HEXIMA LIMITED
ABN 64 079 319 314

Annual Financial Report

FOR THE YEAR

ENDED 30 JUNE 2016

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DIRECTORS' REPORT

The Directors present their report together with the financial report of Hexima Limited ("the Company" or "Hexima") and of the Group, being the Company and its subsidiaries for the financial year ended 30 June 2016 and the auditor's report thereon.

DIRECTORS

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

Professor Jonathan West BA (University of Sydney), PhD (Harvard University)
Non-Executive Chairman

Professor Jonathan West was the founding Director of the Australian Innovation Research Centre. Prior to assuming that 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 was 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 Non-Executive Chairman of Gowing Bros Limited and Non-Executive Director of Boundary Bend Limited and the Hydration Pharmaceuticals Trust.

Professor West has been a Director of the Company since 7 November 2005 and was appointed Non-Executive Chairman on 18 November 2014. He is a member of the Remuneration Committee and the Audit and Risk Management Committee.

Dr. Nicole van der Weerden BSc, PhD (La Trobe University)
Executive Director, Chief Executive Officer

Dr. Nicole van der Weerden completed her PhD in Biochemistry at La Trobe University in 2007. Her PhD research on the antifungal properties and mechanism of action of plant defensins led to the award of a prestigious Victoria Fellowship in 2006. Since completing her PhD, Dr. van der Weerden has worked for Hexima Limited and has led the gene discovery program for the Pioneer partnership on control of fungal diseases in corn. Dr. van der Weerden has completed an MBA at Melbourne Business School. Dr. van der Weerden is an inventor on nine patent applications. Dr. van der Weerden completed an MBA in 2013 at Melbourne Business School and was appointed Hexima's Chief Operating Officer in 2014 and Chief Executive Officer in December 2015.

Dr. van der Weerden has been a Director of the Company since 16 December 2014.

Professor Marilyn Anderson AO BSc (Hons) (The University of Melbourne), PhD (LaTrobe University)
Executive Director, Chief Science Officer

Professor Marilyn Anderson AO is a founding scientist of Hexima. She has over 40 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 and of City West Water from 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.

DIRECTORS' REPORT

She was appointed a Director of the Company on 23 November 2010 and was a Director between 2001 and 2007. Professor Anderson was appointed an Officer of the Order of Australia in January 2016.

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 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. He is Chairman of the Remuneration Committee and a member of the Audit and Risk Management Committee.

G. F. Dan O'Brien BSc, BVMS (Murdoch University), MBA (Harvard University)
Non-Executive Director

Dan O'Brien was a Director of Hexima between 17 May 2002 and 2 October 2009. Mr O'Brien is the founder and Chairman of The Hydration Pharmaceuticals Trust (HPT) which established the Hydralyte range of OTC pharmaceutical products. HPT sold the Hydralyte business in Australia and New Zealand to NYSE listed Prestige Brands Inc during 2014. HPT retains ownership of Hydralyte outside Australia and New Zealand.

Mr O'Brien has extensive experience including executive and non-executive roles with King Island Dairy Limited, Tasman Agriculture Limited, Colly Farms Cotton Limited, SPC Ardmona Limited, Coates Hire Limited, Mattel Asia Pacific and BIL Limited.

Mr O'Brien has been a Director of the Company since 18 November 2015. He is Chairman of the Audit and Risk Committee and a member of the Remuneration Committee.

Gordon S. Black BSc (University of New South Wales), MBA (Wharton)
Non-Executive Director

Gordon Black is CEO and Founder of East West Capital Limited, an investment management company investing in early stage companies operating across the global life sciences industry.

He has extensive work experience in the U.S. and the Asia Pacific region for corporations including: Merrill Lynch Capital Markets, New York; E.I. Du Pont de Nemours & Co. Inc (global head office Wilmington Delaware and Asia Pacific) and Ipoh Limited, Sydney, Australia.

He currently serves on the Board at NexSteppe Inc. a US proprietary hybrid seed company developing sorghum energy crops for the global bio-energy industry. Prior to this he served on the Board of the ASX listed drug developer Arana Therapeutics Limited before this company was acquired by Cephalon Inc from the US in June 2009 for $334 million.

He has an MBA from The Wharton School of Business, University of Pennsylvania, and a Biochemistry/ Chemistry degree from the University of New South Wales, Sydney.

Mr Black has been a Director of the Company since 18 November 2015. He is a member of the Audit and Risk Committee and of the Remuneration Committee.

DIRECTORS' REPORT

Steven M Skala AO BA, LL.B (HONS) (UNIVERSITY OF QLD), BCL (UNIVERSITY OF OXFORD)
Non-Executive Director – retired effective 31 December 2015

Steven Skala is Vice Chairman, Australia and New Zealand of Deutsche Bank AG. He is Chairman of BlueChilli Technology Pty Ltd, and a Director of the Australian Broadcasting Corporation and 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, a Director of the Centre for Independent Studies, and a Founding Panel Member of Adara Advisors Pty Ltd. He is a Member of the International Council of the Museum of Modern Art (MoMA) in New York.

He is a past Chairman of Film Australia Limited and the Australian Centre for Contemporary Art and of Wilson Group Limited, 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 Advisory Council of the Australian Innovation Research Centre and the ANZAC Centenary Advisory Board Business Group, the Global Foundation and the Grievance Tribunal of Cricket Australia. Mr Skala practised law in Brisbane, London, and in Melbourne where for almost 20 years he was a Partner and Head of the Corporate and Commercial Practice of Arnold Bloch Leibler, Solicitors. He was appointed an Officer in the Order of Australia in January 2010 for service to the arts, education, business and commerce.

Mr Skala was a Director of the Company from 17 May 2002 to 31 December 2015.

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
Jonathan West	9	9	2	2	1	1
Marilyn Anderson	9	8	2	2	1	1
Steven Skala	5	5	1	1	1	1
John Bedbrook	9	8	2	1	1	1
Nicole van der Weerden	9	9	2	2	1	1
Dan O'Brien	5	5	1	1	1	1
Gordon Black	5	5	1	1	1	1

CORPORATE GOVERNANCE STATEMENT

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

DIRECTORS' REPORT

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.

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 Directors 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 5 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 three directors who satisfy the ASX guidelines for independence (being Chairman Professor Jonathan West, Dr. John Bedbrook and Mr Gordon Black). Mr Dan O'Brien is a Non-Executive Director but does not qualify as independent because of his shareholdings in Hexima. Professor Marilyn Anderson and Dr van der Weerden do not qualify as independent as they are Executive Directors. The Board considers their significant commitment as share and option holders (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 and an Audit and Risk Management Committee. These Committees have written mandates and operating procedures, which are reviewed on a regular basis.

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

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

Nomination Committee

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

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

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

Each of the non-executive Directors are currently on the Nomination Committee. The Board reviewed the structure of the Board and senior Executive teams throughout the current financial year within existing scheduled Board meetings.

Remuneration Committee

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

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

The Remuneration Committee will consist of at least three Directors, a majority of whom are Non-Executive Directors and at least one of whom is an independent director. This differs from the ASX best practice recommendations which require a majority of independent Directors and an independent Chairman. Hexima currently satisfies the ASX recommendations with an independent Chairman and three independent members. The current members are Dr. John Bedbrook (Chairman), Professor Jonathan West, Dan O'Brien and Gordon Black.

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 2016, the Remuneration Committee met separately on one occasion and also addressed remuneration issues 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 16 and forms part of the Directors' Report for the financial year ended 30 June 2016.

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, 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 ASIC, 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. Hexima satisfies the ASX recommendations as to a majority of independent members, however the Committee is Chaired by Non-Executive Director Mr Dan O'Brien, who does not meet the independence definition due to his shareholding in Hexima. The current Audit and Risk Management Committee comprises Mr Dan O'Brien (Chairman), Professor Jonathan West, Dr. John Bedbrook and Mr Gordon Black.

Audit and Risk Management Committee (continued)

The Chief Executive Officer, Company Secretary, Finance Manager 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 Chief Executive Officer and the Company Secretary / CFO 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 2016 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 Dr Nicole van der Weerden, 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 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 Chief Executive Officer and the Finance Manager 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's policy is to invest funds in term deposits or bank bills.

Ethical Standards

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

Conflicts of Interest

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

Independent Advice

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

DIRECTORS' REPORT

PRINCIPAL ACTIVITIES

The principal activity of the Group during the financial year was the research, development and commercialisation of plant-derived proteins and peptides for applications as human therapeutics and for the genetic modification of crops.

OPERATING AND FINANCIAL REVIEW OF THE GROUP

	2016	2015 $
Revenue	4,970,660	4,801,627
Results from operating activities	(2,059,222)	(2,216,342)
Net financing income	120,214	134,035
Income tax expense	-	-
Net loss after tax attributable to members	(1,939,008)	(2,082,307)
Dividends	NIL	NIL

Summary and Outlook
Human Applications
Hexima's antifungal technology has been the major focus for 2016 as it presents the most likely source of increased shareholder value in the short to medium term. In the short term, Hexima is focusing its resources on the development of its lead antifungal molecule, HXP124, as a treatment for onychomycosis (fungal nail infections). Preclinical data indicates that HXP124 has multiple advantages over current onychomycosis therapies, in particular the ability to rapidly penetrate the nail when applied topically.

The onychomycosis market is a large and growing market with an estimated US$3.1b of global sales in 2015. Despite poor cure rates and onerous and expensive treatment regimes, recently released topical treatments in the US have been rapidly adopted by the market suggesting that a more effective product such as HXP124 would be very well received.

The ability of HXP124 to rapidly penetrate nails when applied topically should allow it to accumulate in the nail bed which is the main site of infection. While the results of nail penetration assays have been promising, these assays are subject to a large amount of variation and are not representative of clinical infection. As such, Hexima is progressing to an infected nail model which should provide more confidence that HXP124 is able to penetrate infected nails and kill fungal cells at the site of infection. Results from this assay are expected in August.

Tight management of this project has led to achievement of several key milestones in recent months within budget. The Company has scaled up production of HXP124 under Good Manufacturing Practice (GMP) conditions and has generated sufficient material for pre-clinical toxicology testing and clinical trials. In collaboration with the US-based contract research organisation Tergus Pharma, formulation work has been completed. Hexima has also initiated preclinical animal toxicology studies and expects to complete pivotal toxicology studies by Q3 2016. These studies involve repeatedly dosing the skin of minipigs to look for signs of skin irritation and to look for absorption of the molecule into the bloodstream. Minipigs are regarded as the most suitable predictor of the molecule's likely behaviour when applied topically in humans, and are a necessary prelude to clinical trials in humans. The first of these minipig studies will be completed by August with follow up studies to be completed by October. Positive results in these studies will allow for the initiation of Phase I human clinical trials before the end of 2016. Hexima will not proceed with a capital raising to fund clinical trials until results from the infected nail model and initial minipig studies are available.

During the year Hexima was awarded a $50,000 Innovations Connections grant to investigate whether Hexima's patented antifungal platform is useful for the treatment of vaginal thrush. Work on the onychomycosis project has already demonstrated that Hexima's molecules are active against a wide range of human fungal pathogens, including the causative agent of thrush. Furthermore, Hexima's plant defensin technology is well suited to topical applications due to the high stability of the molecules and excellent solubility characteristics.

Agricultural Applications
In order to ensure that resources are focused on the most likely source of near-term shareholder value, Hexima has scaled-back its plant disease program. Despite this, Hexima remains committed to identifying a suitable commercial partner willing to progress this work in the future.

Outside of the Antifungal Program, Hexima has achieved a number of significant milestones recently. The Company executed its first commercial licence to its patented Multi-Gene Expression Vehicle (MGEV) technology. DuPont-Pioneer has secured a non-exclusive licence to develop commercial products using the MGEV technology. The deal represents an exciting milestone for Hexima and the Company continues to seek other partners to further develop this versatile technology.

Hexima and DuPont-Pioneer have also announced the discovery of a novel insect control gene that is active against certain crop-destroying insects and will help growers protect their yields. Hexima and Pioneer formed a gene discovery research collaboration in 2014 to investigate new, untapped pools of genes that control insect-feeding on farmer crops.

The Company continues to utilize available government support where possible. In addition to the $50,000 Innovations Grant, Hexima also received a $36,000 Grant under the Export Market Development Grant scheme.

Hexima is in a sound financial position with cash and receivables of $4.9 million as at 30 June 2016. This provides funding at our current spend rate until approximately June 2018, excluding clinical trial costs. Hexima expects to proceed with a capital raising in the second half of 2016 to fund human clinical trials for HXP124. It is likely that this will be in the form of a rights issue to existing shareholders to raise approximately $4.0 million.

Operating and Financial Review

The Group had net cash outflows from operating activities of $1.55million for the year ended 30 June 2016, compared with $1.65million for the prior year. The Group recorded a loss after tax of $1.94million for the year ended 30 June 2016. A loss after tax of $2.08million was recorded for the previous financial year. Net finance income for the Group for the financial year ended 30 June 2016 was $0.12million (2015:$0.13million).

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 2016.

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

The remuneration report set out on pages 12 to 16 are not required under the Corporations Act 2001 as the Group is an unlisted disclosing entity. The Group has voluntarily complied with these disclosures.

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 2016, key management personnel comprised all Directors, Executives and the Company Secretary. This included Professor Jonathan West, Dr. Nicole van der Weerden Dr. John Bedbrook, Professor Marilyn Anderson, Mr Dan O'Brien, Mr Gordon Black and Ms Elisha Larkin. Remuneration levels for key management personnel are set to attract and retain appropriately qualified and experienced Directors and Executives. The Remuneration Committee obtains independent advice on remuneration packages and reviews remuneration at least on an annual basis.

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

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

Performance Linked Remuneration
Performance linked remuneration may include short and long term incentives.

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

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

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

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

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

Professor Marilyn A Anderson AO
Executive Director 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.

Dr. Nicole van der Weerden
Executive Director Dr. van der Weerden has been a member of the Executive since 2012 and was appointed Chief Executive Officer in December 2015. 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.

REMUNERATION REPORT – (Continued)

Elisha Larkin

Ms Larkin holds honours degrees in Commerce and Agricultural Science from the University of Melbourne and 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. Additional "per diem" fees may be paid where services rendered are above normal requirements.

Effective 1 January 2015 the Non-Executive Directors agreed to suspend payment of Non- Executive Directors' fees. Previously fees payable to Non-Executive Directors were set at $55,000 per annum. There has been no increase 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.

DIRECTORS' REPORT

REMUNERATION REPORT – (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		Share based payments		Post		
		Fixed Remuneration (Salary & Fees)	Short Term Incentive (cash)	Short-term employee benefits	Final Payment	Share Options Issued [1]	Converting Notes Issued	Employment Benefits - Superannuation	Total Remuneration	Value of Options as proportion of Remuneration
Non-executive Directors										
Jonathan West	2016	189	-	189	-	20,619	-	-	20,808	99%
	2015	25,114	-	25,114	-	-	-	2,386	27,500	-
John Bedbrook	2016	-	-	-	-	11,286	-	-	11,286	100%
	2015	25,114	-	25,114	-	2,199	-	2,386	29,699	7%
GF Dan O'Brien	2016	-	-	-	-	5,151	-	-	5,151	100%
	2015	-	-	-	-	-	-	-	-	-
Gordon Black	2016	47	-	47	-	5,151	-	-	5,198	99%
	2015	-	-	-	-	-	-	-	-	-
Steven M Skala (retired 31 December 2015)	2016	47	-	47	-	5,158	-	-	5,205	99%
	2015	25,114	-	25,114	-	-	-	2,386	27,500	-
Hugh M Morgan (retired 18 November 2014)	2016	-	-	-	-	-	-	-	-	-
	2015	25,114	-	25,114	-	-	-	1,643	26,757	-
Executive Directors										
Marilyn Anderson (3)	2016	95,480	-	95,480	-	2,567	-	9,071	107,118	2%
	2015	172,599	-	172,599	-	19,000	-	16,393	207,992	9%
Nicole van der Weerden (5)	2016	75,967	-	75,967	-	10,318	-	7,208	93,443	11%
	2015	75,872	-	75,872	-	19,500	-	7,208	102,580	19%
Ross Dobinson (2)	2016	-	-	-	-	-	-	-	-	-
	2015	50,000	-	50,000	136,364	5,903	-	-	192,267	3%
Executive										
Elisha Larkin (4)	2016	96,330	-	96,330	-	-	-	9,151	105,481	-
	2015	56,193	-	56,193	-	1,560	-	5,338	63,091	2%
Total	**2016**	**268,060**	-	**268,060**	**-**	**60,250**	**-**	**25,430**	**353,690**	**17%**
Total	**2015**	**455,120**	**-**	**455,120**	**136,364**	**48,162**	**-**	**37,740**	**677,386**	**7%**

DIRECTORS' REPORT

REMUNERATION REPORT – (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) Mr Ross Dobinson resigned from the position of Chairman on the 17^{th} November 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 $214,930, comprising $107,118 paid and payable directly by the Company and $107,812 paid by La Trobe University (majority of which was 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 as well as an Executive Director of the company.

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 $24,184 (2015: $16,059) of long service leave entitlements.

5) Dr. Nicole van der Weerden was appointed Chief Executive Officer in December 2015 and has been an Executive Director since 16^{th} December 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 $211,680, comprising $93,443 paid and payable directly by the Company, and $118,237 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.

DIRECTORS' REPORT

REMUNERATION REPORT – (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 granted to key management personnel and Executives during the reporting period.

	No. of Options Granted	Exercise Price	Grant Date	Fair value per option at grant date	Expiry Date	No. of options vested during 2016
Jonathan West	1,000,000	$0.50	11th Dec 2015	$0.026	11th Dec 2020	500,000
John Bedbrook	500,000	$0.50	11th Dec 2015	$0.026	11th Dec 2020	250,000
Nicole van der Weerden	500,000	$0.50	11th Dec 2015	$0.026	11th Dec 2020	500,000
GF Dan O'Brien	250,000	$0.50	11th Dec 2015	$0.026	11th Dec 2020	-
Gordon Black	250,000	$0.50	11th Dec 2015	$0.026	11th Dec 2020	-
Steven Skala	250,000	$0.50	11th Dec 2015	$0.026	11th Dec 2020	250,000

DIRECTORS' INTERESTS

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

Director	Total shares	Options over shares
Jonathan West	2,000,000	1,000,000
Marilyn Anderson	2,381,935	500,000
John Bedbrook	-	700,000
Nicole van der Weerden	9,000	1,000,000
GF Dan O'Brien	4,871,333	250,000
Gordon Black	-	250,000
Total	9,262,268	3,700,000

During the period Steven Skala retired as a Director.

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
1 July 2019	$0.50	508,000
26 August 2019	$0.50	640,000
18 November 2019	$0.50	700,000
11 December 2020	$0.50	2,750,000
		4,598,000

Shares issued on exercise of options

There were 2,750,000 options issued to Directors during the financial year ended 30 June 2016.

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.

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.

Audit Services	**2016** **$**	**2015** **$**
Audit of the annual financial report	27,250	26,500
Review of half year financial report	12,700	12,500
Services other than statutory audit		
Capital raising	6,000	-
	45,950	39,000

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 2016, the Company paid insurance premiums of $20,059 (inclusive of stamp duty) 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 2016.

<u>DIRECTORS' REPORT</u>

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

The Lead Auditor's Independence Declaration is set out on page 50 and forms part of the Directors' Report for the ended 30 June 2016.

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

Professor Jonathan West	Professor Marilyn Anderson
Non-Executive Chairman	Executive Director

Dated this 29th day of July

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	Consolidated 2016	2015
		$	$
Revenue	6	4,970,660	4,801,627
Contracted research expenditure		(3,316,897)	(3,892,835)
Other research & development expenditure	7	(1,949,584)	(555,804)
Patent and legal expenses		(344,045)	(448,051)
Field trial expenses		(223,282)	(420,644)
Marketing & business development expenses		(63,398)	(318,674)
Employee benefits expense		(733,819)	(919,989)
Depreciation expense		(205,258)	(210,880)
Other expenses	8	(193,599)	(251,092)
		(7,029,882)	(7,017,969)
Results from operating activities		(2,059,222)	(2,216,342)
Financial income	9	120,214	134,035
Net financing income/(expenses)		120,214	134,035
Loss before income tax		(1,939,008)	(2,082,307)
Income tax expense	10(a)	-	-
Loss for the period		(1,939,008)	(2,082,307)
Other comprehensive income for the period, net of income tax		-	-
Total comprehensive income/(loss) for the period		(1,939,008)	(2,082,307)
Loss attributable to:			
Owners of the Company		(1,939,008)	(2,082,307)
Loss for the period		(1,939,008)	(2,082,307)
Total comprehensive loss attributable to:			
Owners of the Company		(1,939,008)	(2,082,307)
Total comprehensive loss for the period		(1,939,008)	(2,082,307)

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Notes	Consolidated 2016 $	Consolidated 2015 $
CURRENT ASSETS			
Cash and cash equivalents	11	2,053,804	3,574,100
Receivables	12	2,849,599	2,900,959
TOTAL CURRENT ASSETS		4,903,403	6,475,059
NON-CURRENT ASSETS			
Plant and equipment	13	2,006,405	2,162,812
TOTAL NON-CURRENT ASSETS		2,006,405	2,162,812
TOTAL ASSETS		6,909,808	8,637,871
CURRENT LIABILITIES			
Trade and other payables	14	1,847,085	1,665,839
Employee benefits	15	165,823	153,173
TOTAL CURRENT LIABILITIES		2,012,908	1,819,012
TOTAL LIABILITIES		2,012,908	1,819,012
NET ASSETS		4,896,900	6,818,859
EQUITY			
Share capital	16	57,659,831	57,659,831
Reserves	16	1,175,523	1,158,474
Accumulated losses		(53,938,454)	(51,999,446)
TOTAL EQUITY		4,896,900	6,818,859

The accompanying notes form part of these financial statements

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2016

Consolidated

2016	**Note**	**Ordinary Shares $**	**Equity Option reserve $**	**Equity compen-sation reserve $**	**Capital Raising Reserve $**	**Accumulated Losses $**	**Total equity $**
Opening balance at 1 July 2015		57,659,831	200,000	958,474		(51,999,446)	6,818,859
Total comprehensive income for the period							
Net (loss) for the period		-	-	-		(1,939,008)	(1,939,008)
Other comprehensive income		-	-	-		-	-
Total comprehensive income/(loss) for the period		-	-	-		(1,939,008)	(1,939,008)
Transactions with owners recorded directly in equity *Contributions by and distributions to owners*							
Capital raising costs		-	-	-	(43,201)	-	(43,201)
Share based payment expenses	16	-	-	60,250	-	-	60,250
Total contributions by and distributions to owners		-	-	60,250	(43,201)	(53,938,454)	4,896,900
Closing balance at 30 June 2016		57,659,831	200,000	1,018,724	(43,201)	(53,938,454)	4,896,900

2015	**Note**	**Ordinary Shares $**	**Equity Option reserve $**	**Equity compen-sation reserve $**	**Capital Raising Reserve $**	**Accumulated Losses $**	**Total equity $**
Opening balance at 1 July 2014		57,659,831	200,000	886,600	-	(49,917,139)	8,829,292
Total comprehensive income for the period							
Net (loss) for the period		-	-	-	-	(2,082,307)	(2,082,307)
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income/(loss) for the period		-	-	-	-	(2,082,307)	(2,082,307)
Transactions with owners recorded directly in equity *Contributions by and distributions to owners*							
Capital raising costs		-	-	-	-	-	-
Share based payment expenses	16	-	-	71,874	-	-	71,874
Total contributions by and distributions to owners		-	-	71,874	-	-	71,874
Closing balance at 30 June 2015		57,659,831	200,000	958,474	-	(51,999,446)	6,818,859

The accompanying notes form part of these financial statements

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	Consolidated 2016 $	2015 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from government grants & collaboration agreements		4,616,139	5,835,640
Cash paid to suppliers and employees		(6,169,451)	(7,485,012)
Foreign currency remeasurement gain		60,218	-
Net cash (used in) operating activities	18(b)	(1,493,094)	(1,649,372)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		47,740	187,391
Payments for plant and equipment		(48,851)	(8,874)
Net cash (used in) / from investing activities		(1,111)	178,517
CASH FLOWS (USED IN) / FROM FINANCING ACTIVITIES			
Cash paid for capital raising		(43,201)	-
Net cash (used in) financing activities		(43,201)	-
Net (decrease)/ increase in cash and cash equivalents		(1,537,406)	(1,470,855)
Effect on movements in exchange rates on foreign currency denominated cash at bank		17,110	
Cash and cash equivalents at 1 July		3,574,100	5,044,955
Cash and cash equivalents at 30 June	18(a)	2,053,804	3,574,100

The accompanying notes form part of these financial statements

Notes to the financial statements for the year ended 30 June 2016

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 4, LIMS 2, La Trobe University, Victoria, 3086. The consolidated financial statements of the Company as at and for the year ended 30 June 2016 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, and the treatment of disease in humans.

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 28th July 2016.

(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.

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

The Group has consistently applied the accounting policies set out in Note 3 to all periods presented in these consolidated financial statements.

(f) Going concern basis of accounting

The financial report is prepared on a going concern basis, which contemplates continuity of normal operations and the realisation of assets and settlement of liabilities in the ordinary course of operations. In making this assessment, the directors have considered future events and conditions for a period of at least 12 months following the approval of these financial statements.

The Group has a history of losses and incurred a loss after tax of $1,939,008 (2015: loss after tax of $2,082,307). Given the history of losses and the decrease of cash and cash equivalents over the years, the going concern assumption of the Group is dependent on the continued income from collaboration fees and the receipt of the R&D tax incentive from the government.

2. BASIS OF PREPARATION (CONTINUED)

(f) Going concern basis of accounting (continued)

Notwithstanding the history of operating losses and the decrease in cash and cash equivalents compared to prior years, the Directors consider that it is appropriate to prepare the financial statements on a going concern basis based on the following mitigating factors:

- The Group has sufficient cash and receivables at 30 June 2016 to meet its obligations at that date and for a period of at least 12 months following the approval of these financial statements.
- The Group has not entered into any long term contractual commitments and its major expenditure (R&D) can be curtailed in line with the cash resources available.
- The Group has confirmed that it plans to execute a capital raising during FY17 to fund additional clinical trials subject to certain research milestones being achieved.
- The Group has indicated it has the ability to negotiate creditor settlement terms and related funding to assist in meeting short term liquidity shortfalls.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods by Group entities. Certain comparative amounts have been reclassified to conform with the current year's presentation.

(a) Basis of Consolidation

Subsidiaries
Subsidiaries are entities controlled by the Group. 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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

(i) Non-derivative financial instruments (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Plant and equipment (continued)

(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:

	2016	**2015**
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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Impairment (continued)

(i) Non-derivative financial assets (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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 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 biotechnology industry, developing and/or commercialising 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Employee benefits (continued)

Short term benefits (continued)

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.

(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 2015, and have not been applied in preparing these consolidated financial statements. 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 2016

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) and Euro. Given the minimal value of foreign currency transactions the Group does not enter into contracts to hedge currency risk. At 30 June 2016, there were receivables of $NIL and payables of $12,150 denominated in foreign currencies (2015 receivable: $NIL, payable: $NIL). At 30 June 2016 the Group had US$1,113,792 in a US dollar denominated account.

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.

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.

Notes to the financial statements for the year ended 30 June 2016

5. SEGMENT REPORTING

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

6. REVENUE

	Consolidated	
	2016	**2015**
	$	**$**
Government Grant – Other	36,315	-
Government – R&D Tax Incentive	2,680,108	2,263,424
Research grants and collaboration fees	2,254,237	2,538,203
	4,970,660	4,801,627

7. OTHER RESEARCH AND DEVELOPMENT EXPENDITURE

Other research and development expenditure	1,949,584	555,804
	1,949,584	555,804

8. OTHER EXPENSES

Administration and compliance costs	96,551	88,500
Other expenses	97,048	162,592
	193,599	251,092

9. FINANCE INCOME AND EXPENSE

Interest income on term deposit and cash at bank	42,887	134,035
Foreign exchange gain	77,327	-
Finance income	120,214	134,035

Notes to the financial statements for the year ended 30 June 2016

10. INCOME TAX

(a) Income tax expense	Consolidated 2016 $	Consolidated 2015 $
Loss before tax	(1,939,008)	(2,082,307)
Income tax using the domestic corporation tax rate of 30% (2015: 30%)	(581,702)	(624,692)
Increase/(decrease) in income tax expense due to:		
R & D adjustment	1,775,407	1,556,462
Non-assessable R&D tax incentive	(798,933)	(700,408)
Non-deductible share based payment	18,075	21,562
Other	2,061	4,085
Temporary differences not brought to account	18,670	74,065
Tax losses utilised not previously brought to account	(433,578)	(331,074)
Income tax expense/(benefit) on pre-tax net profit	-	-

(b) Unrecognised deferred tax assets

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

Temporary differences	638,353	619,683
Tax losses	10,186,761	10,620,339
Total	10,825,114	11,240,022

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

11. CASH AND CASH EQUIVALENTS

	Consolidated 2016 $	Consolidated 2015 $
Cash on hand	1,291	1,637
Cash at bank	2,052,513	1,129,849
Term deposits	-	2,442,614
	2,053,804	3,574,100

Notes to the financial statements for the year ended 30 June 2016

12. RECEIVABLES

	Consolidated 2016 $	Consolidated 2015 $
Current		
Trade receivables	50,084	378,506
R&D Tax Incentive Receivable – ATO	2,663,111	2,334,693
Accrued interest	-	4,852
Prepayments	136,404	182,908
	2,849,599	2,900,959

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

13. PLANT AND EQUIPMENT

Consolidated	**Plant and Equipment $**	**Office Equipment $**	**Total $**
Cost			
Balance at 1 July 2015	3,489,031	35,884	3,524,915
Additions	47,196	1,655	48,851
Disposals	-	-	-
Balance at 30 June 2016	3,536,227	37,539	3,573,766
Balance at 1 July 2014	3,493,292	114,923	3,608,215
Additions	8,295	2025	10,320
Disposals	(12,556)	(81,064)	(93,620)
Balance at 30 June 2015	3,489,031	35,884	3,524,915
Accumulated depreciation			
Balance at 1 July 2015	1,332,887	29,216	1,362,103
Depreciation for the year	202,106	3,152	205,258
Disposals	-	-	-
Balance at 30 June 2016	1,534,993	32,368	1,567,361
Balance at 1 July 2014	1,138,882	104,515	1,243,397
Depreciation for the year	206,552	4,328	210,880
Disposals	(12,547)	(79,627)	(92,174)
Balance at 30 June 2015	1,332,887	29,216	1,362,103
Carrying amounts			
At 1 July 2015	2,156,144	6,668	2,162,812
At 30 June 2016	2,001,234	5,171	2,006,405

14. TRADE AND OTHER PAYABLES

	Consolidated	
	2016	**2015**
Current	**$**	**$**
Trade payables	292,165	93,845
Other payables & accrued expenses	1,554,920	1,571,994
	1,847,085	1,665,839

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

15. EMPLOYEE BENEFITS

	Consolidated	
	2016	**2015**
Current	**$**	**$**
Superannuation	15,856	45,953
Liability for annual leave	70,931	52,558
Liability for long service leave	79,036	54,662
	165,823	153,173

16. CAPITAL AND RESERVES

Reconciliation of movement in capital and reserves

Consolidated and the Parent Entity

	Number of shares		Amount	
Ordinary Shares	**2016**	**2015**	**2016 $**	**2015 $**
On issue at 1 July	81,180,469	81,180,469	57,659,831	57,659,831
Issued at $0.00 per share on exercise of options	-	-	-	-
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

	Number of options		Amount	
Equity option reserve	**2016**	**2015**	**2016 $**	**2015 $**
On issue at 1 July	125,000	125,000	200,000	200,000
Issued	-	-	-	-
Lapse of share options	125,000	-	-	-
On issue at 30 June – fully paid	-	125,000	200,000	200,000

16. CAPITAL AND RESERVES (continued)

Equity compensation reserve	Number of options 2016	Number of options 2015	Amount 2016 $	Amount 2015 $
On issue at 1 July	1,848,000	1,000,000	958,474	886,600
Issued as compensation	2,750,000	1,848,000	60,250	71,874
Exercise of share options	-	-	-	-
Lapse of share options	-	1,000,000	-	-
On issue at 30 June – fully paid	4,598,000	1,848,000	1,018,724	958,474
Total reserve at 30 June	4,598,000	1,973,000	1,218,724	1,158,474

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.

Capital Raising Reserve
The capital raising reserve represents costs incurred to 30 June 2016 in respect of the proposed capital raising. This will be transferred and recorded against capital raised on completion of the capital raising.

17. SHARE-BASED PAYMENTS

The terms and conditions of the grants for options outstanding at 30 June 2016 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
Options granted to key management on 26th August 2014	540,000	Immediate vesting	5 years
Options granted to key management on 18th November 2014	500,000	Immediate vesting	5 years
Options granted to key management on 18th November 2014	200,000	Vesting on earlier of 31st December 2016 or sale of the company	5 years
Options granted to other personnel on 26th August 2014	100,000	Immediate vesting	5 years
Options granted to other personnel on 1st July 2014	508,000	Immediate vesting	5 years
Options granted to key management on 11th December 2015	1,500,000	Immediate vesting	5 years
Options granted to key management on 11th December 2015	1,250,000	Vesting 11th December 2016	5 years
Total share options	4,598,000		

17. SHARE-BASED PAYMENTS (continued)

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

	Weighted average exercise price 2016	Number of options 2016	Weighted average exercise price 2015	Number of options 2015
Outstanding at 1 July	$0.53	1,973,000	$0.56	1,125,000
Exercised during the period	-	-	-	-
Lapsed during period	$1.00	125,000	$0.50	1,000,000
Granted during the period	$0.50	2,750,000	$0.50	1,848,000
Outstanding at 30 June	$0.50	4,598,000	$0.53	1,973,000

The options outstanding at 30 June 2016 have an exercise price of $0.50, and a weighted average remaining contractual life of 4 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.

The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans which were all issued to directors in FY16 were; risk-free rate 2.33%, fair value at grant date $0.0257, estimated share price at grant date $0.084, exercise price $0.50, standard deviation (annualised) 80% and an annualised dividend rate of 0%. The inputs used in the prior year for share options issued to directors, key management staff and other employees were; a risk free rate range of 2.8% to 3.03%, fair value at grant date $0.038 and $0.039, estimated share price $0.11, volatility range of 78% to 79% and dividends of nil.

Employee expenses

	Consolidated	
	2016	2015
Current	$	$
Share options granted	60,250	71,874
Total expense recognised as employee costs	60,250	71,874

18. NOTES TO THE STATEMENT OF CASHFLOW

18a. RECONCILIATION OF CASH

Reconciliation of cash at the end of the period (as shown in the statement of cash flows) to the related items in the accounts is as follows:	Note	Consolidated 2016 $	Consolidated 2015 $
Cash on hand and at bank	11	2,053,804	3,574,100

18b. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated 2016	Consolidated 2015
Cash flows from operating activities	$	$
Loss for the period	(1,939,008)	(2,082,307)
Adjustments for:		
Interest and foreign exchange received – classified as investing activity and movement in cash	(64,849)	(187,391)
Depreciation	205,258	210,880
Equity settled share based payment expense	60,250	71,874
Operating loss before changes to working capital	(1,738,349)	(1,986,944)
(Increase)/decrease in trade and other receivables and prepayments	51,360	497,997
Increase/(decrease) in payables and employee benefits	193,895	(160,425)
Net cash from/(used in) operating activities	(1,493,094)	(1,649,372)

19. AUDITORS' REMUNERATION

	2016	2015
Audit Services		
Auditors of the Company		
KPMG Australia		
- Audit of the annual financial report	27,250	26,500
- Review of half year financial statements	12,700	12,500
Other Services		
Auditors of the Company		
KPMG Australia		
- Capital Raising	6,000	-
	45,950	39,000

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 2016 $	Consolidated 2015 $
Trade receivables	12	50,084	378,506
R&D Tax Incentive – ATO	12	2,663,111	2,334,693
GST receivable – ATO		113,121	160,216
Accrued interest on bank term deposits	12	-	4,852
Cash on hand and at bank	11	2,053,804	3,574,100
		4,880,120	6,452,367

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

Impairment Losses
The Group has receivables past due of $NIL (2015: $NIL) and no impairment losses have been recognised (2015: $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 notes except for trade and other payables and employee provisions with a carrying value of $2,012,908 (notes 14 and 15), which are payable in cash and have a maturity of less than 6 months. Long Service leave current liability which is also included in Note 15, totals $79,036.

There are currently NIL term deposits.

Currency risk

At 30 June 2016, there were receivables of $NIL and payables of AUD$12,150 denominated in foreign currencies. Of the cash on hand at 30 June 2016, the Group held USD$1,113,792 (AUD$1,499,854) in a US dollar denominated account.

Interest Risk

Exposure to interest rate risks arises in the normal course of the Group's business in respect of interest income on cash at bank (note 11). The weighted average interest rate in respect of interest income in 2016 was 2.4% (2015: 3.46%).

Fixed rate instruments

In respect of term deposits a 100 basis points increase in interest rates would have decreased the loss by Nil (2015: $41,370). A 100 basis points decrease in interest rates would have increased the loss by Nil (2015: $41,370).

20. FINANCIAL INSTRUMENTS (continued)

Variable rate instruments

In respect of cash at bank a 100 basis points increase in interest rates would have decreased the loss by $8,087 (2015: $8,174). A 100 basis points decrease in interest rates would have increased the loss by $8,087 (2015: $8,174).

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 2016.

Fair value hierarchy

No financial instruments are carried at fair value at 30 June 2016, 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:

Non-Executive Chairman
Professor Jonathan West

Executive Directors
Professor Marilyn Anderson, Chief Science Officer
Dr. Nicole van der Weerden, Chief Executive Officer

Non-Executive Directors
Dr. John Bedbrook
Mr GF Dan O'Brien (appointed as Director 18th November 2015)
Mr Gordon S Black (appointed as Director 18th November 2015)
Mr Steven M Skala AO (resigned as Director 31st December 2015)

Executives
Ms Elisha Larkin, Company Secretary

Notes to the financial statements for the year ended 30 June 2016

22. RELATED PARTIES (Continued)

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

	Consolidated	
	2016	**2015**
	$	**$**
Short term employee benefits	268,060	455,120
Post employment benefits	25,430	37,740
Final Payment	-	136,364
Share based payments	60,250	45,963
	353,740	675,187

Individual Directors and Executive compensation disclosures
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:

2016	Held at 1 July 2015	Exercised	Lapsed at 1 July 2016	Granted as Compensation	Held at 30 June 2016	Vested and exercisable at reporting date
Directors						
J West	-	-	-	1,000,000	1,000,000	500,000
M Anderson	500,000	-	-	-	500,000	500,000
N van der Weerden	500,000	-	-	500,000	1,000,000	1,000,000
E Larkin	40,000	-	-	-	40,000	40,000
J Bedbrook	200,000	-	-	500,000	700,000	250,000
GF O'Brien	-	-	-	250,000	250,000	-
S Skala (1)	-	-	-	250,000	250,000	250,000
G Black	-	-	-	250,000	250,000	-
	1,240,000	-	-	2,750,000	3,990,000	2,540,000

2015	Held at 1 July 2014	Exercised	Lapsed at 1 July 2015	Granted as Compensation	Held at 30 June 2015	Vested and exercisable at reporting date
Directors						
R Dobinson (2)	1,000,000	-	1,000,000	-	-	-
M Anderson	-	-	-	500,000	500,000	500,000
N van der Weerden	-	-	-	500,000	500,000	500,000
E Larkin	-	-	-	40,000	40,000	40,000
S Skala	-	-	-	-	-	-
J Bedbrook	-	-	-	200,000	200,000	-
	1,000,000	-	1,000,000	1,240,000	1,240,000	1,040,000

Notes to the financial statements for the year ended 30 June 2016

22. RELATED PARTIES (Continued)

(1) Mr Steven Skala retired as a Director in December 2016 and was granted options prior to retirement
(2) Mr Ross Dobinson resigned in November 2014 and all his options lapsed in December 2014

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:

2016	Held at 1 July 2015	Shares issued under offer	Purchases	Received on exercise of options	Sales	Held at 30 June 2016
Directors						
Jonathan West	2,000,000	-	-	-	-	2,000,000
Nicole van der Weerden	9,000	-	-	-	-	9,000
Marilyn Anderson	2,381,935	-	-	-	-	2,381,935
GF Dan O'Brien	4,871,333	-	-	-	-	4,871,333
John Bedbrook	-	-	-	-	-	-
Steven M Skala (1)	4,167,467	-	-	-	-	4,167,467
Gordon Black	-	-	-	-	-	-
	13,429,735	-	-	-	-	13,429,735

2015	Held at 1 July 2014	Shares issued under offer	Purchases	Received on exercise of options	Sales	Held at 30 June 2015
Directors						
Jonathan West	2,000,000	-	-	-	-	2,000,000
Hugh Morgan (2)	6,454,503	-	-	-	-	6,454,503
Nicole van der Weerden	9,000	-	-	-	-	9,000
Marilyn Anderson	2,381,935	-	-	-	-	2,381,935
Steven M Skala	4,167,467	-	-	-	-	4,167,467
	15,012,905	-	-	-	-	15,012,905

(1) Mr Steven Skala retired as a Director on the 31st December 2015.

(2) Mr Hugh Morgan retired as a Director on the 18th November 2014.

22. RELATED PARTIES (Continued)

Key management personnel and directors' transactions

Professor Anderson and Dr. van der Weerden are employees of La Trobe University. During the course of the financial year ended 30 June 2016, amounts (including GST) totaling $4,393,914 (2015: $5,015,459) 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 2016 were $740,115 (exclusive of GST) (2015: $638,525).

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 2016 in the Company's statement of financial position.

23. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2016 $	2015 $
Less than one year	-	7,204
Between one and five years	-	-
	-	7,204

The Group leases a glass house facility and office equipment under operating leases. The Company vacated leased office space in March 2015.

24. GROUP ENTITIES

	Country of incorporation	Ownership Interest	
Parent Entity		**2016**	**2015**
Hexima Limited	Australia		
Significant subsidiaries			
Hexima Holdings Limited	Australia	100%	100%
Pharmagra Pty Ltd	Australia	100%	100%

Pharmagra Pty Ltd is incorporated in Australia and is a 100% owned subsidiary of the Company. Pharmagra Pty Ltd has total assets and net assets of $2.00 at 30 June 2016.
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 $1,600,424 at 30 June 2016, which comprises the Hexima glasshouse located at La Trobe University.

Notes to the financial statements for the year ended 30 June 2016

25. PARENT ENTITY DISCLOSURES

	Company	
	2016	2015
	$	$
Result of the Parent Entity		
Loss for the period	(1,939,008)	(2,082,307)
Other Comprehensive income	-	-
Total Comprehensive income for the period	(1,939,008)	(2,082,307)
Financial Position of the Parent entity at year end		
Current assets	4,903,403	6,475,059
Total assets	6,909,807	8,637,871
Current liabilities	2,012,908	1,819,012
Total liabilities	2,012,908	1,819,012
Total equity of the Parent entity comprising of:		
Share capital	57,659,831	57,659,831
Reserves	1,175,523	1,158,474
(Accumulated losses)	(53,938,454)	(51,999,446)
Total Equity	4,896,900	6,818,859

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 46, 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 2016 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 Chief Executive Officer and the Company Secretary/CFO for the financial year ended 30 June 2016.

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 29th day of July 2016.

Marilyn A Anderson

Professor Jonathan West
Non-Executive Chairman

Professor Marilyn Anderson
Executive Director

KPMG

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 2016, 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 2016 and of their performance for the year ended on that date; and

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

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

KPMG

Gordon Sangster
Partner

Melbourne

29 July 2016

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 2016 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

29 July 2016