

**HEXIMA LIMITED**  
**ABN 64 079 319 314**

**Annual Financial Report**  
**FOR THE YEAR**  
**ENDED 30 JUNE 2014**

**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 2014 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 Executive Chairman of Acrux Limited and Chairman of TPI Enterprises Ltd. He is also a Director of Origin Capital Limited, Healthfarm Fine Foods Pty Ltd and Orpharma Pty Ltd. 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, Florida and cancer at Cold Spring Harbor Laboratory in New York.

She is a Professor of Biochemistry at La Trobe University, a Member of the La Trobe University Council 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 until 2013. 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, a Director of the Australian Broadcasting Corporation, and is a Non-Executive Director of Next Financial Limited. 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 and the ANZAC Centenary Advisory Board Business Group.

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, a former Trustee of the Sir Zelman Cowen Foundation for Medical Research and a former Member of the Global Foundation and the Grievance Tribunal of Cricket Australia. Mr Skala practised law in Brisbane, London, and in Melbourne where for almost 20

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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 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, Chairman Emeritus of the Asia Society AustralAsia Centre; President of the National Gallery of Victoria Foundation, Chairman of the Order of Australia Association Foundation and a Member of the Anglo American plc Advisory Board.

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 and now an Honorary Member. He is also a Past President of the Australia Japan Business Co-operation Committee and Past Co-Chair of the Commonwealth Business Council, and continuing Emeritus Director.

Mr Morgan was Chief Executive Officer of WMC Limited from 1990 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.

**Dr. John Bedbrook** BSC, PHD (AUCKLAND UNIVERSITY)  
Non-Executive Director

Dr. John Bedbrook received his PhD in Molecular biology at Auckland University in 1974, was a Fulbright Fellow to Harvard Medical School, a Cabot Fellow to Harvard University and an EMBO fellow to The Plant Breeding Institute Cambridge England. Between 1979 and 2000, Dr. Bedbrook founded and or ran several agricultural biotechnology companies including Advanced Genetic Sciences, DNA Plant Technologies, Verdia Inc and was President of Maxygen Agriculture. He was CEO of Plant Science Ventures a venture firm investing in Biotechnology startups. After the acquisition of Verdia Inc. by DuPont in 2004 Dr. Bedbrook became Vice President of Research and Development for DuPont Agriculture and Nutrition, and

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subsequently Vice President of DuPont Agricultural Biotechnology. He retired from full time employment in 2013 and retained a part time role as Director Strategic Growth.

Dr. Bedbrook has authored over 100 scientific papers and multiple patents. Dr. Bedbrook is Director of Plant Biosciences LTD., Executive Chairman of Dice Molecules Inc. and a Member of the Advisory Board of the College of Natural Resources at University of California Berkeley.

Dr. Bedbrook has been a Director of the Company since 3 June 2014.

**COMPANY SECRETARY**

Ms Elisha Larkin BComm(Hons) / BAgriSci(Hons), MCommercial Law (The University of Melbourne) was appointed as Company Secretary on 4 May 2012. Ms Larkin has been with Hexima since May 2006.

**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	6	6	2	2	1	-
Marilyn A Anderson	6	6	-	-	-	-
Steven M Skala	6	5	2	1	1	1
Hugh M Morgan	6	6	2	2	1	1
Jonathan West	6	5	2	1	1	1
John Bedbrook	-	-	-	-	-	-

**CORPORATE GOVERNANCE STATEMENT**

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

**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 six 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 two directors who satisfy the ASX guidelines for independence (being Professor Jonathan West and Dr. John Bedbrook). 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 bi-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.

#### *Remuneration Committee*

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

**DIRECTORS' REPORT**

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 2014, 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 2014.

*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/Company Secretary 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/Company Secretary 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 2014 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 shareholders 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 filed by other companies in the same technical field. 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. All field trials conducted by Hexima have been 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.

Actual monthly 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.

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**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**

	<b>2014</b>	<b>2013</b>
	\$	\$
Revenue	4,440,086	3,252,087
Net loss before financing income/expense	(2,650,519)	(3,243,991)
Net financing income	222,660	394,093
Income tax expense	-	-
Net loss after tax attributable to members	(2,427,859)	(2,849,898)
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.

Since our last report, the following has been achieved in the fungal disease control program:

- a) Several new constructs have been identified that provide broad -spectrum disease resistance in glasshouse bioassays.
- b) Two new patent applications have been submitted
- c) The Company entered into an extended exclusivity period with DuPont Pioneer and discussions are continuing regarding further extension of the program.
- d) Seed has been bulked up to enable the commencement of field trials to generate data on the efficacy of the constructs in reducing fungal infections.

In addition to the fungal disease program, Hexima has commenced a new insect gene control discovery program with DuPont Pioneer. Hexima has been able to progress existing programs and introduce the insect gene control program without incurring an increase in budgeted expenditure. Hexima also licensed its MGEV technology to DuPont Pioneer.

The Company has made progress on the human antifungal program for treatment of fungal nail infections. Hexima has identified leads with potent activity against human pathogens. Through a Collaboration Agreement with Acrux DDS Pty Ltd (a subsidiary of Acrux Limited) there was demonstrated good penetration of a Hexima molecule through human nails. Further proof of concept data is being pursued for the non-melanoma skin cancer program.

At 30 June 2014, the Group had \$8.4million in cash and receivables, providing a solid base for the ongoing 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 cash burn rate (without impacting on the core businesses).

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**DIRECTORS' REPORT**

**Operating and Financial Review**

The Group had net cash outflows from operating activities of \$2.5million for the year ended 30 June 2014, compared with \$2.9million for the prior year. The \$0.4million variance resulted from higher R&D contract expense offset by Pioneer Insect and Exclusivity income.

The Group recorded a loss after tax of \$2.43million for the year ended 30 June 2014. A loss after tax of \$2.85million was recorded for the previous financial year.

Net finance income for the Group for the financial year ended 30 June 2014 was \$0.223million (2013:\$0.394million), reflecting lower cash balances as cash was utilised in the current reporting period.

**Outlook**

Hexima's lead fungal disease control technology is continuing to be developed with DuPont Pioneer. This agreement provides a path to market for the Company's technology in corn and soy applications. 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 continue to cause extensive damage to corn and soybeans. The Company has initiated its insect resistance program with DuPont Pioneer and is implementing a comprehensive lead collection program. The Company is progressing broader based commercialisation of its MGEV technology platform.

Hexima is continuing to develop its antifungal and non-melanoma skin cancer technologies and is expecting to provide an additional update to shareholders on the status of these programs in the first half of 2015.

**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 2014.

**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 2014, 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, Mr John Bedbrook, Professor Marilyn Anderson, Dr. Nicole van der Weerden (Head of Technology Commercialization) and Ms Elisha Larkin (Chief Operating Officer and Company Secretary). 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 agreements 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. Nicole van der Weerden***

Dr. van der Weerden completed her PhD in Biochemistry at La Trobe University in 2007 and has completed an MBA at Melbourne Business School. Dr. van der Weerden has been a member of the Executive since 2012 and was appointed Chief Operating Officer in July 2014. Dr. van der Weerden 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, Dr. van der Weerden also has an employment contract with the Group.

DIRECTORS' REPORT

**REMUNERATION REPORT – Audited (Continued)**

*Elisha Larkin*

Ms Larkin holds honours degrees in Commerce and Agricultural Science from the University of Melbourne and holds a Masters of Commercial Law also from the University of Melbourne. Ms Larkin was appointed Company Secretary on 4 May 2012 and held the position of Chief Operating Officer between May 2012 and July 2014. Ms Larkin is an employee of the Group.

**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 2014 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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**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 <sup>(1)</sup>	Converting Notes Issued			
<b>Non-executive Directors</b>										
Steven M Skala	2014	50,458	-	50,458	-	-	-	4,542	55,000	-
	2013	50,458	-	50,458	-	-	-	4,542	55,000	-
Jonathan West	2014	50,458	-	50,458	-	-	-	4,542	55,000	-
	2013	50,458	-	50,458	-	-	-	4,542	55,000	-
Hugh M Morgan	2014	50,458	-	50,458	-	-	-	4,542	55,000	-
	2013	50,458	-	50,458	-	-	-	4,542	55,000	-
John Bedbrook <sup>(2)</sup>	2014	3,724	-	3,724	-	-	-	344	4,068	-
	2013	-	-	-	-	-	-	-	-	-
<b>Executive Directors</b>										
Ross Dobinson	2014	200,000	-	200,000	-	22,896	-	-	222,896	10%
	2013	200,000	-	200,000	-	44,220	-	-	244,220	18%
Marilyn Anderson <sup>(3)</sup>	2014	181,260	-	181,260	-	-	-	16,660	197,920	-
	2013	188,510	-	188,510	-	-	-	16,966	205,476	-
<b>Executive</b>										
Elisha Larkin <sup>(4)</sup>	2014	74,924	-	74,924	-	-	-	6,930	81,854	-
	2013	107,034	-	107,034	-	-	-	9,633	116,667	-
Nicole van der Weerden <sup>(5)</sup>	2014	75,872	-	75,872	-	-	-	7,018	82,890	-
	2013	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>2014</b>	<b>687,154</b>	<b>-</b>	<b>687,154</b>	<b>-</b>	<b>22,896</b>	<b>-</b>	<b>44,578</b>	<b>754,628</b>	<b>3%</b>
<b>Total</b>	<b>2013</b>	<b>646,918</b>	<b>-</b>	<b>646,918</b>	<b>-</b>	<b>44,220</b>	<b>-</b>	<b>40,225</b>	<b>731,363</b>	<b>6%</b>

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) Dr. John Bedbrook commenced as a non-executive director with Hexima on the 3<sup>rd</sup> June 2014.
- 3) 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 \$390,593, comprising \$197,920 paid and payable directly by the Company and \$192,673 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. Professor Anderson is the Chief Science Officer for Hexima Limited.
- 4) Ms Elisha Larkin was appointed Company Secretary on 4 May 2012 and is employed on a part-time basis. In addition to the amounts in the table above, Ms Elisha Larkin has \$23,718 (2013: \$20,793) of long service leave entitlements.
- 5) Dr. Nicole van der Weerden was Vice President of Technology Commercialisation for Hexima during the reporting period and was appointed Chief Operating Officer in July 2014. She is employed by La Trobe University. The Company engages Dr. van der Weerden's services through a Research Agreement with the University and through a separate direct employment agreement. Dr van der Weerden's total remuneration from the Company and La Trobe University (in relation to services performed for Hexima) was \$177,130, comprising \$82,890 paid and payable directly by the Company, and \$94,240 paid by La Trobe University (for the services performed for Hexima). The amount shown in the table above represents payments made directly to Dr. van der Weerden by the Group only.

**HEXIMA LIMITED**  
**ABN 64 079 319 314**

**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 2014
Ross Dobinson	1,000,000	\$0.50	1 <sup>st</sup> December 2010	Tranche 1 \$0.16 Tranche 2 \$0.20 Tranche 3 \$0.23 Tranche 4 \$0.25	4 Tranches of 250,000 options. Tranche one vested 15 November 2011, Tranche two vested on 15 November 2012, Tranche three vested on 15 November 2013 and Tranche four will vest 15 November 2014	250,000

Mr Ross Dobinson has 750,000 options that have vested and are exercisable.

**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
John Bedbrook	-	-
<b>Total</b>	<b>15,003,905</b>	<b>1,000,000</b>

There were no movements in shares held by Directors during the year and to the date of this report.



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
30 August 2016	\$1.00	125,000
15 November 2019	\$0.50	1,000,000
		1,125,000

**Shares issued on exercise of options**

There were no options issued to, or exercised by Directors or Key Management personnel during the financial year ended 30 June 2014.

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**

In the prior year KPMG, the Company's auditor, have performed certain non-statutory audit services in addition to their statutory duties.

The Board has considered the non-statutory audit services provided in the prior year by the auditor and is satisfied that the provision of those services in the prior 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-statutory 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-statutory 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.

<b>Audit Services</b>	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Audit of the annual financial report	26,500	26,500
Review of half year financial report	12,500	17,000
<b>Services other than statutory audit</b>		
Special Grant Audit 2013/2014	3,500	-
	<hr/>	<hr/>
	42,500	43,500

**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 2014, the Company paid insurance premiums of \$19,693 (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 2014.

**HEXIMA LIMITED**  
**ABN 64 079 319 314**

DIRECTORS' REPORT

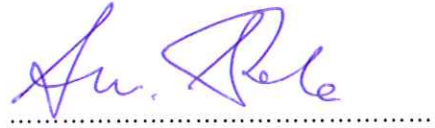
**LEAD AUDITORS' INDEPENDENCE DECLARATION UNDER SECTION 370C OF THE CORPORATIONS ACT 2001**

The Lead Auditor's Independence Declaration is set out on page 49 and forms part of the Directors' Report for the ended 30 June 2014.

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



Mr Ross Dobinson  
Director



Mr Steven M Skala AO  
Director

Dated this 26<sup>th</sup> day of August

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2014**

	Notes	Consolidated	
		2014	2013
		\$	\$
Revenue	6	4,440,086	3,252,087
Contracted research expenditure		(4,109,463)	(3,808,216)
Other research & development expenditure	7	(351,615)	(331,027)
Patent and legal expenses		(534,813)	(312,866)
Field trial expenses		(450,134)	(313,776)
Marketing & business development expenses		(231,887)	(238,741)
Employee benefits expense		(952,841)	(982,858)
Depreciation expense		(228,919)	(238,296)
Other expenses	8	(230,933)	(270,298)
		<u>(7,090,605)</u>	<u>(6,496,078)</u>
<b>Results from operating activities</b>		(2,650,519)	(3,243,991)
Financial income	9	222,660	394,093
<b>Net financing income/(expenses)</b>		<u>222,660</u>	<u>394,093</u>
<b>Loss before income tax</b>		(2,427,859)	(2,849,898)
Income tax expense	10(a)	-	-
<b>Loss for the period</b>		<u>(2,427,859)</u>	<u>(2,849,898)</u>
<b>Other comprehensive income for the period, net of income tax</b>		-	-
<b>Total comprehensive income/(loss) for the period</b>		<u>(2,427,859)</u>	<u>(2,849,898)</u>
<b>Loss attributable to:</b>			
Owners of the Company		<u>(2,427,859)</u>	<u>(2,849,898)</u>
<b>Loss for the period</b>		<u>(2,427,859)</u>	<u>(2,849,898)</u>
<b>Total comprehensive loss attributable to:</b>			
Owners of the Company		<u>(2,427,859)</u>	<u>(2,849,898)</u>
<b>Total comprehensive loss for the period</b>		<u>(2,427,859)</u>	<u>(2,849,898)</u>

The accompanying notes form part of these financial statements

**HEXIMA LIMITED**  
**ABN 64 079 319 314**

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2014**

	Notes	Consolidated	
		2014	2013
			\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	11	5,044,955	7,314,541
Receivables	12	3,398,956	2,846,626
<b>TOTAL CURRENT ASSETS</b>		<u>8,443,911</u>	<u>10,161,167</u>
<b>NON-CURRENT ASSETS</b>			
Plant and equipment	13	2,364,818	2,586,182
<b>TOTAL NON-CURRENT ASSETS</b>		<u>2,364,818</u>	<u>2,586,182</u>
<b>TOTAL ASSETS</b>		<u>10,808,729</u>	<u>12,747,349</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	14	1,876,503	1,425,987
Employee benefits	15	102,934	87,107
<b>TOTAL CURRENT LIABILITIES</b>		<u>1,979,437</u>	<u>1,513,094</u>
<b>TOTAL LIABILITIES</b>		<u>1,979,437</u>	<u>1,513,094</u>
<b>NET ASSETS</b>		<u>8,829,292</u>	<u>11,234,255</u>
<b>EQUITY</b>			
Share capital	16	57,659,831	57,659,831
Reserves	16	1,086,600	1,063,704
Accumulated losses		(49,917,139)	(47,489,280)
<b>TOTAL EQUITY</b>		<u>8,829,292</u>	<u>11,234,255</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 2014**

**Consolidated**

Note	Ordinary Shares \$	Equity option reserve \$	Equity compen- sation reserve \$	Accumulated Losses \$	Total equity \$
<b>2014</b>					
Opening balance at 1 July 2013	57,659,831	200,000	863,704	(47,489,280)	11,234,255
<b>Total comprehensive income for the period</b>					
Net (loss) for the period	-	-	-	(2,427,859)	(2,427,859)
Other comprehensive income	-	-	-	-	-
Total comprehensive income/(loss) for the period	-	-	-	(2,427,859)	(2,427,859)
<b>Transactions with owners recorded directly in equity</b>					
<i>Contributions by and distributions to owners</i>					
Share based payment expenses	-	-	22,896	-	22,896
Total contributions by and distributions to owners	-	-	22,896	-	22,896
Closing balance at 30 June 2014	57,659,831	200,000	886,600	(49,917,139)	8,829,292
Note	Ordinary Shares \$	Equity option reserve \$	Equity compen- sation reserve \$	Accumulated Losses \$	Total equity \$
<b>2013</b>					
Opening balance at 1 July 2012	57,659,831	200,000	819,484	(44,639,382)	14,039,933
<b>Total comprehensive income for the period</b>					
Net (loss) for the period	-	-	-	(2,849,898)	(2,849,898)
Other comprehensive income	-	-	-	-	-
Total comprehensive income/(loss) for the period	-	-	-	(2,849,898)	(2,849,898)
<b>Transactions with owners recorded directly in equity</b>					
<i>Contributions by and distributions to owners</i>					
Share based payment expenses	-	-	44,220	-	44,220
Total contributions by and distributions to owners	-	-	44,220	-	44,220
Closing balance at 30 June 2013	57,659,831	200,000	863,704	(47,489,280)	11,234,255

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 2014**

		<b>Consolidated</b>	
		<b>2014</b>	<b>2013</b>
<b>Notes</b>		<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
	Cash receipts from government grants & collaboration agreements	4,003,773	3,243,513
	Cash paid to suppliers and employees	<u>(6,538,037)</u>	<u>(6,103,115)</u>
	Net cash (used in) operating activities	18(b) <u>(2,534,264)</u>	<u>(2,859,602)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
	Interest received	272,233	398,224
	Payments for plant and equipment	<u>(7,555)</u>	<u>(13,858)</u>
	Net cash from investing activities	<u>264,678</u>	<u>384,366</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
	Net cash from financing activities	<u>-</u>	<u>-</u>
	Net (decrease)/ increase in cash and cash equivalents	(2,269,586)	(2,475,236)
	Cash and cash equivalents at 1 July	<u>7,314,541</u>	<u>9,789,777</u>
	Cash and cash equivalents at 30 June	18(a) <u>5,044,955</u>	<u>7,314,541</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 2014**

**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 2014 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) 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 26 August 2014.

**(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.

*Measurement 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. The Group engages a third party to perform fair value calculations for share options issues which is reviewed by the finance team. Significant valuation issues are reported to the Group Audit Committee.

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.



Notes to the financial statements for the year ended 30 June 2014

2. BASIS OF PREPARATION (CONTINUED)

(d) Use of estimates and judgements (continued)

*Measurement of fair values (continued)*

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The Group measure the following assets/liabilities at fair value: Share-based payment transactions.

*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.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 17 – measurement of share-based payments.

(e) Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 3 to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 July 2013.

- AASB 10 Consolidated Financial Statements (2011)
- AASB 13 Fair Value Measurement
- AASB 119 Employee Benefits (2011)

The nature and effects of the changes are explained below.

**Notes to the financial statements for the year ended 30 June 2014**

**2. BASIS OF PREPARATION (CONTINUED)**

**(e) Changes in accounting policies (continued)**

*(i) Subsidiaries*

As a result of AASB 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. AASB 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

This change had no impact on the Group.

*(ii) Fair value measurement*

AASB 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other AASBs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other AASBs, including AASB 7. As a result, the Group has included additional disclosures in this regard (see Notes 2(d) and 17).

In accordance with the transitional provisions of AASB 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

*(iii) Annual leave*

In the current year, the Company adopted AASB 119 Employee Benefits (2011), which revised the definition of short-term employee benefits to benefits that are expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service.

As a result of the change, the annual leave liability for employees can now in some instances be considered to be an other long-term employee benefit, when previously it was a short-term benefit. The Company's obligation is determined as the amount of future benefit that employees have earned in return for their service in the current and prior periods, applying actuarial assumptions, discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

This change had no significant impact on the measurement of the Group's annual leave liability.

Notes to the financial statements for the year ended 30 June 2014

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods by Group entities, except for the changes in accounting policies as explained in note 2(d).

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. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

*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 2014

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:

	2014	2013
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 2014

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 a 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 2014

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 2014

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 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 2014**

**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) 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 2013, 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. The Group does not plan to adopt any standards early and the extent of the impact has not been determined.



Notes to the financial statements for the year ended 30 June 2014

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 2014, there were no receivables or payables denominated in foreign currencies (2013 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 2014**

**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.

**HEXIMA LIMITED**  
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**Notes to the financial statements for the year ended 30 June 2014**

**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**

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Government Grant – Other	62,315	207,499
Government – R&D Tax Incentive	2,361,526	2,323,194
Research grants and collaboration fees	2,016,245	721,394
	<u>4,440,086</u>	<u>3,252,087</u>

**7. OTHER RESEARCH AND DEVELOPMENT EXPENDITURE**

Other research and development expenditure	351,615	331,027
	<u>351,615</u>	<u>331,027</u>

**8. OTHER EXPENSES**

Administration and compliance costs	80,560	98,677
Research and development recoupment charge	17,755	30,148
Other expenses	132,618	141,473
	<u>230,933</u>	<u>270,298</u>

**9. FINANCE INCOME AND EXPENSE**

Interest income on term deposit and cash at bank	222,660	394,093
Finance income	<u>222,660</u>	<u>394,093</u>

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**Notes to the financial statements for the year ended 30 June 2014**

**10. INCOME TAX**

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>(a) Income tax expense</b>		
Loss before tax	(2,427,859)	(2,849,898)
Income tax using the domestic corporation tax rate of 30% (2013: 30%)	(728,358)	(854,969)
Increase/(decrease) in income tax expense due to:		
R & D adjustment	1,616,288	1,453,580
Non-assessable R&D tax incentive	(708,458)	(696,958)
Non-deductible share based payment	6,869	13,266
Other		
Temporary differences not brought to account	93,404	15,676
Tax losses not brought to account	-	69,405
Tax losses utilised previously not brought to account	(279,745)	-
Income tax expense/(benefit) on pre-tax net profit	-	-
<b>(b) Unrecognised deferred tax assets</b>		

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

Temporary differences	530,444	437,040
Tax losses	10,813,254	11,092,999
Total	11,343,698	11,530,039

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**

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Cash on hand	2,502	2,672
Cash at bank	564,572	626,988
Term deposits	4,477,881	6,684,881
	5,044,955	7,314,541

**HEXIMA LIMITED**  
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Notes to the financial statements for the year ended 30 June 2014

**12. RECEIVABLES**

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Trade receivables	636,188	246,523
R&D Tax Incentive Receivable – ATO	2,424,432	2,323,194
Accrued interest	58,209	107,784
Prepayments	280,127	169,125
	<u>3,398,956</u>	<u>2,846,626</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**

<b>Consolidated</b>	<b>Plant and Equipment</b>	<b>Office Equipment</b>	<b>Total</b>
<b>Cost</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance at 1 July 2013	3,489,372	111,288	3,600,660
Additions	3,920	3,635	7,555
Balance at 30 June 2014	<u>3,493,292</u>	<u>114,923</u>	<u>3,608,215</u>
Balance at 1 July 2012	3,475,514	111,288	3,586,802
Additions	13,858	-	13,858
Balance at 30 June 2013	<u>3,489,372</u>	<u>111,288</u>	<u>3,600,660</u>
<b>Accumulated depreciation</b>			
Balance at 1 July 2013	921,631	92,847	1,014,478
Depreciation for the year	217,251	11,668	228,919
Balance at 30 June 2014	<u>1,138,882</u>	<u>104,515</u>	<u>1,243,397</u>
Balance at 1 July 2012	695,167	81,015	776,182
Depreciation for the year	226,464	11,832	238,296
Balance at 30 June 2013	<u>921,631</u>	<u>92,847</u>	<u>1,014,478</u>
<b>Carrying amounts</b>			
At 1 July 2013	2,567,741	18,441	2,586,182
At 30 June 2014	<u>2,354,410</u>	<u>10,408</u>	<u>2,364,818</u>

**14. TRADE AND OTHER PAYABLES**

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Trade payables	417,315	159,301
Research & development recoupment charge – ATO	17,755	35,148
Other payables & accrued expenses	1,441,433	1,231,538
	<u>1,876,503</u>	<u>1,425,987</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 2014**

**15. EMPLOYEE BENEFITS**

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
<b>Current</b>	<b>\$</b>	<b>\$</b>
Superannuation	27,196	19,791
Liability for annual leave	52,020	46,523
Liability for long service leave	23,718	20,793
	102,934	87,107

**16. CAPITAL AND RESERVES**

Reconciliation of movement in capital and reserves

**Consolidated and the Parent Entity**

<b>Ordinary Shares</b>	<b>Number of shares</b>		<b>Amount</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
			<b>\$</b>	<b>\$</b>
On issue at 1 July	81,180,469	81,101,469	57,659,831	57,659,831
Issued at \$0.00 per share on exercise of options	-	79,000	-	-
On issue at 30 June – fully paid	81,180,469	81,180,469	57,659,831	57,659,831

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

<b>Equity option reserve</b>	<b>Number of options</b>		<b>Amount</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
			<b>\$</b>	<b>\$</b>
On issue at 1 July	125,000	-	200,000	200,000
Issued	-	125,000	-	-
Lapse of share options	-	-	-	-
On issue at 30 June – fully paid	125,000	125,000	200,000	200,000

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**Notes to the financial statements for the year ended 30 June 2014**

**16. CAPITAL AND RESERVES (continued)**

	Number of options		Amount	
	2014	2013	2014 \$	2013 \$
<b>Equity compensation reserve</b>				
On issue at 1 July	1,000,000	1,090,000	863,704	819,484
Issued as compensation	-	-	22,896	44,220
Exercise of share options	-	(79,000)	-	-
Lapse of share options	-	(11,000)	-	-
On issue at 30 June – fully paid	1,000,000	1,000,000	886,600	863,704
<b>Total reserve at 30 June</b>	1,125,000	1,125,000	1,086,600	1,063,704

**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 2014 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 third parties for R&D collaboration on 30 <sup>th</sup> August 2013	125,000	Past services, immediate vesting	3 years
Option granted to key management on 1 <sup>st</sup> December 2010	1,000,000	4 tranches of 250,000 options. Tranche one vested on 15 November 2011, Tranche two vested on 15 November 2012, Tranche three vested 15 November 2013 and the final tranche will vest on 15 November 2014	9 years
Total share options	1,125,000		

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**Notes to the financial statements for the year ended 30 June 2014**

**17. SHARE-BASED PAYMENTS (continued)**

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

	<b>Weighted average exercise price 2014</b>	<b>Number of options 2014</b>	<b>Weighted average exercise price 2013</b>	<b>Number of options 2013</b>
Outstanding at 1 July	\$0.56	1,125,000	\$0.46	1,090,000
Exercised during the period	-	-	\$0.00	(79,000)
Lapsed during period	-	-	\$0.00	(11,000)
Granted during the period	-	-	\$1.00	125,000
Outstanding at 30 June	\$0.56	1,125,000	\$0.56	1,125,000

The options outstanding at 30 June 2014 have an exercise price in the range of \$0.50 to \$1.00, and a weighted average remaining contractual life of 4.9 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. No options were granted in 2014, 125,000 share options were granted in 2013.

**Employee expenses**

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
<b>Current</b>	<b>\$</b>	<b>\$</b>
Share options granted in 2010 – equity settled	22,896	44,220
Total expense recognised as employee costs	22,896	44,220



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**Notes to the financial statements for the year ended 30 June 2014**

**18. NOTES TO THE STATEMENT OF CASHFLOW**

**18a. RECONCILIATION OF CASH**

		<b>Consolidated</b>	
		<b>2014</b>	<b>2013</b>
		\$	\$
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		
Cash on hand and at bank	11	5,044,955	7,314,541

**18b. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES**

		<b>Consolidated</b>	
		<b>2014</b>	<b>2013</b>
		\$	\$
Cash flows from operating activities			
Loss for the period		(2,427,859)	(2,849,898)
<i>Adjustments for:</i>			
Interest received – classified as investing activity		(272,233)	(398,224)
Depreciation		228,919	238,296
Equity settled share based payment expense		22,897	44,220
Operating loss before changes to working capital		(2,448,276)	(2,965,606)
(Increase)/decrease in trade and other receivables and prepayments		(552,331)	(206,385)
Increase/(decrease) in payables and employee benefits		466,343	312,389
Net cash from/(used in) operating activities		(2,534,264)	(2,859,602)

**19. AUDITORS' REMUNERATION**

Audit Services

Auditors of the Company

KPMG Australia

- Audit of the annual financial report	26,500	26,500
- Review of half year financial statements	12,500	17,000

Other Services

Auditors of the Company

KPMG Australia

- Research grant audit 2013/14	3,500	-
	42,500	43,500

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**Notes to the financial statements for the year ended 30 June 2014**

**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	
		2014	2013
		\$	\$
Trade receivables	12	636,188	246,526
R&D Tax Incentive - ATO	12	2,424,432	2,323,194
Accrued interest on bank term deposits	12	58,209	107,784
Cash on hand and at bank	11	5,044,955	7,314,541
		8,163,784	9,992,045

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

**Impairment Losses**

None of the Group's receivables are past due (2013: \$NIL) and no impairment losses have been recognised (2013: \$NIL).

The Group is in the development phase of its research and development program. 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 \$1,979,437 (note 14 and 15), which are payable in cash and have a maturity of less than 6 months. Long Service leave current liability totals \$23,718.

There are currently 7 term deposits totaling \$4.478million, with maturity ranging from July 2014 to April 2015.

**Currency risk**

At 30 June 2014, 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 2014 was 4.12% (2013 : 4.84%).

**Fixed rate instruments**

In respect of term deposits a 100 basis points increase in interest rates would have decreased the loss by \$52,302 (2012: \$76,807). A 100 basis points decrease in interest rates would have increased the loss by \$52,302 (2012: \$76,807).

**Variable rate instruments**

In respect of cash at bank a 100 basis points increase in interest rates would have decreased the loss by \$1,915 (2013: \$4,451). A 100 basis points decrease in interest rates would have increased the loss by \$1,915 (2013: \$4,451).

**Notes to the financial statements for the year ended 30 June 2014**

**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 2014.

**Fair value hierarchy**

No financial instruments are carried at fair value at 30 June 2014, 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

Dr. John Bedbrook (appointed Director 3<sup>rd</sup> June 2014)

**Executives**

Ms Elisha Larkin

Dr. Nicole van der Weerden

**HEXIMA LIMITED**  
**ABN 64 079 319 314**

**Notes to the financial statements for the year ended 30 June 2014**

**22. RELATED PARTIES (Continued)**

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

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Short term employee benefits	687,154	646,918
Post employment benefits	44,578	40,225
Share based payments	22,896	44,220
	754,628	731,363

**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:

<b>2014</b>	Held at 1 July 2013	Exercised	Expired at 1 July 2014	Granted as Compensation	Held at 30 June 2014	Vested and exercisable at reporting date
<b>Directors</b>						
R Dobinson	1,000,000	-	-	-	1,000,000	750,000
	1,000,000	-	-	-	1,000,000	750,000
<b>2013</b>	Held at 1 July 2012	Exercised	Expired at 1 July 2013	Granted as Compensation	Held at 30 June 2013	Vested and exercisable at reporting date
<b>Directors</b>						
R Dobinson	1,000,000	-	-	-	1,000,000	500,000
	1,000,000	-	-	-	1,000,000	500,000

**HEXIMA LIMITED**  
**ABN 64 079 319 314**

**Notes to the financial statements for the year ended 30 June 2014**

**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:

<b>2014</b>	Held at 1 July 2013	Shares from converting notes	Shares issued under offer	Purchases	Received on exercise of options	Sales	Held at 30 June 2014
<b>Directors</b>							
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
	<b>15,003,905</b>	-	-	-	-	-	<b>15,003,905</b>

<b>2013</b>	Held at 1 July 2012	Shares from converting notes	Shares issued under offer	Purchases	Received on exercise of options	Sales	Held at 30 June 2013
<b>Directors</b>							
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
	<b>15,003,905</b>	-	-	-	-	-	<b>15,003,905</b>

**HEXIMA LIMITED**  
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**Notes to the financial statements for the year ended 30 June 2014**

**22. RELATED PARTIES (Continued)**

**Key management personnel and directors' transactions**

- a) Professor Anderson and Nicole van der Weerden are employees of La Trobe University. During the course of the financial year ended 30 June 2014, amounts (including GST) totaling \$5,332,987 (2013: \$4,950,711) 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 2014 were \$1,054,723 (exclusive of GST) (2013: \$917,556).
- b) Mr Dobinson is Executive Chairman of Acrux Limited and holds approximately 0.83% of available Acrux Limited shares. During the period the Company entered into two Collaboration Agreements with Acrux DDS Pty Ltd, a subsidiary of Acrux Limited, with respect to Hexima's non-melanoma skin cancer and human anti-fungal technologies. No commercial or research fees were paid or received under the Agreements during the period. \$8,282 (excluding GST) was paid to Acrux as direct reimbursement for shared purchases from third parties. Trade payables and receivables and/or accruals at 30 June 2014 were nil. Entities associated with Hexima Directors Mr Hugh Morgan and Mr Steven Skala also hold shares in Acrux Limited, with approximately 0.12% and 0.09% of available shares held respectively.

**Related Party Transactions**

The Company has provided an interest free loan of \$2,365,709 to its subsidiary Hexima Holdings Pty Ltd. This loan is outstanding at 30 June 2014 in the Company's statement of financial position.

**23. OPERATING LEASES**

**Leases as lessee**

Non-cancellable operating lease rentals are payable as follows:

	<b>2014</b>	<b>2013</b>
	\$	\$
Less than one year	80,372	76,109
Between one and five years	83,215	163,587
	163,587	239,696

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

**24. GROUP ENTITIES**

	<b>Country of incorporation</b>	<b>Ownership Interest</b>	
<b>Parent Entity</b>		<b>2014</b>	<b>2013</b>
Hexima Limited	Australia		
<b>Significant subsidiaries</b>			
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 2014.

**HEXIMA LIMITED**  
**ABN 64 079 319 314**

**Notes to the financial statements for the year ended 30 June 2014**

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 \$1,844,164 at 30 June 2014, which comprises the Hexima glasshouse located at La Trobe University.

**25. PARENT ENTITY DISCLOSURES**

	<b>Company</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b><i>Result of the Parent Entity</i></b>		
Loss for the period	(2,427,859)	(3,127,745)
Other Comprehensive income	-	-
Total Comprehensive income for the period	(2,427,859)	(3,127,745)
 <b><i>Financial Position of the Parent entity at year end</i></b>		
Current assets	8,443,911	10,161,166
Total assets	10,808,729	12,747,348
Current liabilities	1,979,437	1,513,094
Total liabilities	1,979,437	1,513,094
 <b><i>Total equity of the Parent entity comprising of:</i></b>		
Share capital	57,659,831	57,659,831
Reserves	1,086,600	1,063,704
(Accumulated losses)	(49,917,139)	(47,489,280)
<b>Total Equity</b>	<b>8,829,292</b>	<b>11,234,255</b>

**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 47 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 Group's financial position as at 30 June 2014 and of its performance for the financial year ended on that date;
    - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (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 2014.
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 26th day of August 2014.



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 2014, and consolidated statement of profit or loss and other 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 2014 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 2014. 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 2014, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Gordon Sangster  
*Partner*

Melbourne

26 August 2014



*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 2014 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

26 August 2014