2012 for legal services (and expenses associated therewith) provided to Hexima. These services were provided and expenses incurred on normal commercial terms. Trade accounts and/or accruals payable to Arnold Bloch Leibler at 30 June 2012 were \$0 (2011: \$3,009). Mr Skala retired as a consultant to Arnold Bloch Leibler at 30 June, 2011.

Related Party Transactions

During the year, the Company provided an interest free loan of \$2,365,709 to its subsidiary Hexima Holdings Pty Ltd. This loan is outstanding at 30 June 2012 in the Company's statement of financial position.

23. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2012	2011
	\$	\$
Less than one year	77,348	84,699
Between one and five years	31,259	85,451
	108,607	170,150

The Group leases office premises and a glass house under an operating lease. The lease is negotiated on an annual basis.

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Notes to the financial statements for the year ended 30 June 2012

24. GROUP ENTITIES

	Country of incorporation	Ownership Interest	
		2012	2011
Parent Entity			
Hexima Limited	Australia		
Significant subsidiaries			
Hexima Holdings Limited	Australia	100%	100%
Pharmagra Pty Ltd	Australia	100%	100%

Pharmagra Pty Ltd is incorporated in Australia and is a 100% owned subsidiary of the Company. Pharmagra Pty Ltd has total assets and net assets of \$2.00 at 30 June 2011.

Hexima Holdings Pty Ltd is incorporated in Australia and is a 100% owned subsidiary of the Company. Hexima Holdings Pty Ltd has total assets of \$2,087,884 at 30 June 2012, which comprises the Hexima glasshouse located at La Trobe University.

25. PARENT ENTITY DISCLOSURES

	Company	
	2012	2011
	\$	\$
Result of the Parent Entity		
Loss for the period	(3,083,705)	(6,216,703)
Other Comprehensive income	-	-
Total Comprehensive income for the period	<u>(3,083,705)</u>	<u>(6,216,703)</u>
Financial Position of the Parent entity at year end		
Current assets	<u>12,430,017</u>	<u>15,860,901</u>
Total assets	<u>15,518,483</u>	<u>18,889,981</u>
Current liabilities	<u>1,200,705</u>	<u>1,563,800</u>
Total liabilities	<u>1,200,705</u>	<u>1,563,800</u>
Total equity of the Parent entity comprising of:		
Share capital	57,659,830	57,659,830
Reserves	1,019,484	944,182
(Accumulated losses)	<u>(44,361,535)</u>	<u>(41,277,831)</u>
Total Equity	<u>14,317,779</u>	<u>17,326,181</u>

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Hexima Limited ("the Company"):
 - (a) The consolidated financial statements and notes that are set out on pages 20 to 45 and the Remuneration Report on pages 12 to 17 in the Directors' Report, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2012 and of their performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - (b) there are reasonable grounds to believe that the Company will be able pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Executive Chairman and the Chief Financial Officer/Chief Operating Officer for the financial year ended 30 June 2012.
3. The Directors draw attention to Note 2(a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

Dated at Melbourne 31st day of August 2012.



Mr Ross Dobinson
Director



Mr Steven M Skala AO
Director



Independent auditor's report to the members of Hexima Limited

Report on the financial report

We have audited the accompanying financial report of Hexima Limited ("the Company"), which comprises the consolidated statement of financial position as at 30 June 2012, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 25 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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*.

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

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

Report on the remuneration report

We have audited the Remuneration Report included in pages 12 to 16 of the directors' report for the year ended 30 June 2012. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Hexima Limited for the year ended 30 June 2012, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Gordon Sangster
Partner

Melbourne

3 | August 2012



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Hexima Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Gordon Sangster
Partner

Melbourne

31 August 2012