ANNUAL REPORT 2014

Acrux Limited ASX:ACR

ACRUX

DRUG DELIVERY SOLUTIONS

ABN 72 082 001 152

CONTENTS

Delivering to patients and shareholders through product innovation

BUSINESS SNAPSHOT

FINANCIAL METRICS

	2013/14	2012/13	2011/12
Special dividend per share (tax-free)	*$0.12*	–	–
Final dividend per share (tax-free)	*$0.08*	*$0.08*	*$0.08*
Earnings Per Share	17 cents	4 cents	4 cents
Profit After Tax	$28 million	$7 million	$7 million
Revenue	$54 million	$17 million	$11 million

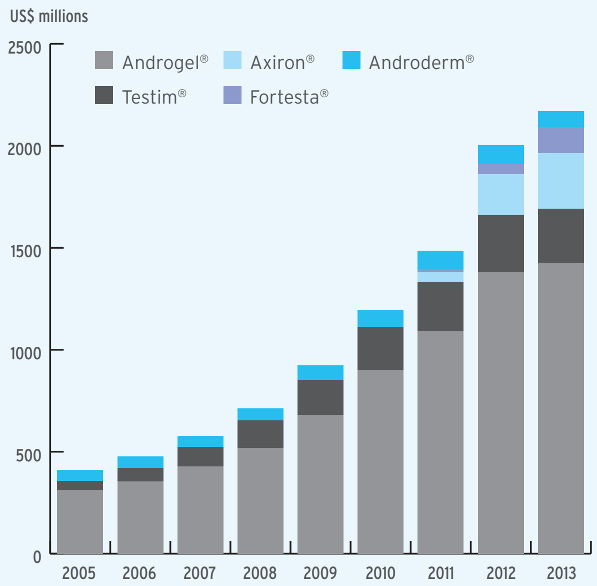
BUSINESS MILESTONES

- Acrux revenue increased to $53.9 million from $16.7 million recorded in the previous financial year; royalty revenue increased to $24.5 million from $14.1 million in the previous year
- Axiron®:
  - Net sales for the 2013/14 financial year increased to US$181 million from US$124 million in previous financial year
  - Received milestone payment of US$25 million in March 2014 as net sales in the 2013 calendar year exceeded US$100 million
  - Special unfranked dividend of 12 cents per share paid to shareholders in March 2014
  - Maintained stable share of transdermal gel testosterone therapy prescriptions in United States (13.7% on IMS data)
  - US healthcare plan (formulary) coverage further expanded
  - Better access to prescribers through formularies i.e., insurers as Prior Authorisation requirements being provided to prescribers through third party contractors
  - FDA Advisory Committee recommended that the indication statement for testosterone replacement therapy be revised to limit use to men with "classic" hypogonadism and potentially specifically state that "age-related" hypogonadism is not indicated. The Advisory Committee also recommended further study of testosterone and cardiovascular risk. The Advisory Committee provides recommendations to the FDA, which will then deliberate and take a decision in the coming weeks or months.
  - Now launched in Australia, Brazil, Canada, Germany and South Korea
- New opportunities under review

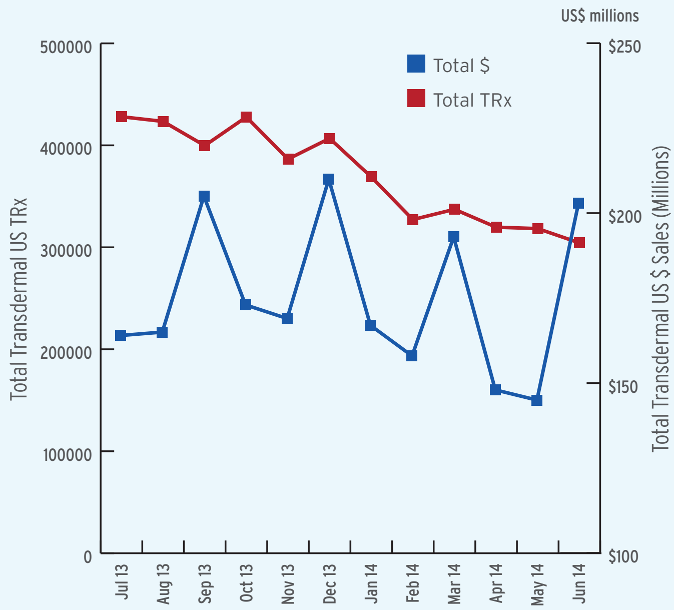
BUSINESS OUTLOOK 2014/2015

- Leadership succession preparing for growth: appointment of Michael Kotsanis as CEO
- Eli Lilly's clinical study 'TSAT', a study in men with low testosterone to measure the effects of testosterone solution on testosterone levels, sex drive and energy, is scheduled to have last patient visit in October 2014
- Expect FDA to decide on recommendations from the Advisory Committee regarding testosterone replacement therapy
- 2015 formulary contracts secured, providing Axiron with continued market position as one of two preferred products reimbursed by the leading formularies. FDA's decision on indication statement could impact formulary contracts.
- Product pipeline and new opportunities progression

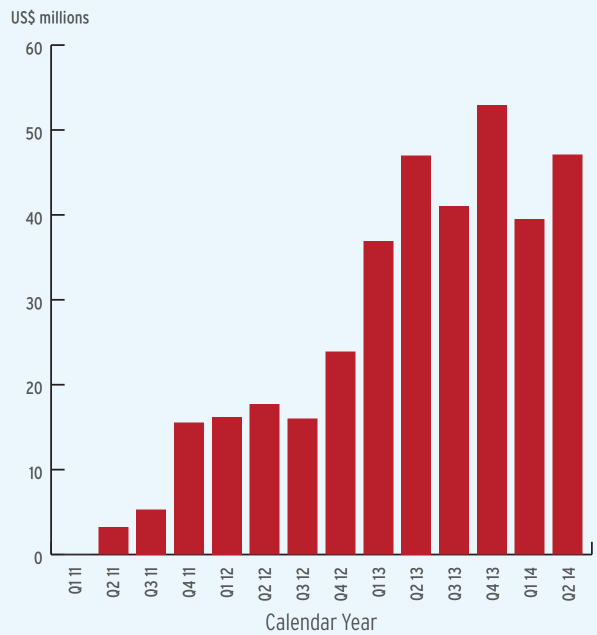
US TESTOSTERONE THERAPY MARKET
(US$ MILLIONS)



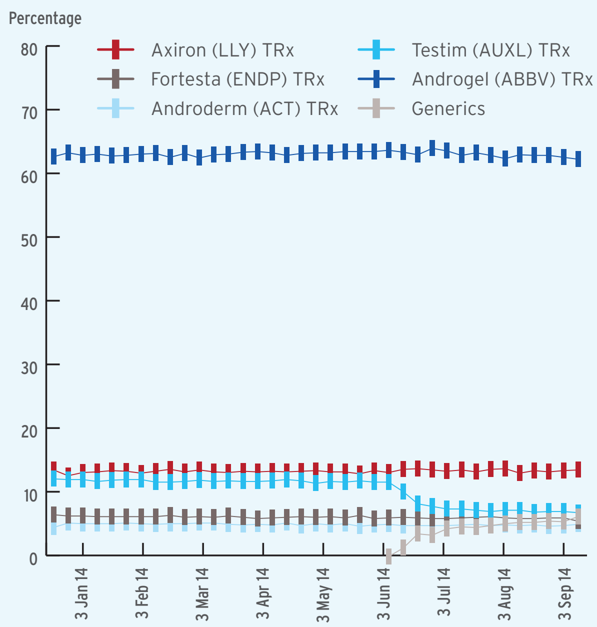
US TESTOSTERONE THERAPY MARKET
MONTHLY SALES (US$ MILLIONS) AND PRESCRIPTION NUMBERS (TRx) FOR FINANCIAL YEAR 2013/14



AXIRON US NET SALES SINCE LAUNCH
(US$ MILLIONS)



SHARE OF US TRANSDERMAL TESTOSTERONE GEL THERAPY PRESCRIPTIONS (US$ MILLIONS)



(IMS data)

CHAIRMAN'S LETTER

Strong revenue stream resulted in two dividend payments totalling 20 cents per share.

2014 has been a challenging year for Acrux. However, shareholders received a dividend of 20 cents per share from two dividend payments as a result of Acrux maintaining a strong revenue stream during the financial year. We continue to maintain our pooled Development Status.

We maintain our close relationship with Eli Lilly, which is continuing to work diligently to ensure Axiron is available to appropriate patients in the United States (US) and the markets that have launched outside of the US. The analysis of the testosterone replacement therapy market by the FDA has created uncertainty in the market. We will keep shareholders advised of developments emanating from the FDA's appraisal of the recommendations of the Advisory Committee's Panel over the coming weeks and months and our assessment of any implications for Axiron.

Gedeon Richter has continued to progress commercialisation of Evamist outside the US under the agreement entered into in June 2013. Our US Evamist licensee, Lumara Health (previously known as KV Pharmaceuticals), has undergone a corporate restructure since emerging from Chapter 11 bankruptcy protection last year, and we are continuing to monitor developments to ensure an optimum outcome for Acrux.

In February 2014 it was announced that encouraging data had been generated for an antifungal product being developed in collaboration with Hexima Limited and that the next stage of product development had been initiated. Acrux subsequently filed an Australian provisional patent application to protect the joint rights of Acrux and Hexima to the intellectual property resulting from the collaboration. Hexima subsequently advised that it may not wish to further explore commercialisation of the antifungal medical product with Acrux. Acrux considers the best way to commercialise the technology remains through our collaboration agreement with Hexima and is continuing negotiations with Hexima to achieve this. Development of a non-melanoma skin cancer therapeutic project with Hexima has been suspended pending commercial resolution for the development of the antifungal medical product. In the meantime, the Acrux team is focusing on other pipeline opportunities, with several early investigations underway for new therapeutic opportunities.

As previously announced, we are very pleased to welcome Michael Kotsanis to Acrux as Chief Executive Officer and Managing Director, effective from 3rd November. Michael's experience and capabilities will significantly enhance our development capacity. I will relinquish my executive role when Michael commences work, and will revert to the role of Non-Executive Chairman.

R DOBINSON
Executive Chairman

OPERATING REVIEW

Acrux's revenue increased from $16.7 million in the 2013 financial year to $53.9 million in the 2014 financial year.

Acrux declared its third regular dividend of 8 cents per share for the 2013/14 financial year, following its 5th consecutive profitable operating year. Shareholders received dividends totalling 20 cents from two payments during the 2013/14 financial year.

As Acrux is a Pooled Development Fund shareholders are exempt from tax on both dividends and capital gains.

Acrux's revenue was up over 220% to $53.9 million (previous year $16.7 million), incorporating a milestone payment of US$25 million in March 2014 after the 2013 calendar year Axiron sales hurdle was met.

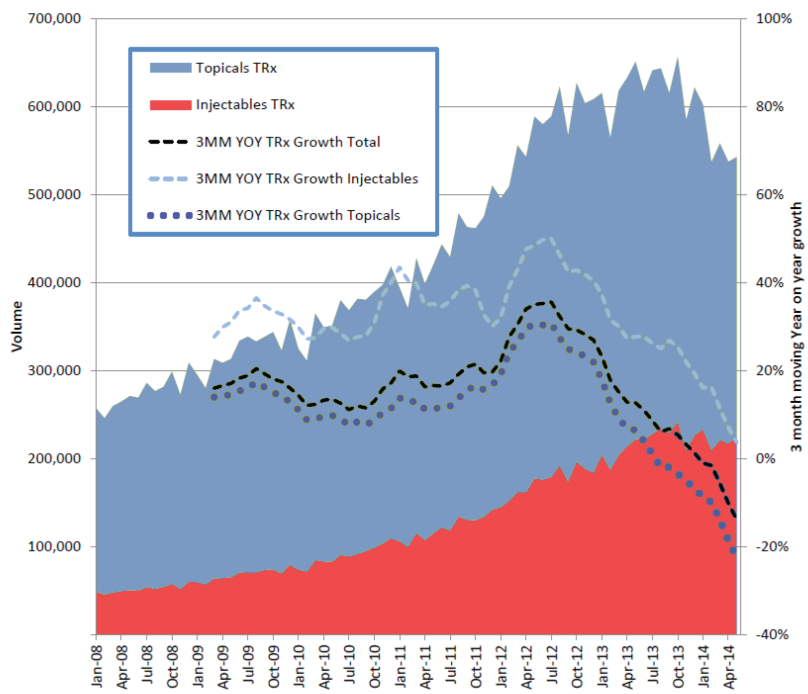
With the announcement of the appointment of Michael Kotsanis as CEO and Managing Director, commencing in November 2014, Acrux intends to expand its product pipeline in 2014/15.

AXIRON US MARKET

Demand for testosterone replacement therapy has increased significantly since 2008, driven by a number of factors, including new therapeutic options, increased patient and prescriber awareness and a large, untreated patient population.

The testosterone injectable market has been growing at a higher rate than transdermal products over the last 12 months.

US TESTOSTERONE REPLACEMENT THERAPY MARKET



There are a number of factors that may have influenced the market fluctuations, and we cannot speculate on which of these factors constitute the primary drivers.

AXIRON US SALES

Net sales (invoiced sales, less rebates, discounts and returns) of Axiron increased 46% to US$181.1 million (2012/13 – US$124 million). Royalties on net sales were US$22.3 million (2012/13 – US$14 million). The average royalty rate on sales increased in the second half of 2013. In addition to royalties Acrux received a milestone payment of US$25 million in March 2014 and paid a special dividend of 12 cents per share.

Axiron's positioning with leading formularies improved in January 2014, with Axiron being the only transdermal testosterone replacement therapy to be registered as a preferred product on both ESI and CVS Caremark National Formularies (two of the leading insurers).

The 2015 formulary contracts have been secured, with Axiron retaining its status as one of two preferred products.

Axiron has continued to hold a steady share of market and is currently the number two product in the US transdermal testosterone replacement therapy market.

AXIRON US MARKET SHARE

The following table shows the current share of transdermal prescriptions for each product, compared with market share data issued immediately prior to the issue of the FDA Drug Safety Communication in January 2014.

Lower strength (1%) testosterone generics were introduced in June 2014, but Axiron has continued to hold a steady share of market and is currently the number two product in the US transdermal testosterone replacement therapy market.

FDA REVIEW STATUS

On 31st January 2014, the U.S. Food and Drug Administration (FDA) issued a Drug Safety Communication (DSC), which stated that the FDA is investigating the risk of stroke, heart attack (myocardial infarction) and death in men taking FDA-approved testosterone products.

The two observational studies that sparked the FDA's DSC have been criticised for significant limitations within the studies' results. Three professional medical societies and an international group of over 160 scientists and physicians have petitioned the Journal of the American Medical Association (JAMA) to retract one of the study articles, stating that it is "no longer credible"; JAMA determined not to retract the article.

On 17th September 2014, the FDA's Bone, Reproductive and Urologic Drugs Advisory Committee and its Drug Safety and Risk Management Advisory Committee met to discuss the appropriate population for testosterone replacement therapy and the potential for adverse cardiovascular outcomes.

The FDA convenes Advisory Committees for multiple purposes, particularly to gain expert insight on the review of new products, issues covering products across different therapeutic areas, device-related question and policy-related questions.

The Advisory Committee recommended that the indication statement for testosterone replacement therapy be revised to limit use to men with "classic" hypogonadism and potentially specifically state that "age-related" hypogonadism is not indicated. The Advisory Committee recommended further study of testosterone and cardiovascular risk.

SHARE OF US TRANSDERMAL TESTOSTERONE GEL THERAPY PRESCRIPTIONS

SHARE OF MARKET	27 JUN 14[1]	31 JAN 14[2]	05 SEP 14[3]	CHANGE SINCE JAN 14
Axiron (LLY) TRx	13.9%	13.5%	13.7%	0.2%
Androderm (ACT) TRx	5.0%	5.2%	5.1%	-0.1%
Androgel (ABBV) TRx	63.1%	62.8%	62.3%	-0.5%
Fortesta (ENDP) TRx	6.2%	6.3%	5.6%	-0.7%
Testim (AUXL) TRx	8.3%	12.0%	7.0%	-5.0%
Generic products (including Vogelxo)	0.0%	0.0%	6.4%	6.4%

(IMS data)

1 End of financial year.
2 FDA Drug Safety Communication issued.
3 Latest data at time of printing.

In this regard, the results of several studies are expected in the next six months, including the Lilly sponsored study TSAT, and three retrospective database studies funded by the National Institutes of Health.

The TSAT study will measure the effects of testosterone solution on testosterone levels, sex drive and energy. Though not designed specifically to assess the risk of cardiovascular events, this study will collect information on any cardiovascular events that occur during the study. The study was initiated early 2013 and last patient visit of the double-blind phase is scheduled to be completed in October 2014. More information about this study can be found on www.clinicaltrials.gov.

The FDA also asked the Advisory Committee to consider the current indications for testosterone therapies. The panel voted in favour of changing language in the products' labels to restrict the intended uses of the drugs, particularly in relation to age-related low testosterone.

The FDA is not obliged to follow the advice of its Advisory Committees; however, it generally does. It is premature to speculate how the FDA will consider the Advisory Committee's recommendation. Until this is clarified, it is difficult to prepare market forecasts for testosterone replacement therapy for the coming financial year. The FDA's decision on this matter could take several weeks to months.

As a consequence of the FDA's review, the US testosterone replacement therapy market has been impacted to date, resulting in Axiron's lower than forecast quarterly figures of US$39.5 million in Q3 FY13/14 and US$47.1 million in Q4 FY13/14.

AXIRON OUTSIDE THE UNITED STATES

In addition to Canada and Australia, in the last year, Axiron has been approved and launched in Brazil, Germany and South Korea. These markets collectively comprise more than half the current ex-US $ market, with Germany being the second largest testosterone market outside of the US after Canada. The market share of Axiron continues to grow in these markets and contribute towards the sales total that determines the royalty rate tier.

AXIRON PATENT PROTECTION

The Acrux patent covering the underarm administration of testosterone formulations was granted by the US Patent and Trademark Office (USPTO) in May 2013. In the United States, Axiron is now protected by patents with expiry dates of 2030, 2027, 2026 and 2017. The patents cover different aspects of the product, including the formulation and delivery method, administration to the underarm and the physical applicator.

Lilly and Acrux have filed two lawsuits in the US alleging patent infringement by Perrigo and Watson following these companies' submissions to the FDA of Abbreviated New Drug Applications (ANDAs) for a generic version of Axiron. The average time to trial for these types of cases is approximately 2.5 years from the initiation of litigation.

ESTRADIOL SPRAY

The first product developed by Acrux was an estradiol spray for women to treat the symptoms of menopause. The spray was approved by the FDA in 2007 and launched into the US market in 2008. Branded Evamist®, the spray is distributed in the US by Acrux's licensee Lumara Health (formerly known as KV Pharmaceuticals). In 2009, Lumara Health underwent a significant restructuring of its business, following a number of product recalls and the suspension of its manufacturing activities by the FDA. In August 2012, Lumara Health filed petitions seeking relief under Chapter 11 of the United States Bankruptcy Code. Following a number of attempts, Lumara Health emerged from Chapter 11 protection in September 2013 after creditors accepted a reorganisation plan to recapitalise the company. Lumara Health rebranded from KV Pharmaceuticals in May 2014, and announced in September 2014 that Lumara had entered into a definitive agreement for the sale of its Women's Healthcare assets, including Evamist, to Perrigo Company Plc. Acrux is currently assessing a potential assignment of the contract with Lumara to Perrigo. Evamist US net sales are approximately US$10 million per annum.

In June 2013, Acrux appointed Gedeon Richter to commercialise the product in selected ex-US markets and Acrux received US$1 million upon signing the agreement. Acrux can earn further payments of up to US$2.6 million upon achievement of European regulatory milestones by Gedeon Richter, plus royalties on sales which are expected to commence in the 2015 calendar year.

Marketing authorisation in South Africa was received by Acrux's commercialisation partner, Aspen South Africa, in August 2014. An application for marketing authorisation is also under review in South Korea.

ANIMAL HEALTH PRODUCTS

In addition to commercialising Axiron, Lilly's animal health business (Elanco Animal Health) has an exclusive worldwide license to develop and commercialise Acrux's technology to deliver medicines through the skin of companion animals. The first product (Recuvyra, for post-operative pain relief in dogs) was launched in the US and Europe during the 2012/2013 financial year.

Elanco is working on a number of other products for companion animals, for which Acrux will receive royalties on worldwide sales as well as product approval milestones.

OPERATING REVIEW

CONTINUED

OTHER PRODUCTS

In February 2014 it was announced that encouraging data had been generated for an antifungal product being developed in collaboration with Hexima Limited, and that the next stage of product development had been initiated. Acrux recently filed an Australian provisional patent application to protect the joint rights of Acrux and Hexima to the intellectual property resulting to date from the collaboration.

Hexima has subsequently advised that it may not wish to further explore commercialisation of the antifungal medical product with Acrux. Acrux considers the best way to commercialise the technology remains through our collaboration agreement with Hexima and is continuing to press for this to occur. Development of a non-melanoma skin cancer therapeutic project with Hexima has been suspended pending commercial resolution for the development of the antifungal medical product.

Acrux continues to work on its product pipeline, with several early investigations underway for new treatment areas.

REVENUE

Total revenue for the financial year was $53.9 million (2013: $16.7 million). Revenue from product agreements was $53.4 million (2013: $15.5 million). Revenue from Axiron increased to $52.5 million (2013: $14.6 million), including the recognition of $28.0 million (US$25 million) in milestone revenue, as net sales exceeded US$100 million in the 2013 calendar year and an increase in royalty revenue to $24.5 million (2013: $14.1 million). A further $0.7 million (2013: Nil) of milestone revenue was received under the license agreement with Gedeon Richter for the manufacturing and marketing of Acrux's estradiol spray in markets outside the United States, following the first European regulatory filing. Interest income contributed $0.5 million (2013: $0.9 million).

EXPENSES

Operating expenditure totaled $10.0 million (2013: $6.6 million). Employee benefits expense increased to $2.3 million (2013: $2.0 million) while Directors' fees increased to $0.6 million (2013: $0.5 million). Royalty payments due to Monash Investment Trust increased to $1.8 million (2013: $0.5 million), in-line with increased product income. A non-cash expense of $0.6 million (2013: Nil) was recorded for employee share options granted during the reporting period, as required by accounting standard AASB 2. The continued strength of the Australian dollar relative to the US dollar led to the recognition of $1.2 million of foreign exchange losses (2013: a foreign exchange gain of $0.1 million was recorded).

Acrux's annual underlying operating expenditure is $5 million (2013: $4.7 million), excluding Monash royalty payments (2014: $1.8 million) and non cash costs (2014: $3.2 million, including foreign exchange loss, employee share costs, amortisation and depreciation). This expenditure includes maintenance of the company's operations, intellectual property expenses and current research and development expenditure. Royalty payments due to Monash Investment Trust cease in February 2017. Acrux will update the market accordingly should it further expand it's R&D operations and budget as new opportunities present.

Income tax expense for the financial year was $15.9 million (2013: $3.1 million) representing approximately 36% of profit before income tax. For future reporting periods the consolidated entity's income tax expense is likely to represent approximately 30% of profit before income tax. Acrux Limited is a Pooled Development Fund (PDF). The income tax expense recorded is the result of the tax effect particular to a PDF. PDFs are taxed at 15% on income and gains from investments in small to medium enterprises. Groups containing a PDF are not permitted to consolidate for tax purposes. Further information regarding income tax expense is provided at Note 1 (j) of the notes to the financial statements following.

CASH FLOW

Net cash provided by operating activities increased to $36.4 million (2013: $6.3 million). Net cash inflow for the financial year was $3.0 million (2013: a net cash outflow of $7.1 million was recorded). Cash reserves at 30 June 2014 were $25.8 million (30 June 2013: $22.8 million).

Receipts from product agreements increased to $53.4 million (2013: $12.6 million) due to the increase in Axiron royalty receipts and the receipt of the US$25 million milestone payment from Eli Lilly. Interest receipts added $0.5 million (2013: $1.2 million).

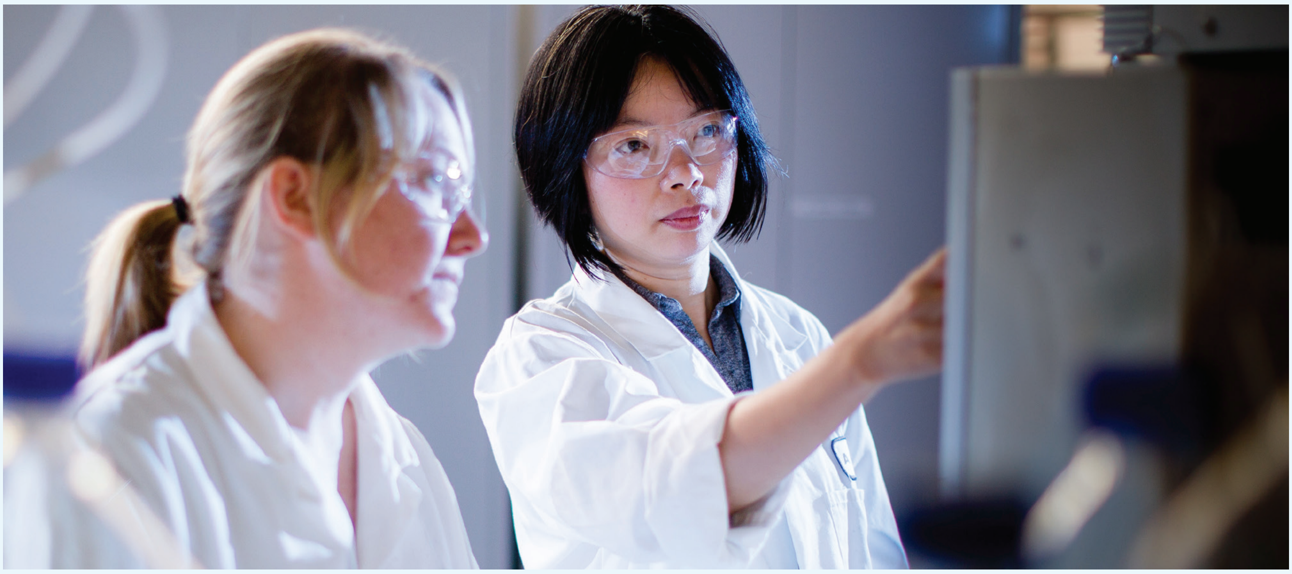
Payments to suppliers and employees increased to $6.7 million (2013: $4.8 million). Income taxes paid increased to $10.8 million from the $2.6 million recorded in the 2013 financial year.

The outflow of cash recorded for financing activities represents the payment of $33.3 million (2013: $13.4 million) of dividends to shareholders, consisting of the 8 cent final dividend for the 2012/13 financial year and the 12 cent special dividend declared in March 2014.

OUTLOOK

The revenue received under its global license agreement with Eli Lilly for the marketing and distribution of Axiron has led to Acrux recording operating profits for the last five financial years.

The contractual relationship with Lilly has not changed and the royalty tiers and potential milestone payments remain consistent with previous communications.



FINANCE

	30 JUNE 2014 $M	30 JUNE 2013 $M	30 JUNE 2012 $M
Product agreement revenue	53.4	15.5	9.0
Interest, grant and other income	0.5	1.2	1.7
Total revenue	**53.9**	**16.7**	**10.7**
Royalties payable	(1.8)	(0.5)	(0.3)
Capitalised development amortisation	(1.3)	(1.3)	(0.2)
Other expenditure	(6.9)	(4.8)	(5.3)
Total expenditure	**(10.0)**	**(6.6)**	**(5.8)**
Profit before tax	**43.9**	**10.0**	**4.9**
Income tax (expense)/benefit	(15.9)	(3.1)	2.5
Profit after tax	**28.0**	**6.9**	**7.4**
Earnings per share	**17 cents**	**4 cents**	**4 cents**
Net cash inflow/(outflow) before financing	**36.3**	**6.3**	**(2.5)**
Dividends paid	(33.3)	(13.4)	(0.6)
Net cash	**25.8**	**22.8**	**30.0**

BOARD OF DIRECTORS & SENIOR MANAGEMENT

R. DOBINSON

BBus

Executive Chairman

Ross has been a Director since 1998 and was appointed Non-Executive Chairman in January 2006 and then Executive Chairman on 1 July 2012. He is a founder and former CEO of Acrux. Ross has a background in investment banking and stockbroking. He is currently Managing Director of TSL Group Ltd, a corporate advisory company specialising in establishing and advising life sciences companies. He was a founding Director of Starpharma Holdings Limited (ASX: SPL), and is a Director of a number of unlisted companies, including TPI Enterprises Ltd and Hexima Ltd. Ross is Executive Chairman of Hexima Ltd, which was listed on ASX from July 2010 to June 2011.

B. PARNCUTT

BSc, MBA

Non-Executive Director

Bruce joined the board on 30 April 2012. His career spans over 40 years in investment management, investment banking and stockbroking including seven years as Chief Executive of listed securities firm McIntosh Securities (1990 – 1996) and three years as Senior Vice President of Merrill Lynch (1997 – 1999). His experience includes extensive involvement in financial analysis, merger and acquisition transactions, capital-raisings, and investment in companies across a broad spectrum from early stage to mature public companies. He holds a Bachelor of Science, an MBA, and is a Member of the Financial Services Institute of Australasia. Bruce is Chairman of the investment and corporate advisory firm, Lion Capital. He is President of The National Gallery of Victoria and a Board Member of the NGV Foundation and the Australian Ballet Company. He was previously a Director of ASX listed Stuart Petroleum Limited (from August 2010 to May 2011) and was Director of McIntosh Securities Limited, Australian Stock Exchange Ltd and Vision Systems Ltd for varying periods prior to 1 July 2010.

R. BARROW

BSc.Hons, MBA

Non-Executive Director

Ross joined the board on 1 April 2012. He has extensive experience in the life sciences sector. Ross was Chief Operating Officer and a Director of Vision BioSystems Limited during the period when the company became a leader in the global histopathology market. Following acquisition by Danaher Corporation, Ross played a pivotal role overseeing the global integration of the company with Danaher's subsidiary, Leica Microsystems GmbH. Ross is currently the Chief Executive Officer and a Director of Paranta Biosciences Limited.

T. OLDHAM

BSc.Hons, LLB Hons, PhD

Non-Executive Director

Tim joined the board in October 2013. He has more than a decade of life sciences business development, alliance management, market entry, and sales & marketing experience in Europe, Asia and Australia. He is CEO of Cell Therapies Pty Ltd, a leading Asia Pacific provider of collection, manufacturing, delivery and distribution capabilities for stem cell therapies and regenerative medicine and was President of Asia Pacific for Hospira, Inc. (2007 to 2012), having held a variety of senior management roles with Mayne Pharma (2002 to 2007) prior to its acquisition by Hospira. These roles encompass the development and commercialisation of pharmaceuticals, devices, biologics and cellular therapies. Prior to this, Dr Oldham was an engagement manager with McKinsey & Co (1997 to 2001). He has been chairman of the European Generic Medicines Association Biosimilars and Biotechnology Committee, a Director of the Generic Medicines Industry Association and a member of the Pharmaceutical Industry Strategy Group. He is also a Director of iSonea Ltd (ASX:ISN).

M. KOTSANIS

BSc., MBus

Chief Executive Officer and Managing Director

Michael Kotsanis will assume the position of CEO and Managing Director of Acrux from November, 2014. He has over 25 years of experience in the pharmaceutical industry and has significant senior leadership experience across the global pharmaceutical markets. Michael was formerly the Chief Commercial Officer for Synthon Holding BV, a specialty pharmaceutical company based in The Netherlands, a position he has held from mid 2010. Prior to Synthon, he served as President, Europe, Middle East and Africa, for Hospira, the global leader in generic injectable pharmaceuticals. Michael joined Hospira following its acquisition of Mayne Pharma in 2007, where he served as President, Asia Pacific from 2002. He joined Mayne following their acquisition of Faulding Pharmaceuticals in 2001, where he held responsibility for commercial activities in Australia and New Zealand. Prior to Faulding, Michael held a variety of sales and marketing positions with Boehringer Ingelheim over an 11 year period. Michael has been a director of the Generic Medicines Industry Association of Australia, a board member of the European Generic Medicines Association and a member of the Pharmaceuticals Industry Council of Australia. Michael earned a bachelor's degree in science from Monash University, and a master's degree in business from the University of Technology, Sydney.

N. WEBSTER

Ph.D., M.IP.Law, MBA

Commercial Director

Nina has over 20 years in the pharmaceutical industry, with leadership roles in business development, project management, intellectual property portfolio management, research and development and general management. Most recently, Nina spent two years with Immuron Limited where, as Director of Commercialisation and Intellectual Property, she was responsible for the intellectual property portfolio and research & development. Prior to this, Nina spent ten years with Acrux Limited as Director of Business Development, responsible for the strategic identification, development and maintenance of commercial partnerships globally, and six years in research and development at Wyeth in the UK, gaining experience from formulation development through to pharmaceutical scale-up and technology transfer. Nina holds a Ph.D in Pharmaceutics from Cardiff University, a Bachelor degree in Pharmacology, a Masters degree in Intellectual Property Law from Melbourne University and an MBA from RMIT.

S. PAPWORTH

B.Com., CA

Chief Financial Officer and Company Secretary

Sharon Papworth commenced with Acrux as CFO and Company Secretary in September 2014. Having previously held senior finance roles at ASX and US listed organisations, Sharon's experience spans across industries including Pharmaceuticals, Media, Fast Moving Consumer Goods and professional services. Sharon is a Chartered Accountant who also holds a Bachelor of Commerce with majors in Accounting and Marketing.

CORPORATE GOVERNANCE STATEMENT

This statement summarises the corporate governance policies and procedures adopted by the Board and discloses the extent to which the Company has followed the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("ASX Principles") during and since the reporting period.

The Company's corporate governance principles, details of which can be found on the Company's website (www.acrux.com.au), comprise:

- statement of corporate governance principles
- code of conduct
- Board Charter
- Audit and Risk Committee Charter
- Human Capital Committee Charter
- continuous disclosure and shareholder reporting policy
- share trading policy.

In addition the website contains summaries of the Company's:

- risk management policy
- Director and Senior Executive performance policies
- whistle-blower policy.

1. THE BOARD OF DIRECTORS

1.1 Board Role and Charter

The Board has the primary responsibility for guiding and monitoring the business and affairs of the Company, including compliance with the Company's corporate governance objectives. The Board's role is set out in the Board Charter, which establishes the relationship between the Board and Management and describes their respective functions and responsibilities. The Board is responsible for the oversight and performance of the Company, including matters such as:

a. evaluating, approving and monitoring the strategic and financial plans and performance objectives for the Company;
b. evaluating, approving and monitoring the annual budgets and business plans;
c. evaluating, approving and monitoring major capital expenditure, capital management and all major corporate transactions including the issue of any securities of the Company;
d. monitoring and approving all financial reports and all other reporting and external communications by the Company;
e. evaluation of Board and individual Director performance;
f. appointing, removing and managing the performance of, and the succession planning for, a Chief Executive Officer or an Executive Director;
g. overseeing and ratifying the terms of appointment and, where appropriate, removal of Senior Management, including their remuneration;
h. monitoring Senior Management performance and their implementation of strategy and ensuring appropriate resources are available;
i. monitoring the Company's performance in relation to best practice principles of corporate governance;
j. approving and monitoring the Company's risk management strategy and internal controls and accountability systems and their effectiveness;

The Board has delegated the day to day management of the Company to an Executive Chairman who, is transitioning these responsibilities to the Chief Executive Officer (CEO). The delegations to the Executive Chairman currently include:

a. developing business plans, budgets and company strategies for consideration by the Board and, to the extent approved by the Board, implementing those plans, budgets and strategies;
b. operating the business of the Company within the parameters determined by the Board and keeping the Board promptly informed of all developments material to the Company and its business;
c. identifying and managing operational risks and formulating strategies for managing those risks for consideration by the Board;
d. managing the Company's financial and other reporting mechanisms and control and monitoring systems to ensure that they capture all relevant material information on a timely basis and are functioning effectively.

1.2 Board Composition

The Board seeks to achieve a mix of skills and diversity that enables it to most effectively carry out the functions and responsibilities set out in the Board Charter. This includes:

- commercial and technical expertise and experience gained in the pharmaceutical industry;
- expertise and experience in business management and financial markets; and
- relevant relationships in the pharmaceutical industry and in the business community.

The current Board is made up of an Executive Chairman (Ross Dobinson) and three non-executive Directors: Ross Barrow, Bruce Parncutt and Timothy Oldham. Ross Dobinson was a founding Director of Acrux and he has been intimately involved with the development and implementation of the Company's strategy during this period. Ross Barrow and Timothy Oldham both have extensive technical development and commercialisation skills in the life sciences sector. Bruce Parncutt has highly regarded commercial skills from his 40 years in investment management, investment banking and stockbroking.

The names of the Directors, the years of their appointment or retirement, their status as non-executive, executive or independent Directors and whether they will seek election at the 2014 annual general meeting are set out in the table below. The details of their background, skills and experience are set out on page 10 of this report.

Name	Appointed/ Retired	Non-Executive	Executive	Independent	Seeking election at 2014 AGM
Ross Dobinson	Appointed 1998	No	Yes	No	No
Ross Barrow	Appointed 1 April 2012	Yes	No	Yes	Yes
Bruce Parncutt	Appointed 30 April 2012	Yes	No	Yes	No
Timothy Oldham	Appointed 1 October 2013	Yes	No	Yes	No

1.3 Director Independence

In accordance with the recommendations of ASX Principle 2, the Board Charter requires the Board to include a majority of non-executive independent Directors, a non-executive independent Chairman and to have different persons filling the roles of Chairman and Chief Executive Officer.

At all times during and since the end of the financial year a majority of Board members were independent, non-executive Directors, as recommended in ASX Principle 2.1.

The Board appointed Ross Dobinson as Executive Chairman following the departure of the former Chief Executive Officer and Managing Director at the end of the 2012 financial year. Notwithstanding the Board Charter, the Board determined that with his extensive experience the current needs of the business were best served by appointing Ross into an executive role. On 25 July 2014 the Board announced the appointment of a new Chief Executive Officer, Mr Michael Kotsanis. He will join the Company on 3 November 2014. Ross Dobinson will revert to the role of non-executive Chairman on this date. As a result of Michael Kotsanis' appointment the Company will comply with the recommendation of ASX Principle 2.3, that the roles of Chair and Chief Executive Officer should not be exercised by the same individual.

The Chair is responsible for the leadership of the Board, for ensuring that the Board functions effectively and, where appropriate, communicating the views of the Board to the public. The Chair sets the agendas for Board meetings, and manages the conduct of meetings by facilitating open discussion between Board members, between the Board and Management and with the public.

1.4 Terms of Director Appointment

The non-executive Directors do not have formal letters of appointment. Remuneration of the non-executive Directors and the terms of appointment of the Executive Chairman are disclosed in the Remuneration Report.

1.5 Access to Information and Independent Advice

All Directors have unrestricted access to employees of the Company and, subject to the law, access to all Company records and information held by the Company, its employees and advisors. The Board receives for each Board meeting an agenda, detailed financial and operational reports and the reports of the Board Committees.

Each Director is entitled to obtain independent professional advice at the Company's expense for the purpose of assisting them in performing their duties. A Director who wishes to obtain such advice must first obtain the approval of the Chair (which approval must not be withheld unreasonably) and must provide the Chair with the reason for seeking such advice, the identity of the person from whom the advice will be sought and the likely cost of obtaining such advice. Except in certain circumstances detailed in the Board Charter, advice obtained in this manner is made available to the Board as a whole.

1.6 Human Capital Committee

The members of the Human Capital Committee of the Board are Ross Barrow (Chair), Bruce Parncutt and Timothy Oldham.

The Committee met once during the year ended 30 June 2014, with all members attending. Members of the Committee are chosen having regard to their skills and experience in relation to the matters for which the Committee is responsible. Members of the Committee have unrestricted access to company records, Management and advisers and the external auditors.

The Committee's role, which is set out in its Charter, in general terms is to:

a. establish a formal and transparent procedure for the selection and appointment of new Directors to the Board;
b. identify suitable candidates to fill Board vacancies as and when they arise and nominating candidates for the approval of the Board;
c. consider processes for the orientation and education of new Directors and developing ongoing policies to facilitate continuing education and development of Directors;
d. assess periodically the skills required for each Director to discharge competently the Directors' duties;
e. regularly review the structure, size and composition of the Board and the effectiveness of the Board as a whole;
f. establish and conduct an appropriate evaluation of the Board's process and of existing Directors, including an evaluation of whether each Director is contributing the time required of him or her for Board duties;
g. recommend to the Board a policy and framework for senior employees' remuneration;

h. review and monitor the implementation of the human resources plan of the Company and Senior Management succession planning; and
i. review and recommend to the Board the total individual remuneration package of each member of Senior Management, including any bonuses, incentive payments, and participation in any share or share option plans in accordance with the policy and framework for senior employees' remuneration.

In accordance with the recommendations of ASX Principle 2.4, the Committee's Charter further provides that, where practical, a majority of the Committee must be independent non-executive Directors and the Chair must be a non-executive Director who is not the Chair of the Company. Executive Directors may not be members of the Committee. These requirements were met at all times during and since the end of the financial year. A further recommendation of ASX Principle 2.4 is that the Committee have at least 3 members. Until 1 October 2013 the Board was made up of 3 members, with one holding an executive role. The Board determined that up until this date, in accordance with ASX Listing Rule 12.8, only non-executive Directors should serve on the Committee and as such the Committee consisted of two non-executive Directors. On 1 October 2013 the Company appointed Timothy Oldham as a third non-executive Director who was also appointed a member of the Human Capital Committee and therefore ensured compliance with the ASX recommendation from 1 October 2013.

The Company's Code of Conduct, which has been in place since 2005, contains a principle of equal opportunity to be applied in all human resource decisions and in the workplace environment. To date, the Committee has determined that the Board should not supplement the Code of Conduct principle by adopting an additional formal diversity policy with measurable objectives for achieving gender diversity, as recommended by ASX Principle 3.2. The workforce at Acrux is small and the majority of positions require specialist qualifications and experience. The Committee believes a formal diversity policy and specific diversity objectives is impractical at this time. At the date of this report, Acrux's workforce numbered nineteen people, sixteen (84%) of whom were female. Senior Management consists of two females while the four current Board members are male. The Committee and the Board will review the potential need for a formal diversity policy in future as the business changes.

1.7 Audit and Risk Committee

The members of the Audit and Risk Committee are Bruce Parncutt (Chair), Ross Barrow and Timothy Oldham. Bruce and Ross held these positions throughout the financial year while Timothy joined the Audit and Risk Committee when he was appointed a non-executive Director on 1 October 2013. Timothy is an independent non-executive Director, suitably financially experienced and qualified. The Audit and Risk Committee met twice during the year ended 30 June 2014, with all members attending.

Members are chosen having regard to their skills and experience in relation to the matters for which the Committee is responsible. Members of the Committee have unrestricted access to company records, Management, advisers and the external auditors.

The Committee's role, as set out in its Charter, in general terms is to:

a. oversee the Company's system of financial reporting for the purpose of safeguarding its integrity, including viewing all regular financial reports and other formal announcements relating to the Company's financial performance prepared for release to the ASX, regulators and the public before making appropriate recommendations to the Board;
b. determine the extent of internal audit activities required and monitor the effectiveness of those activities (note that the Committee has determined that the Company, due to its size, does not presently warrant establishing a separate internal audit function);
c. monitor the performance and activities of the external auditor including:
   – overseeing the process for the appointment, re-appointment and removal of the external auditors (including audit engagement letters), overseeing the rotation of the principal audit partner and reviewing the level of the external auditors' fees;
   – assessing the performance and independence of the external auditors and the quality of the audit work performed;
   – requiring, reviewing and monitoring compliance with the audit plan of the external auditors, including the scope of the plan and the levels of financial statement materiality;
   – reviewing reports from the external auditors and meeting with the external auditors at least once annually in the absence of Management and also meeting with the external auditors as requested by the Board, the Committee or the external auditors; and
   – receiving, reviewing, developing and implementing policy on the engaging of the external auditors to supply non-audit services.
d. oversee and review the Company's financial and risk management compliance and internal control framework including:
   – overseeing the creation, implementation and maintenance of the risk management system of the Company and its controlled entities and their internal control framework, including information systems;
   – reviewing the effectiveness of the Company's implementation of its risk management systems and internal controls on an on-going basis and reviewing the outcome of any non-financial audits;
   – requiring Management to report to the Board at least annually on whether the Company's material business risks are being managed effectively;

- developing an understanding of the overall business environment, relevant laws and codes of importance to the Company and the programs that the Company has in place to provide reasonable assurance of compliance;
- reviewing the Company's occupational health and safety policies and ensuring regular reporting to the Committee on issues related to occupational health and safety;
- reviewing insurance coverage and claims trends;
- ensuring that the Chief Executive Officer and the Chief Financial Officer state in writing to the Board annually that:

  i. the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with the relevant accounting standards;
  ii. the statement in (i) above is founded on a sound system of risk management and control which implements the policies adopted by the Board; and
  iii. the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The Board has received the report from Management referred to above, on whether the Company's material business risks are being managed effectively. The Board received the statement in writing from the Executive Chairman and the Chief Financial Officer, referred to above, on 20 August 2014.

In accordance with the recommendations of ASX Principle 4.2, the Committee's Charter provides that the Committee have at least three members, Executive Directors may not be members of the Committee, a majority of the Committee must be independent Directors and the Chair must not be the Chair of the Company. These requirements, apart from the requirement to have at least 3 members, were met at all times during and since the end of the financial year. From 1 July to 30 September 2013 the Audit and Risk Committee consisted of the two independent non-executive Directors. Timothy Oldham joined the Audit and Risk Committee on 1 October 2013. Therefore ASX Listing Rule 12.7, requiring the Company adhere to ASX Principle 4.2, has been complied with from 1 October 2013.

1.8 Director and Senior Management Remuneration and Performance

The remuneration structure for Senior Management and Directors and the amounts paid to each during the year are set out in the remuneration report section of the Directors' report on page 22.

Non-executive Directors are remunerated by way of fees only and do not participate in executive remuneration schemes, nor receive options, bonus payments or retirement benefits (other than statutory superannuation).

At the end of each financial year, the performance of Senior Executives against personal goals is assessed and personal goals and development plans for the next financial year are set, aligned with the Company's objectives. The review of Senior Management team members is carried out by the Executive Chairman and the results are subject to further review and approval by the Human Capital Committee. The review of the Executive Chairman is carried out by the Human Capital Committee and approved by the Board. A performance evaluation in accordance with this process was undertaken in respect of the year ended 30 June 2014. The scope of the review of the Executive Chairman was a performance review including goal achievement and bonus entitlement. A formal review of the performance of the Board and its Committees was not undertaken during the year ended 30 June 2014.

2. DISCLOSURE AND COMMUNICATION

2.1 Continuous Disclosure

The Board has approved a written continuous disclosure policy to ensure compliance with the ASX Listing Rules continuous disclosure requirements. This policy:

a. gives guidance as to the information that may need to be disclosed;
b. gives guidance for dealing with market analysts and the media;
c. establishes regular reminders to Directors and Senior Management to actively consider whether there is any price sensitive information which needs disclosure;
d. allocates responsibility for approving public disclosures and shareholder communications.

2.2 Communications with Shareholders

The Board has approved, as part of the continuous disclosure policy, the Company's policy to promote effective communication with its shareholders. In addition to its disclosure obligations under the ASX Listing Rules, the Company communicates with its shareholders through a number of means including:

a. annual and half-yearly reports;
b. regular shareholder updates sent by email or mail;
c. media releases, public announcements and investor briefings; and
d. annual general meetings.

All the above are posted on the Company's website (www.acrux.com.au). Shareholders are encouraged to receive shareholder materials electronically.

In addition the Company is committed to using general meetings of the Company to effectively communicate with shareholders and to allow reasonable opportunity for informed shareholder participation at general meetings. Where possible the Company will comply with the ASX best practice guidelines for the content of notices of meeting.

CORPORATE GOVERNANCE STATEMENT

CONTINUED

Further, the external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit of the Company and the preparation and content of the auditor's report. The Company is committed to further developing its communications strategies to optimise shareholder communication.

3. SHARE TRADING

Under the Company's share trading policy all employees and Directors of the Company and its related companies are prohibited from trading in the Company's shares if they are in possession of inside information. In addition, the Directors and Senior Executives are prohibited from trading in the Company's shares during the period from the end of the financial year to the release of financial results to the market.

The Directors, the Company Secretary and persons reporting directly to an Executive Chairman (and their associated persons) may not trade in shares in the Company without the approval of the Company Secretary (or the Chair in the case of the Company Secretary) and only if they have first given a statement that they are not in possession of material non-public information. Such approval expires after five business days.

4. CONDUCT AND ETHICS

The Directors and Management of the Company and its controlled entities are committed to observing high standards of ethics and behaviour in all of the Company's activities, including the Company's interaction with its shareholders, employees, business partners, customers, suppliers, the community and the environment in which the Company operates.

The Company has adopted a code of conduct which provides the ethical and legal framework for how the Company will conduct its business and how the Company will relate to shareholders, employees, business partners, customers, suppliers, the community and the environment in which the Company operates.

Issues covered by the code of conduct are:

- values
- compliance with laws
- fair dealing
- confidentiality and protection of Company assets
- conflicts of interest
- shareholders and the financial community
- trading in Company securities
- equal opportunity
- health, safety and environment
- reporting non-compliance and grievances
- compliance with taxation laws
- bribes and financial inducements
- political donations

In addition the Company has adopted a whistle-blower policy. The purpose of this policy is to encourage the reporting of conduct by employees of the Company and other persons with whom the Company deals closely where the interests of others, including the public, or of the Company itself are at risk. The conduct covered by the policy is conduct that is:

a. illegal, dishonest, fraudulent or corrupt;
b. in breach of Commonwealth or state legislation or local authority by-laws;
c. in breach of applicable industry practices, such as Good Laboratory Practice, Good Clinical Practice or Good Manufacturing Practice;
d. unethical (being either a breach of the Company's code of conduct or generally);
e. gross mismanagement;
f. a serious or substantial waste of resources;
g. an unsafe work practice;
h. failure to comply with the Company's code of conduct;
i. failure to comply with agreements with the Company's commercial partners;
j. a breach of proper environmental practice;
k. other serious improper conduct;
l. any other conduct that may cause financial or non-financial loss to the Company or otherwise be detrimental to the interests of the Company.

DIRECTORS' REPORT

The Directors present their report together with the financial report of the consolidated entity consisting of Acrux Limited and the entities it controlled for the financial year ended 30 June 2014 and the independent auditor's report thereon. This financial report has been prepared in accordance with Australian Accounting Standards.

PRINCIPAL ACTIVITIES

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

OPERATING RESULTS

The consolidated profit, after income tax, attributable to the members of Acrux Limited was $28.0 million (2013: $6.9 million). Diluted earnings per share were 16.8 cents (2013: 4.2 cents).

REVIEW OF OPERATIONS

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

Vision

Acrux is an innovative Australian drug delivery business developing and commercialising a range of patient-preferred, patented products for global markets, using unique proprietary technology to administer drugs.

Business Strategy

Acrux's strategy is to create new human and veterinary pharmaceutical products by combining proven drugs and new chemical entities with innovative, patented delivery technologies. Using proven drugs means that the development time is usually shorter and the risk and expenditure lower than is typical for new drug development.

Acrux's development skills are used to progress a range of products through clinical and regulatory milestones, before commercialising them in global markets through selected commercial partners, who provide expertise in the particular market. The value of each product is shared with the partner.

Fundamental features of the design of all Acrux's products are that they are better than the existing products on the market ("patient-preferred") and cannot be copied by competitors ("patent-protected").

Operating Results

The consolidated profit before tax increased to $43.9 million (2013: $10.0 million). The consolidated profit after tax was $28.0 million (2013: $6.9 million).

Revenue

Total revenue for the financial year was $53.9 million (2013: $16.7 million). Revenue from product agreements was $53.4 million (2013: $15.5 million). Revenue from Axiron® increased to $52.5 million (2013: $14.6 million), including the recognition of $28.0 million (US$25 million) in milestone revenue, as net sales exceeded US$100 million in the 2013 calendar year and an increase in royalty revenue to $24.5 million (2013: $14.1 million). A further $0.7 million (2013: Nil) of milestone revenue was received under the license agreement with Gedeon Richter for the manufacturing and marketing of Acrux's estradiol spray in markets outside the United States, following the first European regulatory filing. Interest income contributed $0.5 million (2013: $0.9 million).

Operating Expenditure

Operating expenditure totaled $10.0 million (2013: $6.6 million). Employee benefits expense increased to $2.3 million (2013: $2.0 million), the result of a general increase in staff salaries in line with industry averages and an increase in the long service leave provision. Directors' fees increased to $0.6 million (2013: $0.5 million) due to an increase in the fees paid to the Executive Chairman and the addition of a new Non-Executive Director. Royalty payments due to Monash Investment Trust increased to $1.8 million (2013: $0.5 million), in-line with increased product income. A non-cash expense of $0.6 million (2013: Nil) was recorded for employee share options granted during the reporting period, as required by accounting standard AASB 2. The continued strength of the Australian dollar versus the US dollar led to the recognition of $1.2 million of foreign exchange losses (2013: A foreign exchange gain of $0.1 million was recorded).

Income tax expense for the financial year was $15.9 million (2013: $3.1 million), in line with the increase in consolidated profit before income tax. Further details of the income tax expense are provided at Note 1(j) of the financial report which follows the Director's report.

Cash flow

Net cash provided by operating activities increased to $36.4 million (2013: $6.3 million). Net cash inflow for the financial year was $3.0 million (2013: A net cash outflow of $7.1 million was recorded). Cash reserves at 30 June 2014 were $25.8 million (30 June 2013: $22.8 million).

Receipts from product agreements increased to $53.4 million (2013: $12.6 million) due to the increase in Axiron royalty receipts and the receipt of the US$25 million milestone payment from Eli Lilly. Interest receipts added $0.5 million (2013: $1.2 million). Payments to suppliers and employees increased to $6.7 million (2013: $4.8 million). Income taxes paid increased to $10.8 million from the $2.6 million recorded in the 2013 financial year.

The outflow of cash recorded for financing activities represents the payment of $33.3 million (2013: $13.4 million) of dividends to shareholders, consisting of the 8 cent final dividend for the 2012/13 financial year and the 12 cent special dividend declared in March 2014.

Contributed Equity

There were no changes to contributed equity during the financial year. The previous financial year included the exercise of 25,000 employee share options adding $46,000 to contributed equity.

The number of outstanding employee share options on issue at the end of the reporting period was 1,855,000 (30 June 2013: Nil), representing 1.1% of the issued share capital. These options are exercisable at $4.30 per share.

KEY EVENTS DURING THE YEAR

- Axiron's net sales for the 2013/14 financial year increased to US$181 million from US$124 million in the prior year.
- Axiron was launched in Brazil, Germany and South Korea.
- Acrux and Eli Lilly filed a lawsuit in the United States against Watson Laboratories Inc., Actavis Pharma Inc. and parent entity Actavis Inc. for infringement of six issued US patents covering Axiron.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

AFTER BALANCE DATE EVENTS

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

LIKELY DEVELOPMENTS

For the foreseeable future, the consolidated entity's financial results will be materially influenced by the sales performance of Axiron in the United States. Under a license agreement with Eli Lilly, the consolidated entity receives royalties on worldwide sales of Axiron by Eli Lilly and is eligible to receive potential sales milestone payments of up to US$170 million.

ENVIRONMENTAL REGULATION

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

Laboratory Waste

In order to ensure compliance with the Environment Protection Act 1970 the consolidated entity engages an external waste management consultant. This consultant has ISO 14001:2004 Certified Environmental Management to ensure compliance with the legislative requirements.

The consultant issues an EPA Transport Certificate at every collection of waste to ensure safe collection, transport, delivery and disposal/recycling procedures.

Trade Water Waste

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

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

DIVIDEND PAID, RECOMMENDED AND DECLARED

A final unfranked dividend for the 2012/13 financial year of 8 cents per share, $13.3 million, was paid during the reporting period. On 20 August 2014, the Directors resolved to declare a final dividend to shareholders of 8 cents per share, franked. The total amount of the dividend, based on the number of shares on issue at 30 June 2014 and at the date of this report, is $13.3 million.

SHARES UNDER OPTION

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

Date options granted	Number of unissued ordinary shares under option	Issue price of shares	Expiry date of the options
31 July 2013	1,255,000	$4.30	July 2016
21 November 2013	600,000	$4.30	July 2016
	1,855,000		

No option holder has any right under the options to participate in any other share issue of the Company.

A total of 1,255,000 options over unissued ordinary shares were granted to employees during the financial year. A further 600,000 options, with the same terms as those options granted to employees, were granted to Executive Chairman, Ross Dobinson following shareholder approval at the Company's 2013 Annual General Meeting.

SHARES ISSUED ON EXERCISE OF OPTIONS

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

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the consolidated entity has paid premiums in respect of an insurance contract to indemnify officers against liabilities that may arise from their position as officers of the Company and its controlled entities.

Officers indemnified include the company secretary, all Directors and all executive officers participating in the management of the Company and its controlled entities. Further disclosure required under section 300(9) of the *Corporations Act 2001* is prohibited under the terms of the insurance contract.

PROCEEDINGS ON BEHALF OF THE CONSOLIDATED ENTITY

In May 2013 Acrux DDS Pty Ltd together with Eli Lilly filed a lawsuit in the United States District Court for the Southern District of Indiana against Perrigo Israel Pharmaceuticals Limited ("Perrigo") for infringement of three issued patents covering Axiron. The patents are owned by Acrux DDS, a wholly-owned subsidiary of Acrux Limited and exclusively licensed to Eli Lilly. The lawsuit was filed in response to notice letters sent by Perrigo regarding its filing with the US Food and Drug Administration of an Abbreviated New Drug Application ("ANDA") for a Testosterone Metered Dose Transdermal Solution. The letters stated that the ANDA contains Paragraph IV certifications with respect to US Patent Numbers 8,177,449, 8,419,307 and 8,435,944, which are expected to expire in 2030, 2026 and 2027 respectively. These patents include claims relating to the application of testosterone formulations to the underarm and to the applicator used to apply Axiron. A Paragraph IV certification alleges invalidity, unenforceability and/or non-infringement of a patent. This ANDA does not contain Paragraph IV certifications with respect to the four other issued patents that cover Axiron, which expire in 2017.

In November 2013 Acrux DDS Pty Ltd together with Eli Lilly filed a lawsuit in the United States District Court for the Southern District of Indiana against Watson Laboratories Inc., Actavis Pharma Inc., and their parent company, Actavis Inc. ("Actavis") for infringement of six issued patents covering Axiron. The patents are owned by Acrux DDS, a wholly-owned subsidiary of Acrux Limited and exclusively licensed to Eli Lilly for Axiron. The lawsuit was filed in response to notice letters sent by Watson regarding its filing with the US Food and Drug Administration of an ANDA for a Testosterone Metered Dose Transdermal Solution. The letters stated that the ANDA contains Paragraph IV certifications with respect to US Patent Numbers 6,299,900, 6,818,226, 6,923,983, 8,071,075, 8,419,307 and 8,435,944, which are expected to expire between 2017 and 2027. These patents include claims relating to the penetration enhancer, the quick drying formulation, the application of testosterone formulations to the underarm and to the applicator used to apply Axiron. A Paragraph IV certification alleges invalidity, unenforceability and/or non-infringement of a patent.

No other person has applied for leave of a court to bring proceedings on behalf of the consolidated entity.

INFORMATION ON DIRECTORS AND COMPANY SECRETARY

The qualifications, experience and special responsibilities of each person who has been a Director of Acrux Limited at any time during or since the end of the financial year is provided below, together with details of the company secretary as at the year end.

The Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

R Dobinson (Director since March 1998)

Responsibilities

From 1 July 2012, Executive Chairman; prior to 1 July 2012, Non-Executive Chairman

Qualifications

BBus

Experience

Ross has been a Director since 1998 and was appointed Non-Executive Chairman in January 2006 and then Executive Chairman on 1 July 2012. He is a founder and former CEO of Acrux. Ross has a background in investment banking and stockbroking. He is currently Managing Director of TSL Group Ltd, a corporate advisory company specialising in establishing and advising life sciences companies. He was a founding director of Starpharma Holdings Limited (ASX: SPL), and is a director of a number of unlisted companies, including TPI Enterprises Ltd and Hexima Limited. Ross is Executive Chairman of Hexima Limited, which was listed on ASX from July 2010 to June 2011.

B Parncutt (Director since April 2012)

Responsibilities

Non-Executive Director, member of the Human Capital Committee and Chair of the Audit and Risk Committee with financial qualification

Qualifications

BSc, MBA

Experience

Bruce joined the board on 30 April 2012. His career spans over 40 years in investment management, investment banking and stockbroking including seven years as Chief Executive of listed securities firm McIntosh Securities (1990 – 1996) and three years as Senior Vice President of Merrill Lynch (1997 – 1999). His experience includes extensive involvement in financial analysis, merger and acquisition transactions, capital-raisings, and investment in companies across a broad spectrum from early stage to mature public companies. He holds a Bachelor of Science, an MBA, and is a Member of the Financial Services Institute of Australasia. Bruce is Chairman of the investment and corporate advisory firm, Lion Capital. He is President of The National Gallery of Victoria and a Board Member of the NGV Foundation and the Australian Ballet Company.

He was previously a director of ASX listed Stuart Petroleum Limited (from August 2010 to May 2011) and was director of McIntosh Securities Limited, Australian Stock Exchange Ltd and Vision Systems Ltd for varying periods prior to 1 July 2010.

R Barrow (Director since April 2012)

Responsibilities
Non-Executive Director, Chair of the Human Capital Committee and member of the Audit and Risk Committee

Qualifications
BSc.Hons, MBA

Experience
Ross joined the board on 1 April 2012. He has extensive experience in the life sciences sector. Ross was Chief Operating Officer and a director of Vision BioSystems Limited during the period when the company became a leader in the global histopathology market. Following acquisition by Danaher Corporation, Ross played a pivotal role overseeing the global integration of the company with Danaher's subsidiary, Leica Microsystems GmbH. Ross is currently the Chief Executive Officer and a director of Paranta Biosciences Limited.

T Oldham (Director since October 2013)

Responsibilities
Non-Executive Director, member of the Human Capital and Audit and Risk Committees

Qualifications
BSc.Hons, LLB Hons, PhD

Experience
Tim joined the board in October 2013. He has more than a decade of life sciences business development, alliance management, market entry, and sales & marketing experience in Europe, Asia and Australia. He is CEO of Cell Therapies Pty Ltd, a leading Asia Pacific provider of collection, manufacturing, delivery and distribution capabilities for stem cell therapies and regenerative medicine and was President of Asia Pacific for Hospira, Inc. (2007 to 2012), having held a variety of senior management roles with Mayne Pharma (2002 to 2007) prior to its acquisition by Hospira. These roles encompass the development and commercialisation of pharmaceuticals, devices, biologics and cellular therapies. Prior to this, Dr Oldham was an engagement manager with McKinsey & Co (1997 to 2001). He has been chairman of the European Generic Medicines Association Biosimilars and Biotechnology Committee, a director of the Generic Medicines Industry Association and a member of the Pharmaceutical Industry Strategy Group. He is also a Director of iSonea Ltd (ASX: ISN).

T Di Pietro (Appointed 16 August 2013)

Responsibilities
Chief Financial Officer and Company Secretary

Qualifications
B.Com, CPA, GradDipACG

Experience
Tony was appointed Finance Manager in March 2004, then Financial Controller in January 2007 before being appointed Chief Financial Officer and Company Secretary in August 2013. Working closely with senior management at Acrux, Tony has been involved in a number of key events including the listing of Acrux on the Australian Stock Exchange and the subsequent capital raising for the Phase III development of Axiron. Prior to joining Acrux, Tony held a number of finance positions at companies including ExxonMobil Limited, Wilson Parking Pty Ltd and BHP Limited (prior to the merger with Anglo-Dutch Billiton plc). Tony qualified as a CPA in 2000 and holds a Bachelor of Commerce Degree from Swinburne University and recently completed a Graduate Diploma of Applied Corporate Governance at the Governance Institute of Australia.

DIRECTORS' MEETINGS

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

			Committee Meetings			
	Directors' Meetings		Audit & Risk		Human Capital	
Directors	**Number eligible to attend**	**Number attended**	**Number eligible to attend**	**Number attended**	**Number eligible to attend**	**Number attended**
R Dobinson	8	8	-	2*	-	1*
B Parncutt	8	8	2	2	1	1
R Barrow	8	8	2	2	1	1
T Oldham[1]	6	6	1	1	1	1

[1] Appointed Non-Executive Director 1 October 2013.
* Attended by invitation.

DIRECTORS' AND EXECUTIVES' INTERESTS IN SHARES AND OPTIONS

Directors' and Executives' relevant interests in shares of Acrux Limited and options over shares in the Company as at 30 June 2014 are detailed below:

	Total No. of Shares	Total No. of Options
Directors		
R Dobinson	1,372,593	600,000
B Parncutt	718,137	-
R Barrow	17,375	-
T Oldham	15,750	-
Executives		
C Blower	33,000	250,000
T Di Pietro	10,290	175,000
N Webster	6,100	175,000
Total	**2,173,245**	**1,200,000**

DIRECTORS' INTERESTS IN CONTRACTS

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

AUDITOR'S INDEPENDENCE DECLARATION

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

NON-AUDIT SERVICES

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

	2014 $	2013 $
Amounts paid or payable to Pitcher Partners (Melbourne) for non-audit services:	Nil	Nil
Amounts paid or payable to network firms of Pitcher Partners for non-audit services:	Nil	Nil
Amounts paid or payable to non-related auditors of group entities for non-audit services:	Nil	Nil
Total auditors' remuneration for non-audit services	**Nil**	Nil

REMUNERATION REPORT (AUDITED)

The Directors present the consolidated entity's 2014 remuneration report which details the remuneration information for Acrux Limited's Executive Chairman, Non-Executive Directors and other key management personnel.

HUMAN CAPITAL COMMITTEE

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

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

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

c. reviewing benchmarks against which salary reviews are made;

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

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

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

REMUNERATION POLICY

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

– remuneration is set at levels intended to attract and retain good performers and to motivate and reward them to continually advance the business of the Company;

– remuneration is structured to reward employees both for superior performance and for increasing long term shareholder value; and

– rewards are linked to the achievement of business objectives as set by the Board.

REMUNERATION STRUCTURE

The remuneration of employees is structured in two parts:

– *Fixed Remuneration*, which comprises salary, superannuation and other benefits in lieu of salary; and

– *Variable Remuneration*, which may comprise a short term incentive in the form of cash and a long term incentive in the form of options under the employee share option plan (ESOP). All permanent staff are eligible to participate in the short term incentive plan and the ESOP. However the level of participation varies according to the level of seniority and the ability to influence the performance of the business.

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

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

SHORT TERM INCENTIVE PLAN

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

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

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

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

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

The key principles of the plan are:

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

LONG TERM INCENTIVE PLAN

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

- The options expire three years after grant;
- The options lapse on termination of employment, other than through death or redundancy; and
- The exercise price is set at a 25% premium to the volume weighted average market price of the Company's shares at 31 July 2013.

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

REMUNERATION AND TERMINATION ENTITLEMENTS OF SENIOR MANAGEMENT

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

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

Executives	Position
J Pilcher	Chief Financial Officer and Company Secretary – Resigned 16 August 2013
C Blower	Chief Operating Officer – Appointed 16 August 2013
T Di Pietro	Chief Financial Officer and Company Secretary – Appointed 16 August 2013
N Webster	Commercial Director – Appointed 1 July 2013

The following changes occurred after reporting date:

Executives	Position	Appointed/Resigned/ Title Change
C Blower	Chief Operating Officer	Resigned 15 August 2014
T Di Pietro	Chief Financial Officer and Company Secretary	Resigned 31 October 2014

SHARE OPTIONS

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

A total of 600,000 employee share options were issued by Acrux Limited to Executives as part of their remuneration on 31 July 2013. These options are exercisable at $4.30 per share until 31 July 2016. A further 600,000 share options with the same terms were issued to executive chairman, Ross Dobinson, on 21 November 2013, following shareholder approval at the 2013 Annual General Meeting.

(b) Shares issued on exercise of compensation options

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

REMUNERATION REPORT (AUDITED)

CONTINUED

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

	Primary		Post employment	Termination Benefits	Equity	Total	Equity as % of Total	Bonus as % of Total
2014	Salary $	Bonus* $	Super $	$	Options $	$	%	%
J Pilcher[1]	61,033	-	4,444	-	-	65,477	0%	0%
C Blower[2]	253,112	25,736	17,775	-	107,500	404,123	27%	6%
T Di Pietro[3]	179,354	18,622	17,431	-	75,250	290,657	26%	6%
N Webster[4]	111,253	11,533	11,387	-	75,250	209,423	36%	6%
	604,752	**55,891**	**51,037**	**-**	**258,000**	**969,680**	**27%**	**6%**
2013								
J Pilcher[1]	238,530	34,348	16,470	-	-	289,348	0%	12%
C Blower[2]	203,530	29,308	16,470	-	-	249,308	0%	12%
	442,060	**63,656**	**32,940**	**-**	**-**	**538,656**	**0%**	**12%**

* Bonus relates to the achievement of objectives for the financial year. The amount of bonus earned was 40% of the maximum amount payable for the 2013/14 financial year and 60% for the 2012/13 financial year.

1 Resigned as Chief Financial Officer and Company Secretary 16 August 2013.

2 Resigned as Chief Operating Officer 15 August 2014.

3 Appointed Chief Financial Officer and Company Secretary 16 August 2013.

4 Commercial Director is employed on a part time basis.

REMUNERATION OF DIRECTORS

The Human Capital Committee considers the level of remuneration necessary to attract and retain Directors with the skills and experience required by the Company at its stage of development. The Committee then recommends to the Board whether or not the Directors' fees should be put to the shareholders for change.

The director and management services of the Executive Chairman Ross Dobinson are provided by Espasia Pty Ltd. The contract for services can be terminated by either party by giving three months' notice in writing. For the 2013/14 financial year the contract provided for fees of $118,000 per annum in respect of director services, $200,000 per annum in respect of executive services and an additional payment of up to 60% of the executive services, dependent on the achievement of objectives, set by the Board. The Board has absolute discretion over the amount of the additional payment.

For the 2013/14 financial year Non-Executive Directors' fees were $76,475 per annum, including superannuation for each Non-Executive Director. At the 2004 Annual General Meeting shareholders set the maximum aggregate amount of Non-Executive Directors' fees at $450,000. In addition Non-Executive Directors are entitled to reimbursement of reasonable expenses incurred by them on Company business.

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

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

	Primary		Post employment	Termination Benefits	Equity	Total	Equity as % of Total	Bonus as % of Total
2014	**Fees $**	**Bonus* $**	**Super $**	**$**	**Options $**	**$**	**%**	**%**
R Dobinson[1]	318,000	48,000	-	-	98,463	464,463	21%	10%
B Parncutt	70,000	-	6,475	-	-	76,475	0%	0%
R Barrow	70,000	-	6,475	-	-	76,475	0%	0%
T Oldham[2]	52,500	-	4,856	-	-	57,356	0%	0%
	510,500	**48,000**	**17,806**	**-**	**98,463**	**674,769**	**15%**	**7%**
2013								
R Dobinson[1]	278,000	57,600	-	-	-	335,600	0%	17%
B Parncutt	60,000	-	5,400	-	-	65,400	0%	0%
R Barrow	60,000	-	5,400	-	-	65,400	0%	0%
	398,000	**57,600**	**10,800**	**-**	**-**	**466,400**	**0%**	**12%**

* Bonus relates to the achievement of objectives for the financial year. The amount of bonus earned was 40% of the maximum amount payable for the 2013/14 financial year and 60% for the 2012/13 financial year.

1 Appointed Executive Chairman 1 July 2012.

2 Appointed Non-Executive Director 1 October 2013.

NUMBER OF SHARES HELD BY KEY MANAGEMENT PERSONNEL

Directors and Executives	Balance 1/07/2013	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30/06/2014
Directors					
R Dobinson[1]	1,372,593	-	-	-	1,372,593
B Parncutt	718,137	-	-	-	718,137
R Barrow	9,375	-	-	8,000	17,375
T Oldham[2]	6,000	-	-	9,750	15,750
Executives					
J Pilcher[3]	100,000	-	-	(100,000)	-
C Blower[4]	-	-	-	33,000	33,000
T Di Pietro[5]	7,000	-	-	3,290	10,290
N Webster[6]	-	-	-	6,100	6,100
Total	**2,213,105**	**-**	**-**	**(39,860)**	**2,173,245**

1 Appointed Executive Director 1 July 2012.

2 Appointed Non-Executive Director 1 October 2013.

3 Resigned as Chief Financial Officer and Company Secretary 16 August 2013. Net change other reflects his departure from the company, not the actual sale of shares.

4 Appointed Chief Operating Officer 16 August 2013 and resigned as Chief Operating Officer 15 August 2014.

5 Appointed Chief Financial Officer and Company Secretary 16 August 2013.

6 Commercial Director is employed on a part time basis.

REMUNERATION REPORT (AUDITED)

CONTINUED

NUMBER OF EMPLOYEE SHARE OPTIONS HELD BY KEY MANAGEMENT PERSONNEL

Directors and Executives	Balance 1/07/2013	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30/06/2014
Directors					
R Dobinson[1]	-	600,000	-	-	600,000
B Parncutt	-	-	-	-	-
R Barrow	-	-	-	-	-
T Oldham[2]	-	-	-	-	-
Executives					
J Pilcher[3]	-	-	-	-	-
C Blower[4]	-	250,000	-	-	250,000
T Di Pietro[5]	-	175,000	-	-	175,000
N Webster[6]	-	175,000	-	-	175,000
Total	**-**	**1,200,000**	**-**	**-**	**1,200,000**

Employee share options granted to Executives during the 2014 financial year were issued on 31 July 2013 for no consideration, are immediately exercisable at $4.30, with a calculated fair value of 43 cents per option at date of issue and expire on 31 July 2016. Employee share options granted to R Dobinson were issued following the approval of shareholders at the company's annual general meeting held on 21 November 2013. These options share the same terms as those granted to Executives. The fair value of the options issued to Ross Dobinson was calculated to be 16.4 cents per option.

1 Appointed Executive Director 1 July 2012.
2 Appointed Non-Executive Director 1 October 2013.
3 Resigned as Chief Financial Officer and Company Secretary 16 August 2013.
4 Appointed Chief Operating Officer 16 August 2013 and resigned as Chief Operating Officer 15 August 2014.
5 Appointed Chief Financial Officer and Company Secretary 16 August 2013.
6 Commercial Director is employed on a part time basis.

VOTING AND COMMENTS MADE AT THE COMPANY'S 2014 ANNUAL GENERAL MEETING (AGM)

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

This is the end of the audited remuneration report.

ROUNDING OF AMOUNTS

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

Signed in accordance with a resolution of the Directors.

R DOBINSON
Executive Chairman

Melbourne

Dated this 20th day of August 2014

B PARNCUTT
Director

Melbourne

Dated this 20th day of August 2014

AUDITOR'S INDEPENDENCE DECLARATION

PITCHER PARTNERS

ACRUX LIMITED AND CONTROLLED ENTITIES
ABN 72 082 001 152

AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF ACRUX LIMITED AND CONTROLLED ENTITIES

In relation to the independent audit for the year ended 30 June 2014, to the best of my knowledge and belief there have been:

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

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

S SCHONBERG

Partner

PITCHER PARTNERS

Melbourne

Date: 20 August 2014

An independent Victorian Partnership ABN 27 975 255 196
Liability limited by a scheme approved under Professional Standards Legislation

Pitcher Partners is an association of independent firms
Melbourne | Sydney | Perth | Adelaide | Brisbane | Newcastle
An independent member of Baker Tilly International

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2014

	Notes	2014 $'000	2013 $'000
Revenue	4	53,859	16,528
Foreign exchange gain		-	132
		53,859	16,660
Employee benefits expense	5	(2,346)	(2,084)
Share options expense		(638)	-
External research and development expenses	5	(756)	(752)
Directors' fees		(576)	(466)
Professional fees		(324)	(471)
Royalty expense		(1,827)	(533)
Occupancy expenses		(414)	(400)
Depreciation and amortisation expenses	5	(1,413)	(1,423)
Foreign exchange loss		(1,239)	-
Other expenses		(469)	(490)
		(10,002)	(6,619)
Profit before income tax		**43,857**	**10,041**
Income tax expense	6	(15,887)	(3,115)
Profit for the year		**27,970**	**6,926**
Total comprehensive income for the year		**27,970**	**6,926**
Total comprehensive income attributable to:			
Members of the parent	17	27,970	6,926
Non-controlling interest	18	-	-
		27,970	**6,926**
Basic earnings per share (cents per share)	8	16.80	4.16
Diluted earnings per share (cents per share)	8	16.80	4.16

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Notes	2014 $'000	2013 $'000
Current assets			
Cash and cash equivalents	9	25,775	22,840
Receivables	10	5,604	6,825
Total current assets		**31,379**	**29,665**
Non-current assets			
Plant and equipment	11	78	93
Intangible assets	12	21,764	23,137
Total non-current assets		**21,842**	**23,230**
Total assets		**53,221**	**52,895**
Current liabilities			
Current tax payable	6	4,526	1,675
Payables	13	1,129	1,256
Short term provisions	14	401	331
Total current liabilities		**6,056**	**3,262**
Non-current liabilities			
Deferred tax liabilities	6	5,097	2,860
Long term provisions	14	11	20
Total non-current liabilities		**5,108**	**2,880**
Total liabilities		**11,164**	**6,142**
Net assets		**42,057**	**46,753**
Equity			
Contributed equity	15	95,873	95,873
Reserves	17(a)	638	-
Retained earnings	17(b)	(54,454)	(49,120)
Equity attributable to the owners of Acrux Limited		**42,057**	**46,753**
Non-controlling interests	18	-	-
Total equity		**42,057**	**46,753**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2014

	Notes	Contributed Equity $'000	Reserves $'000	Retained Earnings $'000	Total Equity $'000
Balance as at 1 July 2012		95,825	4	(42,726)	53,103
Profit for the period		-	-	6,926	6,926
Total comprehensive income for the year		**-**	**-**	**6,926**	**6,926**
Transactions with owners in their capacity as owners:					
Contributions	15(b)	48	-	-	48
Employee Share Options Expense	17(a)	-	(4)	-	(4)
Dividends Paid	7	-	-	(13,320)	(13,320)
Total transactions with owners in their capacity as owners		**48**	**(4)**	**(13,320)**	**(13,276)**
Balance as at 30 June 2013		**95,873**	**-**	**(49,120)**	**46,753**
Balance as at 1 July 2013		95,873	-	(49,120)	46,753
Profit for the period		-	-	27,970	27,970
Total comprehensive income for the year		**-**	**-**	**27,970**	**27,970**
Transactions with owners in their capacity as owners:					
Contributions	15(b)	-	-	-	-
Employee Share Options Expense	17(a)	-	638	-	638
Dividends Paid	7	-	-	(33,304)	(33,304)
Total transactions with owners in their capacity as owners		**-**	**638**	**(33,304)**	**(32,666)**
Balance as at 30 June 2014		**95,873**	**638**	**(54,454)**	**42,057**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2014

	Notes	Consolidated Entity 2014 $'000	2013 $'000
Cash flows from operating activities			
Receipts from product agreements		53,425	12,528
Payments to suppliers and employees		(6,737)	(4,833)
Interest received		450	1,248
Grant income received		21	36
Taxes paid		(10,788)	(2,644)
Net cash flows provided by operating activities	19(a)	**36,371**	**6,335**
Cash flows from investing activities			
Purchase of plant and equipment		(39)	(30)
Net cash flows used in investing activities		**(39)**	**(30)**
Cash flows from financing activities			
Net proceeds from issues of ordinary shares		-	46
Dividends paid		(33,346)	(13,413)
Net cash flows used in financing activities		**(33,346)**	**(13,367)**
Net increase/(decrease) in cash held		**2,986**	**(7,062)**
Foreign exchange differences on cash holdings		(51)	(115)
Add cash at the beginning of the year		22,840	30,017
Cash at end of year	19(b)	**25,775**	**22,840**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2014

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of presentation of the financial report

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

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

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

Compliance with IFRS

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

Historical Cost Convention

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

Critical accounting estimates

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

(b) Going Concern

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

During the year ended 30 June 2014 the consolidated entity reported an operating profit after tax of $28.0 million (2013: $6.9 million) and at the reporting date total assets exceeded total liabilities by $42.1 million (2013: $46.8 million).

(c) Principles of consolidation

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

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

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

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

(d) Revenue

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

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

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

Government grants are recognised at fair value where there is a reasonable assurance that the grant will be received and all grant conditions will be met. Revenue from the receipt of contracted grants is recognised in the period the monies associated with the grants are expensed.

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

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

(e) Cash and cash equivalents

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

(f) Plant and equipment

Cost

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation and any accumulated impairment losses.

Depreciation

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

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

The useful lives for each class of assets are:

	2014	2013
Leasehold improvements:	Not Applicable	Not Applicable
Plant and equipment:	2.5 to 14 years	2.5 to 14 years

(g) Leases

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

Operating Leases

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

(h) Intangibles

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

Intellectual Property

Acquired intellectual property is initially recorded at cost. Intellectual property with a finite life is carried at cost less any accumulated amortisation and any impairment losses. The intellectual property is amortised over the useful life of the relevant patents. The useful life is approximately 13 years. Amortisation expense is included in 'Depreciation and amortisation expenses' of the Statement of Comprehensive Income.

Research and Development

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

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

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

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

(i) Impairment of non-financial assets

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

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

(j) Income tax

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2014

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Income tax expense for the financial year was $15.9 million (2013: $3.1 million) representing approximately 36% of profit before income tax. The parent entity, Acrux Limited, received unfranked dividends totaling $19.5 million from subsidiary Acrux DDS Pty Limited during the reporting period. These dividends are taxable income for Acrux Limited but are not allowable tax deductions for Acrux DDS Pty Limited. These dividends utilised all carried forward tax losses of the parent entity. The parent entity also received franked dividends totaling $14.0 million from subsidiary companies. The parent entity's tax rate payable on this income is 15% however the franked dividends include an imputed tax credit of 30%. The excess franking credits convert to tax losses that can be used in future periods to offset taxable income. For accounting purposes the entity has not recognised a tax asset for these carried forward tax losses as the current operating structure of the entity is unlikely to produce the quantum of future taxable income to enable Acrux Limited to utilise these carried forward losses. If not for these transactions income tax expense would represent approximately 30% of profit before income tax. It should be noted that the income tax expense recognised by Acrux Limited for the unfranked dividends received does not translate to a liability to pay income tax on those dividends as the parent entity utilised prior period carried forward tax losses and excess franking credits attached to franked dividends received in the current reporting period.

For future reporting periods the consolidated entity's income tax expense is likely to represent approximately 30% of profit before income tax.

(k) Employee benefits

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

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

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

Bonus

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

Share-based payments

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

Termination benefits

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

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

(l) Comparatives

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

(m) Financial instruments

Non Derivative Financial Instruments

Financial Assets

Non-derivative financial assets consist of trade and other receivables and cash and cash equivalents. Financial assets are tested for impairment at each financial year end to establish whether there is any objective evidence for impairment. Trade receivables are carried at full amounts due less any provision for impairment. A provision for impairment is recognised when collection of the full amount is no longer probable.

Amounts receivable from other debtors are carried at full amounts due. Other debtors are normally settled 30 days from month end unless there is a specific contract, which specifies an alternative date. Amounts receivable from related parties are carried at full amounts due.

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

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

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

Derivative Financial Instruments
The consolidated entity has used and could continue to use derivative financial instruments to hedge its risk exposures from foreign currency exchange rate movements.

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

(n) Foreign currency translations and balances

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

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

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

Except for certain currency hedges, all resulting exchange differences arising on settlement or re-statement are recognised as revenues and expenses for the financial year.

(o) Goods and services tax (GST)

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

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

(p) Rounding amounts

The parent entity and the consolidated entity have applied the relief available under ASIC Class Order CO 98/0100 and accordingly, amounts in the consolidated financial statements and directors' report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(q) Adoption of new and amended accounting standards that are first operative at 30 June 2014

(i) AASB 10: Consolidated Financial Statements
The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities which the parent controls. The group controls an entity when it is exposed, 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 consolidated entity concluded that the adoption of AASB 10 did not change the consolidation status of its subsidiaries. Therefore, no adjustments to any of the carrying amounts were required.

(ii) AASB 12: Disclosure of Interests in Other Entities
AASB 12 sets new minimum disclosure requirements for interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Disclosures required under AASB 12 are provided in Note 27: Controlled entities.

(iii) AASB 13: Fair Value Measurement
AASB 13 introduces a fair value framework for all fair value measurements as well as the enhanced disclosure requirements. Application of AASB 13 does not materially change the company's fair value measurements.

(iv) AASB 119: Employee Benefits
The amendments to AASB 119 revise the definitions of short term and long term employee benefits, placing the emphasis on when the benefit is expected to be settled rather than when it is due to be settled. The group has assessed its impact and concludes that the adoption of AASB 119 has no material effect on the amounts recognised in current or prior years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2014

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Accounting standards and interpretations issued but not operative at 30 June 2014

A following standard has been issued at the reporting date but are not yet effective. The directors' assessment of the impact of these standards and interpretations is set out below.

(i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010), AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosure and AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (effective from 1 January 2017).

AASB 9 Financial Instruments improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.

AASB 9 could change the classification and measurement of financial assets and liabilities. The consolidated entity has yet to determine the impact, if any, of the new provisions on any amounts recognised in the financial statements.

The consolidated entity does not expect to adopt the new standard before its operative date. It would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2018.

NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Income tax

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

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

(b) Impairment Testing

The Company uses discounted cash flow models to determine that the parent entity's investments in and loans to its subsidiaries, and the capitalised development costs in the consolidated entity, are not being carried at a value that is materially in excess of recoverable value. The models value each product or potential product by estimating future cash flows and discounting the future net cash flows for the probability of successful commercialisation, as well as for the time value of money using a discount rate of 12%. Revenue from a product is estimated using current market data and projections of market growth and potential market share.

(c) Employee Benefits

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

(d) Share based payments

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

NOTE 3: FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

The consolidated entity is exposed to a variety of financial risks comprising:

(a) Interest rate risk

(b) Currency risk

(c) Credit risk

(d) Liquidity risk

(e) Fair values

The board of directors have overall responsibility for identifying and managing operational and financial risks.

(a) Interest Rate Risk

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

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities at 30 June 2014 are shown in the table on the following page. Cash is the only financial asset or liability that is exposed to interest rate risk. A change in the average effective interest rate of 1% applied to the cash balances at 30 June 2014 of $25.8 million would change the net profit and equity of the consolidated entity by approximately $0.2 million (2013: $0.2 million).

At 30 June 2014, the consolidated entity had financial instruments with carrying amounts as shown in the following table:

	Floating interest rate		Fixed interest rate maturing in: 1 year or less		Non interest bearing		Total carrying amount as per the Balance Sheet		Weighted average effective interest rate	
Financial Instruments	**2014 $'000**	**2013 $'000**	**2014 $'000**	**2013 $'000**	**2014 $'000**	**2013 $'000**	**2014 $'000**	**2013 $'000**	**2014 %**	**2013 %**
(i) Financial assets										
Cash	2,774	3,486	23,000	19,353	1	1	25,775	22,840	3.4	3.9
Receivables	-	-	-	-	5,604	6,825	5,604	6,825		
Total financial assets	**2,774**	**3,486**	**23,000**	**19,353**	**5,605**	**6,826**	**31,379**	**29,665**		
(ii) Financial liabilities										
Trade creditors	-	-	-	-	217	135	217	135		
Sundry creditors and accruals	-	-	-	-	912	1,121	912	1,121		
Total financial liabilities	**-**	**-**	**-**	**-**	**1,129**	**1,256**	**1,129**	**1,256**		

The net fair value of the financial assets and financial liabilities at 30 June 2014 was not materially different to the carrying amounts as disclosed in the balance sheet and notes to the financial statements.

(b) Currency risk

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

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

Bank accounts denominated in US dollars are maintained in order to facilitate receipts and payments. Cash reserves at 30 June 2014 included $0.2 million (2013: $0.7 million) denominated in US dollars. A change of 10% in the AUD/USD exchange rate at 30 June 2014 would have immaterial impact on the net profit and equity of the consolidated entity.

The balance of receivables at 30 June 2014 includes the right to receive US$5.2 million (2013: US$5.2 million) of Axiron royalties for the fourth quarter of the 2013/14 financial year. A change of 10% in the AUD/USD exchange rate at 30 June 2014 would change the consolidated net profit and equity by approximately $0.6 million (2013: $0.6 million).

During the reporting period, exchange rate risk was managed by eliminating US dollar revenue in excess of US dollar expenditure through spot and short-term forward sales of US dollars. Forward exchange contracts are entered into in order to sell specified amounts of US dollars in the future at stipulated exchange rates. The objective in entering the forward exchange contracts is to protect against unfavourable exchange rate movements for both the contracted and anticipated transactions undertaken in foreign currencies.

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

At balance date, the details of outstanding forward exchange contracts are:

	Sell United States Dollars		Average Exchange	
Buy Australian Dollars	**2014 $'000**	**2013 $'000**	**2014 $**	**2013 $**
Less than 6 months	-	2,000	-	1.0309

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

NOTE 3: FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (CONTINUED)

(c) Credit risk

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

Cash reserves form the majority of the consolidated entity's financial assets at 30 June 2014. Acrux Limited is a Pooled Development Fund. The Pooled Development Fund Act restricts the investment of cash reserves to deposits with an Australian bank licensed to take deposits. This policy is also followed for all cash held by the other companies within the consolidated entity. At 30 June 2014, cash was deposited with two different banks in order to spread risk and ensure interest rate competitiveness.

At 30 June 2014 the consolidated entity had a material credit risk exposure to Eli Lilly and Company and its subsidiaries. The receivables recorded on the consolidated entity's balance sheet contains an amount of $5.5 million due from Eli Lilly under the license agreement for the commercialisation of Axiron. During future reporting periods, the consolidated entity is expected to continue to have a material credit exposure to Eli Lilly and Company and its subsidiaries, due to the royalties and milestone payments expected. At 30 June 2014, Eli Lilly's credit ratings were AA- (S&P) and A2 (Moodys). The credit rating and financial health of Eli Lilly are monitored regularly. The grant of the license under the license agreement is subject to payment by Eli Lilly of the amounts in accordance with the agreement.

The consolidated entity had a credit risk exposure at the end of the comparative period, in relation to derivative financial instruments, arising from the potential failure by counterparties to the contract to meet their obligations.

(d) Liquidity risk

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

The financial liabilities of the consolidated entity at the balance date are all expected to mature within three months of the balance date. The consolidated entity has sufficient cash reserves, $25.7 million (2013: $22.8 million) to settle these liabilities and to fund operating expenditure for the foreseeable future. The consolidated entity does not have an overdraft or loan facility. The maturity profile of the consolidated entity's cash term deposits is actively managed and compared with forecast liabilities to ensure that sufficient cash is available to settle liabilities as they fall due.

(e) Fair values

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

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Inputs for the asset or liability that are not based on observable market data

Forward exchange contracts are level 2 on the fair value hierarchy.

NOTE 4: REVENUE

	2014 $'000	2013 $'000
Revenues from operating activities		
Revenue from product agreements	53,368	15,549
Grant revenue	21	36
Total revenues from operating activities	**53,389**	**15,585**
Other revenues		
Interest	470	943
Total revenues from non-operating activities	470	943
Total revenues from continuing operations	**53,859**	**16,528**

NOTE 5: PROFIT FROM CONTINUING OPERATIONS

	Notes	2014 $'000	2013 $'000
Profit from continuing operations before income tax has been determined after the following specific expenses:			
Employee benefits expense			
Wages and salaries		2,050	1,833
Workers' compensation costs		6	7
Superannuation costs		172	150
Payroll taxes		92	75
Training expenses		26	19
Total employee benefits expense		**2,346**	**2,084**
Depreciation of non-current assets			
Plant and equipment		40	51
Total depreciation of non-current assets		**40**	**51**
Amortisation of non-current assets			
Intellectual property		95	95
Research and development		1,278	1,277
Total amortisation of non-current assets		**1,373**	**1,372**
Total depreciation and amortisation expenses		**1,413**	**1,423**
Rental expense on operating leases		282	272
External research and development expenses		756	752

NOTE 6: INCOME TAX

	2014 $'000	2013 $'000
(a) Income tax recognised in profit or loss:		
Current tax	13,749	3,391
Deferred tax	2,237	(644)
(Over)/under provision in prior years	(99)	368
Income tax expense/(credit) attributable to profit	**15,887**	**3,115**
(b) Reconciliation of income tax expense		
The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:		
Profit before tax from continuing operations	43,857	10,041
Prima facie income tax payable on profit before income tax at 30.0% (2013: 30.0%)	13,157	3,012
Add/(subtract) tax effect:		
Parent entity 15% tax rate[1]	233	111
Parent entity tax on unfranked dividend income	2,925	1,350
Parent entity tax credit on franked dividend income	(3,000)	(963)
Non deductible expenses	128	4
Research and development tax incentive	(52)	(35)
Foreign tax credits written off	(10)	-
Over provision in prior years	(22)	(86)
Previously unrecognised tax losses	-	(279)
Tax losses and temporary differences not brought to account	2,518	-
	2,720	**102**
Income tax expense/(benefit) attributable to profit	**15,877**	**3,115**
(c) Current tax		
Opening balance	1,675	560
(Over)/under provision in prior years	(110)	368
Provision for current year	13,870	3,692
Tax losses transferred from deferred tax	(121)	(301)
Tax payments	(10,788)	(2,644)
Current tax (asset)/liability	**4,526**	**1,675**

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

PDFs are taxed at 15% on income and gains from investments in small to medium enterprises
PDFs are taxed at 25% on other income
Groups containing a PDF are not permitted to consolidate for tax purposes.

	2014 $'000	2013 $'000
(d) Deferred tax		
Deferred tax relates to the following:		
Deferred tax assets		
The balance comprises:		
Tax losses carried forward	-	2,629
Accruals and provisions	145	127
Leasehold improvements	195	205
Patent expenses	711	679
Exchange differences	15	37
Share issue expenses	1	1
	1,067	**3,678**
Deferred tax liabilities		
The balance comprises:		
Intangible assets	6,133	6,516
Accrued interest	31	22
	6,164	6,538
Net deferred tax assets/(liabilities)	(5,097)	(2,860)
(e) Deferred tax assets not brought to account		
Temporary differences	10	(328)
Tax losses	8,311	5,834
	8,321	**5,506**

NOTE 7: DIVIDENDS

(a) Dividends paid		
Dividends paid at 20 cents per share (12 cents unfranked, 8 cents franked) (2013: 8 cents per share, unfranked)	33,304	13,320
Balance of franking account on a tax paid basis at financial year-end adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and any credits that may be prevented from distribution in subsequent years:	33,337	22,549

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2014

NOTE 8: EARNINGS PER SHARE

	2014 $'000	2013 $'000
Profit from continuing operations	27,970	6,926
Profit used in calculating basic and diluted earnings per share	27,970	6,926
	No. of shares	No. of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	166,521,711	166,504,999
Effect of dilutive securities:		
Employee Share Options	-	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	166,521,711	166,504,999
Basic earnings per share (cents)	16.80	4.16
Diluted earnings per share (cents)	16.80	4.16

NOTE 9: CASH AND CASH EQUIVALENTS

	2014 $'000	2013 $'000
Cash at bank	2,775	3,487
Deposits at call	23,000	19,353
	25,775	22,840

NOTE 10: RECEIVABLES

	2014 $'000	2013 $'000
CURRENT		
Trade receivables	5,347	6,591
Other receivables	141	115
Prepayments	116	119
	5,604	6,825

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

NOTE 11: PLANT AND EQUIPMENT

	Notes	2014 $'000	2013 $'000
Leasehold Improvements			
At cost		1,115	1,115
Accumulated amortisation		(1,115)	(1,115)
Total leasehold improvements	11(a)	-	-
Plant and Equipment			
At cost		166	168
Accumulated depreciation		(88)	(75)
Total plant and equipment	11(a)	78	93
Total plant and equipment		78	93

(a) Reconciliations

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

	2014 $'000	2013 $'000
Leasehold improvements		
Carrying amount at beginning	-	-
Additions	-	-
Amortisation expense	-	-
	-	-
Plant and equipment		
Carrying amount at beginning	93	110
Additions	25	38
Disposals	-	(4)
Depreciation expense	(40)	(51)
	78	93

NOTE 12: INTANGIBLE ASSETS

	Notes	2014 $'000	2013 $'000
Intellectual Property			
At cost		1,200	1,200
Accumulated amortisation		(949)	(854)
	12(a)	251	346
Capitalised Development			
Ellavie™			
External research and development expenses		766	766
Employee benefits capitalised		169	169
Other capitalised amounts		136	136
	12(a)	1,071	1,071
Axiron™			
External research and development expenses		17,415	17,415
Employee benefits capitalised		3,353	3,353
Other capitalised amounts		2,403	2,403
Accumulated amortisation		(2,729)	(1,451)
	12(a)	20,442	21,720
Net carrying amount		21,513	22,791
Total intangible assets		**21,764**	**23,137**

(a) Reconciliations

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

	2014 $'000	2013 $'000
Intellectual Property		
Carrying amount at beginning	346	441
Amortisation expense	(95)	(95)
	251	346
Capitalised Development		
Ellavie™		
Carrying amount at beginning	1,071	1,071
Additions	-	-
	1,071	1,071
Axiron™		
Carrying amount at beginning	21,720	22,997
Additions	-	-
Amortisation	(1,278)	(1,277)
	20,442	**21,720**

The remaining useful life of Axiron Capitalised Development is approximately 16 years.

NOTE 13: PAYABLES

	2014 $'000	2013 $'000
Current		
Trade creditors	217	135
Sundry creditors and accruals	912	1,121
	1,129	**1,256**

NOTE 14: PROVISIONS

	2014 $'000	2013 $'000
Current		
Employee entitlements	401	331
Non-current		
Employee entitlements	11	20
Aggregate employee entitlements liability	**412**	**351**

NOTE 15: CONTRIBUTED EQUITY

	2014		2013	
	No. of Shares	$'000	No. of Shares	$'000
(a) Issued and paid up capital				
Ordinary shares fully paid	166,521,711	95,873	166,521,711	95,873
(b) Movements in shares on issue				
Beginning of the financial year	166,521,711	95,873	166,496,711	95,825
Issued during the year: - Employee share option plans	-	-	25,000	46
Less Capital Raising Expenses	-	-	-	(2)
Fair value of shares issued on exercise of employee share options	-	-	-	4
Contributions from share issues	-	-	25,000	48
At reporting date	**166,521,711**	**95,873**	**166,521,711**	**95,873**

(c) Share Options

Employee Share Option Plan

The consolidated entity operates an employee share option plan. During the financial year no options were exercised (2013: 25,000 options were exercised), 1,855,000 new options were issued under the plan during the financial year (2013: Nil). Options hold no participation rights, but shares issued on exercise of options rank equally with existing shares. At 30 June 2014 1,200,000 options were held by key management personnel.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2014

NOTE 15: CONTRIBUTED EQUITY (CONTINUED)

The closing market value of an ordinary Acrux Limited share on the Australian Stock Exchange at 30 June 2014 was $1.01.

	2014 No.	2013 No.
(i) Movement in the number of share options held under Employee Share Option Plan are as follows:		
Opening balance	-	25,000
Granted during the year	1,855,000	-
Exercised during the year	-	(25,000)
Lapsed during the year	-	-
Closing balance	1,855,000	-
	$'000	**$'000**
(ii) Details of share options exercised during the year:		
Proceeds from shares issued	-	46
Fair value as at issue date of shares issued during the year	-	101
(iii) Details of lapsed options		
No options lapsed during the reporting period		

(d) Capital Management

When managing capital, the Directors' objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders.

During 2014, the Company paid dividends of $33.3 million (2013: $13.3). The amounts and ratio of future dividends have not been determined.

NOTE 16: SHARE BASED PAYMENTS

(a) Employee share option plan

Details of the options granted are provided below:

2014

Grant date	Expiry date	Exercise price	Balance at the beginning of the year	Granted during the year	Exercised during the year	Expired during the year	Balance at the end of the year	Exercisable at the end of the year
7/31/2013	7/31/2016	$4.30	-	1,255,000	-	-	1,255,000	1,255,000
11/21/2013	7/31/2016	$4.30	-	600,000	-	-	600,000	600,000
				1,855,000	-	-	1,855,000	1,855,000

The weighted average remaining contractual life for share options outstanding at the end of the period was 2.08 years.

No employee share options were granted in the 2013 financial year.

The fair value of the options granted on 31 July 2013 was 43 cents per option. Fair value was determined using the binomial option pricing model. The following inputs were utilised:

Exercise price: $4.30

Grant date: 31 July 2013

Expiry date: 31 July 2016

Share price at grant date: $3.35

Expected price volatility of the company's shares: 38%

Expected dividend yield: 5%

Risk-free interest rate: 2.52%

The fair value of the options granted on 21 November 2013 was 16 cents per option. Fair value was determined using the binomial option pricing model. The following inputs were utilised:

Exercise price: $4.30

Grant date: 21 November 2013

Expiry date: 31 July 2016

Share price at grant date: $2.56

Expected price volatility of the company's shares: 37%

Expected dividend yield: 5.0%

Risk-free interest rate: 3.08%

(b) Expenses recognised from share-based payment transactions

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

	2014 $'000	2013 $'000
Options issued under the employee share option plan	638	-
Total expenses recognised from share based payment transactions	638	-

NOTE 17: RESERVES AND RETAINED EARNINGS

	Notes	2014 $'000	2013 $'000
Share based payment reserve	17(a)	638	-
Retained earnings	17(b)	(54,454)	(49,120)
(a) Share based payment reserve			
(i) Nature and purpose of reserve			
This reserve is used to record the value of equity benefit provided to employees and directors as part of their remuneration. Refer Note 15 for details.			
(ii) Movement in reserve			
Balance at the beginning of year		-	4
Transfer fair value of employee shares options to share capital		-	(4)
Employee share option expense for the period (including adjustment for service conditions not met)		638	-
Vested employee share options previously expensed, that lapsed during the period		-	-
Balance at end of year		638	-
(b) Retained earnings			
Balance at the beginning of year		(49,120)	(42,726)
Vested employee share options that lapsed during the period		-	-
Net profit attributable to members of Acrux Limited		27,970	6,926
Accumulated losses at reporting date		(21,150)	(35,800)
Dividends paid		(33,304)	(13,320)
Accumulated losses at reporting date		(54,454)	(49,120)

NOTE 18: NON-CONTROLLING INTERESTS

	Notes	2014 $'000	2013 $'000
Non-controlling interests comprises:			
Contributed equity	18(a)	-	-
Retained earnings	18(b)	-	-
		-	-
(a) Non-controlling interests in issued and paid-up capital of controlled entities			
- Cosmeceutic Solutions Pty Ltd - Fully paid ordinary shares		-	-
(b) Retained earnings			
Opening balance		-	(51)
- Deregistration of Cosmeceutic Solutions Pty Ltd		-	51
Closing balance		-	-

Non-controlling interest related to subsidiary Cosmeceutic Solutions Pty Ltd, which was deregistered on 8 August 2012.

NOTE 19: CASH FLOW INFORMATION

	2014 $'000	2013 $'000
(a) Reconciliation of the cash flow from operations with profit after income tax:		
Profit from ordinary activities after income tax	27,970	6,926
Non-Cash Items		
Depreciation and amortisation	1,413	1,423
Share options expense	638	-
Unrealised foreign exchange gains	107	116
Changes in assets and liabilities		
Increase in tax liabilities	5,088	472
Decrease/(increase) in trade and other receivables	1,221	(2,952)
Increase/(Decrease) in payables	(127)	335
Increase in employee entitlements	61	15
	8,401	(591)
Net cash (outflows)/inflows from operating activities	36,371	6,335
(b) Reconciliation of cash		
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:		
- Cash at bank	2,775	3,487
- At call deposits with financial institutions	23,000	19,353
Closing cash balance	25,775	22,840

(c) Credit stand by arrangement and loan facilities
The consolidated entity has credit card facilities with the National Australia Bank and American Express available to the extent of $101,000 (2013: $81,000). As at 30 June 2014 the consolidated entity had unused facilities of $93,153 (2013: $67,079).

NOTE 20: COMMITMENTS

	2014 $'000	2013 $'000
Lease expenditure commitments		
Operating leases (non-cancellable)		
(i) Non cancellable operating leases contracted for but not capitalised in the accounts:		
(ii) Minimum lease payments		
– Not later than one year	294	258
– Later than one year and not later than five years	908	-
Aggregate lease expenditure contracted for at reporting date	1,202	258

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

NOTE 21: KEY MANAGEMENT PERSONNEL COMPENSATION

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

	2014 $'000	2013 $'000
Compensation by category:		
Short-term employment benefits	1,219	961
Post-employment benefits	69	44
Termination benefits	-	-
Equity	356	-
	1,644	1,005

NOTE 22: LOANS TO KEY MANAGEMENT PERSONNEL

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

NOTE 23: RELATED PARTY DISCLOSURES

Wholly owned group transactions

Loans

Loans were made by Acrux Limited to its subsidiaries under normal terms and conditions. The aggregate amounts receivable from controlled entities by the parent entity at the end of the reporting period were nil (2013: nil).

Non-interesting bearing loans were made by Acrux Commercial Pty Ltd to its subsidiary, Fempharm Pty Ltd. The aggregate amount receivable from Fempharm Pty Ltd at the end of the reporting period was $4,486,184 (2013: $6,089,596).

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

Acrux DDS Pty Ltd, a wholly owned subsidiary of Acrux Limited, entered into two research and commercialisation collaboration agreements with Hexima Limited on 8 October 2013. Ross Dobinson is the Executive Chairman of Hexima Limited. During the reporting period Acrux DDS Pty Ltd received $5,260.37 (2013: Nil) from Hexima for the reimbursement of expenses directly related to the collaboration agreements. At the end of the reporting period there were no amounts outstanding to be paid to or received from Hexima.

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

NOTE 24: AUDITOR'S REMUNERATION

	2014 $'000	2013 $'000
Amounts paid and payable to Pitcher Partners for:		
(i) Audit and other assurance services		
– An audit or review of the financial report of the entity and any other entity in the consolidated entity	92	101
– Other assurance services	-	-
	92	101

NOTE 25: SEGMENT INFORMATION

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

Additional information on revenue:

	2014 $'000	2013 $'000
Product/Service		
Axiron	52,528	14,557
Other revenue	1,331	2,103
Total revenue	53,859	16,660
Country of Origin		
Australia	491	979
Outside Australia:		
Switzerland	52,528	14,260
United States	169	407
Other	671	1,014
	53,859	**16,660**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2014

NOTE 26: PARENT ENTITY DETAILS

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

	Parent Entity	
	2014 $'000	**2013 $'000**
(a) Summarised statement of financial position		
Assets		
Current assets	523	1,277
Non-current assets	19,000	21,527
Total assets	**19,523**	**22,804**
Liabilities		
Current liabilities	296	441
Non-current liabilities	-	-
Total liabilities	**296**	**441**
Net assets	**19,227**	**22,363**
Equity		
Share capital	95,873	95,873
Current year earnings	29,530	12,484
Retained earnings	(106,814)	(85,994)
Share based payments reserve	638	-
Total equity	**19,227**	**22,363**
(b) Summarised statement of comprehensive income		
Profit for the year	29,530	12,484
Other comprehensive income for the year	-	-
Total comprehensive income for the year	**29,530**	**12,484**

NOTE 27: CONTROLLED ENTITIES

	Country of Incorporation	Percentage Owned 2014	Percentage Owned 2013
Parent Entity:			
Acrux Limited	Australia		
Subsidiaries of Acrux Limited			
Acrux DDS Pty Ltd	Australia	100%	100%
Acrux Pharma Pty Ltd	Australia	100%	100%
Acrux Commercial Pty Ltd	Australia	100%	100%
Cosmeceutic Solutions Pty Ltd	Australia	-	-
Cosmeceutic Solutions Pty Ltd was deregistered on 8 August 2012.			
Subsidiaries of Acrux Commercial Pty Ltd			
Fempharm Pty Ltd	Australia	100%	100%

NOTE 28: CONTINGENCIES

There were no contingencies at 30 June 2014 (2013: Nil).

NOTE 29: SUBSEQUENT EVENTS

There has been no other matter or circumstance, which has arisen since 30 June 2014 that has significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to 30 June 2014, of the consolidated entity, or

(b) the results of those operations, or

(c) the state of affairs, in financial years subsequent to 30 June 2014, of the consolidated entity.

NOTE 30: COMPANY DETAILS

The registered office of the company is:

Acrux Limited
103 – 113 Stanley Street
West Melbourne VIC 3003

DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes set out on pages 17 to 52 in accordance with the *Corporations Act 2001:*

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

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

(c) Give a true and fair view of the financial position of the consolidated entity as at 30 June 2014 and of its performance for the year ended on that date.

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

This declaration has been made after receiving the declarations required to be made by the Executive Chairman and Chief Financial Officer to the directors in accordance with sections 295A of the *Corporations Act 2001* for the financial year ending 30 June 2014.

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

R DOBINSON
Executive Chairman

Melbourne

Dated this 20th day of August 2014

B PARNCUTT
Director

Melbourne

Dated this 20th day of August 2014

INDEPENDENT AUDITOR'S REPORT

PITCHER PARTNERS

ACRUX LIMITED
ABN 72 082 001 152
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
ACRUX LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Acrux Limited and controlled entities, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

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

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

PITCHER PARTNERS

ACRUX LIMITED
ABN 72 082 001 152
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
ACRUX LIMITED

Independence

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

Opinion

In our opinion:

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

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 22 to 26 of the Directors' report for the year ended 30 June 2014. The Directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Acrux Limited and controlled entities for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

S SCHONBERG
Partner

Date 20 August 2014

PITCHER PARTNERS
Melbourne

SHAREHOLDER INFORMATION

Additional information required by Australian Securities Exchange Listing Rules and not disclosed elsewhere in this report:

SHAREHOLDERS

The Company has 166,521,711 ordinary fully paid shares on issue, held by 8,695 shareholders and 1,605,000 options outstanding, held by 15 people. The Company does not have any other shares or options or other equity securities on issue. 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 shareholders' meetings. No voting rights attach to the options.

All fully paid ordinary shares are quoted on the Australian Securities Exchange. No other equity securities of the Company are quoted on the Australian Securities Exchange. The Company has not had, and neither is there currently, any on-market buy back.

DISTRIBUTION SCHEDULE

The following is a distribution schedule of the number of holders of fully paid ordinary shares in the Company within the bands of holding specified by the ASX Listing Rules:

Category	Number of Shareholders	Percentage	Shares
1 to 1,000 shares	1,950	0.69%	1,153,076
1,001 to 5,000 shares	3,623	6.31%	10,512,691
5,001 to 10,000 shares	1,436	6.94%	11,559,750
10,001 to 100,000 shares	1,550	25.40%	42,304,507
100,001 shares and over	136	60.65%	100,991,687
Total	**8,695**	**100.00%**	**166,521,711**

432 shareholders hold less than a marketable parcel of fully paid ordinary shares (being the Company's main class of securities), based on the market price at the date set out above.

SUBSTANTIAL HOLDERS (AS DISCLOSED IN SUBSTANTIAL HOLDING NOTICES)

Name	Number of Equity Securities Held
Allan Gray Australia Pty Limited	30,894,080
Ellerston Capital Limited	16,630,037
UBS AG and its related bodies corporate	13,633,853
AMP Limited and its related bodies corporate	10,377,476
United Super Pty Limited	8,389,935

Under the ASX Listing Rules "Substantial Holder" means, in general terms, a person who either alone or with their associates has an interest in 5% or more of the voting shares of the Company.

SHAREHOLDER INFORMATION

CONTINUED

TWENTY LARGEST HOLDERS OF FULLY PAID ORDINARY SHARES IN ACRUX LIMITED

	Shareholder	Number of Fully Paid Ordinary Shares	Percentage of Total Capital
1	J P MORGAN NOMINEES AUSTRALIA LIMITED	17,445,959	10.48%
2	NATIONAL NOMINEES LIMITED	14,223,192	8.54%
3	CITICORP NOMINEES PTY LIMITED	8,547,757	5.13%
4	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	8,336,469	5.01%
5	BNP PARIBAS NOMS PTY LTD	4,615,592	2.77%
6	AMP LIFE LIMITED	4,595,422	2.76%
7	MR IAN VICTOR LANCINI & MRS DEBRA ANN LANCINI	2,045,000	1.23%
8	DURBIN SUPERANNUATION PTY LTD	1,800,000	1.08%
9	DORVELL PTY LTD	1,513,640	0.91%
10	ASIA UNION INVESTMENTS PTY LIMITED	1,500,000	0.90%
11	ASIA UNION INVESTMENTS PTY LTD	1,200,000	0.72%
12	SURGICAL CONCEPTS PTY LTD	820,755	0.49%
13	BETA GAMMA PTY LTD	800,000	0.48%
14	C M ABBOTT PTY LIMITED	800,000	0.48%
15	LOREMELL PTY LIMITED	764,716	0.46%
16	MR WILLIAM GEORGE JEPHCOTT	655,000	0.39%
17	HISHENK PTY LTD	650,000	0.39%
18	MR ALLEN JAMES KIRBY	600,000	0.36%
19	TARNAGULLA NOMINEES PTY LTD	600,000	0.36%
20	EQUITAS NOMINEES PTY LIMITED	571,554	0.34%
		72,085,056	**43.30%**

MARKET LISTING

Acrux Limited is quoted on the Australian Securities Exchange (ASX). Share prices can be obtained from most Australian national newspapers and from the ASX website (www.asx.com.au). The shares of the Company are not quoted on any other stock exchange. The following are the share prices for the end of each quarter of the financial year ending 30 June 2014:

Quarter ended 30 September 2013	$3.30
Quarter ended 31 December 2013	$2.56
Quarter ended 31 March 2014	$1.72
Quarter ended 30 June 2014	$1.01

The closing share price on 17 September 2014 was $1.69

POOLED DEVELOPMENT FUND

The information set out below is of a general nature only and may vary from person to person (dependent on their circumstances). Any shareholder or prospective shareholder should obtain their own taxation advice, rather than relying on this summary.

Acrux Limited is a Pooled Development Fund (PDF) that has been registered under the *Pooled Development Fund Act 1992* ("the PDF Act") since 7 July 1999. A PDF is a company that is resident in Australia, and is registered and regulated by the PDF Registration Board in accordance with the PDF Act.

Shareholders in the Company will be entitled to concessionary tax treatment in Australia for income and capital gains derived in connection with their shareholding. The concessionary tax treatment should be available to investors that hold their interests directly and indirectly through non-corporate trusts and partnerships.

Gains realised by an investor on the disposal of shares in the Company will not be included in the investor's assessable income in Australia. This is because:

– Where the gain on sale would be ordinary income of the investor, the gain will be treated as exempt income; and
– Where the gain on sale would be a capital gain it is specifically excluded from the capital gains tax provisions of the Tax Act.

Equally, an investor will not be entitled to any deduction or capital loss on the sale of the Company's shares.

Shares held in a PDF cannot be held as trading stock. Accordingly, share traders cannot treat PDF shares as trading stock.

Unfranked dividends received by an Australian resident shareholder from the Company will be exempt from tax in the hands of the shareholder. Franked dividends will also be exempt from tax unless the shareholder elects to treat the franked dividend as taxable.

Broadly, Australian resident shareholders who hold the Company's shares at risk (in accordance with the Tax Act) for 45 days or more may elect to treat franked dividends paid by the Company as assessable income, and claim the tax offset available in respect of the dividend. The tax offset will be equal to the franking credit attaching to the dividend received. Where the tax offset available exceeds the shareholder's highest marginal tax rate, the shareholder may be entitled to receive a refund of tax in respect of the excess franking credit.

Australian corporate tax entities are entitled to benefit from the franking credits attaching to the franked portion of the dividends paid by the Company, irrespective of whether the corporate tax entity treats the dividend as exempt income or elects to treat it as assessable income. Accordingly, an Australian corporate may credit its franking account with franking credits attaching to a dividend from the Company regardless of whether or not they have elected to treat the dividend as exempt or assessable income.

Dividends paid by Acrux to non-residents will not be subject to withholding tax regardless of whether or not they are franked or unfranked.

Should the Company cease to be a PDF, each shareholder will be deemed to have sold their shares immediately before the Company ceased to be a PDF and to have acquired the shares at their market value immediately after the Company ceased to be a PDF. Any gain or loss realised on the sale after that time, calculated by reference to the deemed acquisition cost, will be subject to the general provisions of the Tax Act and any such gain may be included in the shareholder's assessable income.

CORPORATE DIRECTORY

ACRUX LIMITED AND SUBSIDIARY COMPANIES

103-113 Stanley Street
West Melbourne
Victoria 3003
Australia

T: + 61 3 8379 0100
F: + 61 3 8379 0101
W: www.acrux.com.au
Australian Stock Exchange code "ACR"

Information about the Company, including disclosures to the Australian Stock Exchange, can be found on the Company's website. If you require further information about Acrux, please contact the Chief Financial Officer & Company Secretary on +61 3 8379 0100.

SHARE REGISTRY

Link Market Services
Level 1
333 Collins Street
Melbourne
Victoria 3000
Australia

Locked Bag A14
Sydney South
NSW 1235
Australia

Toll-free: 1300 554 474 (Australia only)
International: +61 1300 554 474
F: (02) 9287 0303
F: (02) 9287 0309 (for proxy voting)
E: registrars@linkmarketservices.com.au
W: www.linkmarketservices.com.au

www.acrux.com.au

Designed and produced by IRMau.com

ACRUX
DRUG DELIVERY SOLUTIONS

Acrux Limited

103-113 Stanley Street
West Melbourne
Victoria 3003
Australia

T: + 61 3 8379 0100
F: + 61 3 8379 0101

www.acrux.com.au