

CELLMID 

# 2016 Annual Report





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Cellmid Limited (ASX:CDY)  
Annual Report

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# Chairman's Letter



Dear Shareholders,

It is my pleasure to present to you the 2016 Annual Report.

The Company has continued to make good progress in both the midkine-related and consumer health operating divisions, as evidenced by strong revenue growth across all segments. The consumer health division (Advangen) has shown revenue growth of 65%, with especially strong sales in Japan. With the expansion of both the product range and the distribution footprint, we remain confident of further strong growth in the current year.

The midkine (MK) division was streamlined during the year with the formation of separate subsidiary companies Lynamid and Kinera, focusing on target indications for midkine antibodies (Lynamid) and protein (Kinera) respectively. While progress in the commercialisation of the MK antibody and protein assets continues to be driven by highly cost effective collaborations with a wide range of scientists and laboratories around the world, these dedicated subsidiaries, each with a clear therapeutic development focus, provide increased flexibility for the Company in the challenge of funding the ambitious clinical development plans.

In April this year, the Company co-hosted its fourth successful Midkine Symposium. The range and quality of our MK collaborations is clearly evidenced by the results presented at this invitation only meeting in Budapest, Hungary. I recommend to shareholders the interviews with some of our key collaborators which we released on the ASX late

in June. Important new results presented at the meeting have contributed to our commercialisation focus for MK antibodies on fibrosis, chronic kidney disease and associated conditions; and for MK protein on heart failure and chronic heart conditions.

The Company's strong MK patent portfolio underpins the diagnostic and therapeutic initiatives around midkine. There were two important additions to the patent portfolio during the year. In late November 2015, a Japanese patent was granted for the use of MK to prevent and treat hair loss, and to promote and enhance hair growth; an important addition to the Company's hair growth asset portfolio. Around the same time, a key US antibody patent was granted entitled "Antibody recognising C-Domain of midkine with claims in important disease areas such as cancer, inflammation and autoimmunity.

Also with regard to the patent portfolio, a patent application was filed to secure the intellectual property for the application of the Company's antibodies in bone therapy. This application followed collaborative research in Germany showing for the first time that treatment with a MK antibody accelerated bone fracture healing in an aged rodent model of the condition.

As with last year, developments in our consumer health division (Advangen) have continued to gain pace. Advangen has established itself as a market leader in clinically validated topical hair loss treatments, having developed a novel range of hair growth products based on the Company's

proprietary FGF5 inhibitor technology. Marketing of the products on TV and digital media in Australia started in earnest during the year. With the launch in June of the evoliss® Professional range of anti-aging hair care products for salons, we expect to see significant penetration of this important market sector.

Internationally, sales grew strongly in Japan, with one month sales in April delivering a record net revenue in excess of \$558,000. And shortly after the end of the financial year, the Company was successful in securing a distribution partnership with Colour Collective, a well-credentialed Dallas based specialist in the launch of high end hair brands in the USA. This important US partnership is expected to significantly accelerate the route to this US\$3.5 billion hair loss market. The road ahead for Advangen is indeed an exciting one.

Further details on all the significant developments referred to above can be found in the report of our CEO, Maria Halasz.

There have been important additions to our professional team during the year. In July 2015, Dr Bryce Vissel, a leading researcher then at the Garvan Institute, was appointed to Chair the Company's important Scientific Advisory Board, in which role he has made a significant contribution to developing the clinical strategy for MK. (Dr Vissel was in May this year appointed as Professor of Neurosciences at the University of Technology, Sydney, a recognition of his outstanding research credentials).

In July 2015, Dr Fintan Walton, founder and CEO of UK based corporate advisory firm PharmaVentures Ltd, joined the board, bringing to it his invaluable 33 years' experience in the global pharmaceutical and biotechnology sector. Also in July 2015, Bruce Gordon, with 35 years of audit and corporate finance experience, joined the board. Since their appointment the directors have been actively contributing to the strategic direction of the Company.

The strong performance of the businesses in the year in review bears witness to the exceptional work, dedication and professionalism of our small but highly committed team at Cellmid, ably led by CEO Maria Halasz. While the company has continued to grow its businesses and substantially met its planning milestones, the only disappointing note is that the Company's share price has not reflected its successes.

I take this opportunity to thank all shareholders for their support throughout the year.



David King  
Chairman



# CEO Report

Dear Shareholders,

It is my pleasure to report to you on this 2016 financial year, a period of strategic developments and growth for Cellmid. Sales records have been broken by our talented team and important milestones met.

In a critical strategic milestone, Cellmid transitioned from a single operational entity, to three wholly owned subsidiaries. Lynamid Limited and Kinera Limited have been set up to develop our midkine (MK) intellectual property in a number of clinical indications including chronic kidney disease, cancer and ischemic conditions of the heart and brain. Advangen Limited is the holding company for the development and sale of our FGF5 inhibitor hair loss products globally.

The dedicated subsidiaries, Lynamid, Kinera and Advangen, have clear therapeutic and commercial focus, hence present targeted investment opportunities for specialist investors. The subsidiaries have their own product development and cost centres improving transparency in preparation for such investment. They are eligible for funding from venture capital, government or private investment otherwise not available to Cellmid. Investment directly into these subsidiaries will also limit dilution while Cellmid shareholders will benefit from the potential upside.

The financial performance of the company was the best yet, as sales revenue increased in Australia and Japan to a record \$3,120,367. For the first time in any full financial year our Japanese subsidiary, Advangen Inc., has become profitable

exceeding revenue expectations. In Australia, Advangen International performed to expectation after a reduced advertising budget, which was redirected towards an early USA product roll out.

Overall sales revenue has increased 171% since acquisition of Advangen Inc. Following the 2015 commercial launch in Australia we sold almost \$1.5 million of evolix® products, wholesale, representing just under \$3 million in retail sales value. As far as pharmacy hair loss products are concerned we have definitely arrived and are second only to Regain®, a 30-year-old brand with big pharma ownership.

The financial performance since 2014 is summarised in Table 1 below. Whilst the strong revenue growth is obvious during the period it is also important to note that we have continued to build value in our midkine portfolio through increased research and development. This value is currently not recognised by the markets, however once our midkine therapeutics enter clinical development this is expected to change.

We continued to improve our income/expenditure ratio from 38% in 2014 to 57% in 2016. We continue to rely less and less on new issues of securities, and more on revenue for our activities and that includes research and development (R&D) expenditure incurred in Lynamid and Kinera.

With the new corporate structure in place we expect to improve clarity on the performance of our subsidiaries. Our target is

**TABLE 1: FINANCIAL RESULTS 2014-2016**

	FY2014	FY2015	FY2016	SINCE ACQUISITION
Total revenue*	\$ 1,898,037	\$ 2,930,518	\$ 4,571,599	141%
Sales Revenue	\$ 1,150,931	\$ 1,842,804	\$ 3,120,367	171%
Midkine revenue	\$ 1,009,188	\$ 99,263	\$ 205,390	
R&D tax credit/grants	\$ 747,106	\$ 998,451	\$ 1,121,562	
Total expenditure	\$ 5,023,890	\$ 6,301,547	\$ 8,098,979	61%
R&D spending*	\$ 1,660,236	\$ 2,196,558	\$ 2,492,360	50%
Current assets	\$ 4,499,891	\$ 4,173,616	\$ 5,131,104	14%
<b>Revenue/Expenditure</b>	<b>38%*</b>	<b>47%</b>	<b>57%</b>	

\*Excluding the one off license fee from Pacific Edge Limited

to achieve profitability for our consumer health businesses in the various regions, like Advangen Inc., in Japan, which has become profitable three years after its acquisition.

On the capital raising front, we placed 133,333,333 shares at 3 cents each to sophisticated investors, and raised \$4 million, in August 2015. In addition to increasing revenues the Company has been deploying this capital prudently increasing the underlying net assets.

We continue to leverage our MK reagents, including the MK protein, antibodies and MK-ELISA, to access research capabilities with global experts in a number of therapeutic fields, including glioblastoma, kidney disease, bone healing, cardiovascular research and programs in various inflammatory conditions. These high value research collaborations would simply be impossible without our MK assets.

#### **LYRAMID Limited – MK antibody and diagnostic Programs**

Several of our pre-clinical collaborations delivered results this financial year, some of which are yet to be published. Significantly, MK's mechanism of action was further elucidated through these important findings.

Professor Guillermo Valesco's group at Complutense University in Madrid has been working on a large in vitro and preclinical study. Early results showed efficacy for two of Cellmid's antibodies in cannabinoid resistant glioblastoma cell lines suppressing their growth. These antibodies have been further tested in animal models of the disease and results are due to be released in FY2017. The results will be instructive for Cellmid's further clinical plans and commercial collaborations.

Dr Astrid Liedert at the University of Ulm completed her bone fracture healing study using Cellmid's N-terminal binding antibodies and has been able to demonstrate enhanced bone fracture healing in ovariectomised mice. These in vivo studies mimic the biology of osteoporosis in postmenopausal women and are representative of the delayed bone healing that occurs in this population. This data added to previous findings where Dr Liedert has shown improved bone healing using Cellmid's N-terminal binding antibodies in otherwise healthy mouse. Important further work is currently planned on the basis of this study with research collaborators in Australia.

The year has been significant for not only delivering study results that brought clarity on MK biology, structure, mechanism of action and clinical utility, we have also engaged with senior researchers and opinion leaders in a number of disease indications.

Early in FY2016 we appointed Professor Bryce Vissel to Chair Cellmid's Scientific Advisory Board. At the time of his appointment Dr Vissel was the Head of the Neurodegenerative Diseases research group at the Garvan Institute of Medical Research as well as Conjoint Senior Lecturer at St Vincent's Clinical School, Faculty of Medicine, University of NSW. In May 2016, Dr Vissel was appointed Professor of Neurosciences at the University of Technology Sydney, currently leading a team of scientists in a world class research initiative in regenerative medicine, including Alzheimer's and Parkinson's disease, spinal cord disorders and neuropsychiatric conditions.

Professor Vissel has made a significant contribution to Cellmid since joining as Chair of the Company's Scientific Advisory Board in 2015. He has been instrumental in the development of the research and development strategy for MK, crystallised within two of the Company's wholly-owned subsidiaries, Lyramid and Kinera.

In addition to the therapeutic development, several MK diagnostic collaborations reported results in FY2016. Clinical collaboration with Cellmid's nephrologist adviser, Dr Victoria Campbell, showed early evidence that MK may be an important marker of chronic kidney disease. This collaboration involves several clinical centres in Australia and is expected to continue supporting the nephropathy related therapeutic work.

Cellmid currently has three commercial deals with diagnostic companies; the Pacific Edge Limited license for bladder cancer, the Celera-Quest license for lung cancer, and supply and license agreement with Fujikura Kasei. It is important to note that Cellmid spends no funds on this business other than maintaining the patents, whilst all of these agreements have delivered revenue to the Company.

Cellmid signed a license agreement with Pacific Edge Limited in 2010 for the use of MK as one of the biomarkers in their bladder cancer test (Cxbladder®). Pacific Edge commenced sales using its CLIA<sup>1</sup> registered Pennsylvania labs in 2013, and have since launched other products (CxBladder® Triage and CxBladder® Monitor) in its bladder cancer detection, prognostic and disease management suite.

<sup>1</sup> Clinical Laboratory Improvement Amendment, CLIA, sets standards and issues certificates for clinical laboratory testing in the United States. It is administered by the US Centre for Medicare and Medical Devices, CMS

# CEO Report

## Continued

Pacific Edge increased its operating revenue from \$1.9 million in 2015 to \$4.9 million in 2016 (162% increase). This growth was assisted by a number of provider agreements for Cxbladder® including Veteran's Administration and the Centre for Medicare and Medicaid in the USA.

MK contributes, as one of five markers, to the performance of Cxbladder® in clinical studies with 100% sensitivity and 85% specificity in late stage bladder cancer. With reimbursement and strong clinical performance, CxBladder® is becoming a feasible replacement to cystoscopy, a painful urethral endoscopy.

Cellmid signed a license agreement with Celera-Quest in October 2009 enabling Celera-Quest to include MK as one of the biomarkers in a lung cancer diagnostic test. The license covers using MK for the early diagnosis, prognosis, disease monitoring and management of lung cancer. Cellmid received an upfront payment at the time of signing and the license provides for a further milestone payment at the time of regulatory clearance for the lung cancer test, and royalties to be paid semi-annually once the product is sold.

It is worthwhile to note that developing accurate diagnostic tests takes many years and a significant investment often exceeding tens of millions of dollars. Celera-Quest has been conducting clinical studies and published these in scientific journals since the signing of the license, however, Cellmid has not received a report during FY2016 on the progress of this program. There has been no change to the license agreement and Cellmid will continue to seek an update from Celera-Quest.

Fujikura Kasei exercised its option to license Cellmid's MK diagnostic patents for Japan in 2014 and has been actively progressing the assay development on its latex platform. Concurrently, the MK cancer diagnostic clinical study is ongoing and Cellmid has been assisting in the development work. Fujikura Kasei is using their latex based MK assay, which is expected to suit commercial production due to its low cost and has wide acceptability in pathology laboratories.

### **KINERA LIMITED – MK program for the treatment of ischemic conditions**

Kinera has been set up to commercially exploit Cellmid's patents for the treatment and prevention of ischemia related tissue injury by using the MK protein as therapeutic agent. MK's potential as a cell protectant in tissues under stress as well as in wound healing has been demonstrated previously in

several animal studies and the Kinera team has been actively developing a clinical path for the drug.

The process development for the GMP manufacture of MK was originally carried out by Lonza using expression by *Pichia pastoris*. This has since been successfully scaled up by Kinera's planned GMP manufacturing partner. Pharmacokinetic studies confirmed availability of biologically active MK in multiple species and pharmacodynamic and toxicity studies are expected once funding is secured for the program.

### **ADVANGEN LIMITED - Strong revenue growth in FY2016**

Advangen Limited was set up to commercialise Cellmid's FGF5 inhibitor and MK hair loss technologies after the acquisition of Advangen Inc., Japan in May 2013. Since then, revenue in the business increased by 171% and Advangen Japan became profitable in FY2016.

Advangen currently sells its products, under the brands *evolis*®, *Jo-Ju*® and *Lexilis*®, primarily in Japan and Australia, and has been negotiating partnership and distribution agreements in other countries. Revenue growth is expected to continue from existing markets, however the most significant upside is likely to result from the launch of the *evolis*® brand in the US and other markets.

Advangen relies on sophisticated technology to remain at the cutting edge of hair science. Its products inhibit FGF5, a naturally occurring protein that has been recognised as the key regulator of the human hair cycle. An overexpression of FGF5 causes hair follicles to enter a phase where the hair falls out. Cellmid, through its wholly owned subsidiary, Advangen, is the first and still the only company in the world with a clinically validated FGF5 inhibitor hair growth product on the market.

We have been able to improve on the seasonal variations in our product sales and in FY2016 only 58% of our sales came from the second half of the year, compared with FY2015 when 70% of the total sales occurred during the last six months. Whilst there is a distinct seasonality for hair loss product sales on the market, we have been able to manage this and even out sales with well-planned campaigns.



**ADVANGEN INC. – The Japanese business became profitable in FY2016 on the back of \$2.15 million in revenue**

Our Japanese Managing Director, Koichiro Koike, and his team achieved outstanding sales results exceeding their targets for FY2016. Not only they delivered sales growth but improved profitability.

Broadening the existing distribution channels has been one of the key objectives for the Japanese business in FY2016. As a result, we now have five sales channels including TV shopping, retail, salon, website and private label. We have increased sales in each of the channels with the most significant revenue coming from TV shopping through the company's alliance with QVC. Sales from TV shopping have almost doubled since FY2015.

FY2016 was the first full year for Advangen Inc. with QVC, the largest TV shopping channel in Japan. During the year we captured around 25,000 customers, some of them becoming our loyal, repeat purchase clients.

For our wholesale business a 70% gross margin remains the target for FY2017, even in private label, where we have commenced discussions with potential new partners during the year.

Japan has also been important as a launching pad for some of the export discussions in markets including China. Several potential distribution partnerships are under negotiation in these markets, focused on the products with existing import permits and branded Jo-Ju® and Lexilis®.

Advangen's Japanese team has focused resources on building sales in the TV shopping channel QVC, and developing the business plan for an evoliss® concept store. Website sales have also increased, but these represented a very small component of the total revenue in FY2016. There is significant growth opportunity in this channel which will be further explored during FY2017.

The majority of the Japanese sales, 95%, came from just four products in FY2016; two tonics and two shampoos. Launching new products, such as eyelash and eyebrow growth lotions, represent yet another significant growth opportunity in Japan.

Perhaps even more significant in the medium term, the Japanese business plan also includes an evoliss® concept store, with an expected launch date in the second half of FY2017. Products sold at the store will be fully aligned with the US evoliss® branded lotions, shampoos and conditioners.

The Advangen sales staff has been fully trained and accredited during the FY2016, as hair specialists, in preparation for the launch.

**ADVANGEN INTERNATIONAL – Increased Australian sales and ready for the USA launch**

In Australia, the main sales channel remained pharmacy in FY2016, whilst our website sales increased steadily through digital and social marketing to contribute to the \$812K sales (excluding GST).

In addition to the team representing the brand to general practitioners, a contract pharmacy sales force serviced pharmacies from September 2015 to coincide with a national advertising campaign launched at the same time. This campaign was cut back significantly in October 2015 and the funds redirected to the preparation for the USA launch of the evoliss® brand.

Concurrently, a number of USA distribution channels and arrangements were evaluated and a partnership was formed with Colour Collective in July 2016, a firm specialising in the launch of hair products, providing momentum to the most significant commercial opportunity for Advangen globally.

The halt in advertising meant that by November 2015 we revised down Australian internal sales projections for FY2016, hence the increase of almost 30% in sales was a great result. In a significant long term investment for the business we have successfully transitioned the contract pharmacy sales force and built our own dedicated team of professionals during the last quarter of FY2016 which has started to show results through increased sell-through, better product education and greater brand awareness in pharmacies.

The evoliss® Professional range was launched into salons in June 2016 to enthusiastic reception. The products will be tested in the market during the first half of FY2017 and a full commercial launch planned subsequently.

The evoliss® Professional haircare range addresses anti-aging, volume and colour protection in addition to hair loss. Once launched nationally, the range is expected to contribute significantly to the Australian revenues.

Website sales increased during the year markedly, especially after investing into a small in-house digital marketing team. Trial campaigns launched during the last quarter of FY2016 illustrated the power of social and digital marketing and we will continue to build on this momentum in FY2017.

# CEO Report

## Continued

During the 2016 financial year we have spent significant resources on developing our US products. We have reformulated and reduced alcohol content in our tonics to make them more market friendly in the USA. We have added organic, natural anti-oxidants to cater for scalp health and created vegan and gluten free alternatives for those increasing number of discerning customers that demand these qualities in their products.

The USA hair loss market is estimated at US\$3.5 billion annually and growing. The most significant topical products have minoxidil as active ingredient. Minoxidil has been tested in clinical trials, but it is recommended mostly for men, due to some of the unwanted side effects. Advangen has an exciting opportunity with evolis®, which is also clinically proven, but can be used safely by women with hair loss and/or hair quality concerns.

In Australia significantly more products are sold to women than men in pharmacies and online. If a similar trend is observed in the USA the market could be several times that of the minoxidil based products. It will also be instructive for our global ambitions for the brand.

Advangen's contract with its advertising agency, Ikon Communications, has been the subject of a dispute during FY2016. The dispute arose during October 2015 as a result of several irregularities detected in Ikon's conduct. Furthermore, in our view, they have delivered a totally unsatisfactory advertising campaign.

According to our expert advice the ads produced by Ikon missed the creative brief and campaign objective entirely and some of the ads booked were inappropriate for the target audience of 35 plus women.

As soon the irregularities were detected all advertising activity was stopped with Ikon. The numerous attempts to resolve the dispute yielded no success and Ikon commenced legal proceedings on 22 July 2016. As we are now in legal dispute, we are not able to provide any further details other than a vigorous defence and cross-claim has since been filed.

Since our relationship with Ikon has ended, we have been working with a fully transparent advertising agency who has delivered very successful campaigns including two appearances at Studio 10 and a national advertising program featuring brand ambassador Paula Duncan.

The results achieved during FY2016 in Australia and in Japan demonstrate our strong capabilities that will underpin the launch of evolis® in global markets, most immediately in the USA.

### PATENT PORTFOLIO UPDATE

Cellmid has the most significant intellectual property assets related to MK worldwide. At the time of writing this report the patent portfolio includes 83 patents in 20 patent families, 69 granted patents, 7 applications under examination and 7 new filings. The patents cover the use of MK and anti-MK agents for therapeutic purposes in a number of diseases, the use of MK as a diagnostic marker in cancer and other disorders and the Company's novel FGF5 inhibitors.

Two new patents have been granted during the period. The Japanese Patent Office granted the application relating to the use of MK for the treatment of hair loss in November 2015. This adds significantly to the value of our hair loss assets and provides a pipeline opportunity in our drug development portfolio.

The US patent entitled "Antibody recognising C-Domain of MK" was allowed in November 2015. The granted claims provide broad coverage as they relate to antibodies and antibody fragments which bind to the important functional C-domain of growth factor MK. This is an important patent as it gives the Company clear, exclusive rights to develop MK antibodies unencumbered by competition. Cellmid's patent coverage for its therapeutic antibodies now extends across cancer, inflammatory and autoimmune diseases, multiple sclerosis and surgical adhesion.

### 4th MIDKINE SYMPOSIUM – the place for ideas and innovation on MK

In what has become the pre-eminent biennial scientific meeting amongst MK researchers the 4th Midkine Symposium was held in April 2016 in Budapest, Hungary. Previously held in Sydney in 2010, Istanbul in 2012 and Kyoto in 2014, the Budapest meeting attracted scientists, representatives from some of our commercial partners and well known industry figures from ten countries.

The symposia are significant for several reasons, not the least as these, as far as we know, are the only meetings organised by a company with independent scientists researching a single disease target. It represents unparalleled collaboration between industry and scientists from universities and research institutes, bridging the divide between the two far ends of medical innovation for better clinical outcomes.

As our MK programs are approaching clinical development the meeting reached consensus that an adaptive pathway for

clinical validation should be available for MK antibodies. In general terms the adaptive development pathway is based on three principles. Firstly, it allows for iterative development starting with a restricted patient population then expanding the patient numbers later. Conditional early approval then leads to data generation from real use which is expected to supplement clinical trial data. Finally, it will require early involvement of patients and health technology assessment bodies in discussions on a medicine's development.

This would be particularly applicable for using MK based therapies in areas of high unmet medical need where it is difficult to collect data via traditional routes and where large clinical trials would mean that patients who are unlikely to respond would be unnecessarily exposed. This approach builds on regulatory processes already in place within the existing legal framework, so would fit in with requirements of most regulatory agencies. The importance for MK therapies is that it would allow faster route to patients and commercialisation.

In addition to practical assessment of a clinical path for MK therapies, several presentations were made under confidentiality during the working sessions. Emerging evidence was presented on MK's importance in inter-organ signalling in a number of diseases. This means that targeting MK is one of the very few novel approaches for the management of complex metabolic and cardiovascular diseases including chronic kidney disease. Studies on MK biology, mechanism of action and clinical utility were also presented, with promising data on the therapeutic potential of Cellmid's own drug candidates.

Dr Ulrich Grabmaier from Ludwig Maximilians University in Munich presented his work on Cellmid's C and N-terminal binding MK antibodies in a mouse model of myocarditis for their ability to attenuate disease. N-terminal binding MK antibodies showed marked efficacy in the model not only pointing to a novel potential clinical application in myocarditis but also demonstrating the difference in the mechanism of action between the two MK antibodies. This important information on MK biology is instructive for future studies and further collaboration is expected with the Munich based group.

Professor Guillermo Velasco from Complutense University in Madrid, Spain has shown tumour suppressing ability for two of Cellmid's MK antibodies in glioblastoma cell lines resistant to cannabinoid treatment. Further work is approaching completion on Cellmid's C and N-terminal binding antibodies in animal models of the disease.

Cellmid's N-terminal binding MK antibody enhanced bone fracture healing in ovariectomised mice in an in vivo study conducted by Dr Astrid Liedert from the University of Ulm in Germany. The model mimics the biology of osteoporosis in post-menopausal women and representative of the delayed bone healing that occurs in this population. This work has since been published by Dr Liedert in PLoS One.

Professor Xu Wang from Arizona State University and Dr Pedro Nieto of University of Autonoma in Madrid presented new insights into the structure of MK's binding with glycosaminoglycans (GAGs) and how it may affect biological function. Further collaboration is expected with both groups.

Whilst focused mainly on MK therapies, human diagnostic work was presented by three separate groups showing further understanding on MK levels in urine in prostate and bladder cancer, as well as in patients with acute and chronic kidney disease. Cellmid's clinical adviser, Dr Victoria Campbell has shown early evidence that MK may be an important marker of chronic kidney disease.

In what has been a truly rewarding year we closed FY2016 with total revenue of \$4.6 million (up 55%) and ready to launch into the biggest consumer market in the world with our FGF5 inhibitor hair growth products. Our Australian pharmacy business is gaining strong momentum and our Japanese subsidiary is on track for another year of growth after becoming profitable in FY2016. Our MK assets are primed for the clinic, and we have crystallised a funding strategy that provides a pathway to make this possible.

Our Chairman, Dr David King, has been instrumental with his support and guidance through this challenging year. The strong strategic input from our new board members, Dr Fintan Walton, Bruce Gordon, and the Chair of our Scientific Advisory Board, Professor Bryce Vissel, was important in delivering progress in our various businesses. Our dedicated Cellmid team, having doubled during the year, has also shown stellar performance.

We thank you, our shareholders, for your support as we deliver on our business and corporate objectives.



Maria Halasz  
CEO and Managing Director

# Directors’ Report

The Directors present their report, together with the financial statements of the Group, being Cellmid Limited (“the Company”) and the entities it controlled, for the financial year ended 30 June 2016.

## 1. GENERAL INFORMATION

### Information on Directors

The names, qualifications, experience and special responsibilities of each person who has been a Director during the year and to the date of this report are:

#### Dr David King

Qualifications

Experience

Interest in shares and options

Special responsibilities

Other directorships in listed entities held in the previous three years

#### Chairman (Non-executive)

PhD in Seismology, Australian National University, Fellow of The Australian Institute of Company Directors, Fellow of the Australian Institute of Geoscientists.

Experience as Chairman, Executive and Non-executive Director in high growth companies, across a variety of sectors, and particularly in governance issues in publicly listed companies.

Shares: 22,500,000 indirectly held.

Options: 11,250,000 (Expiry: 23 October 2016, exercisable at \$0.034 each) indirectly held.

Options: 4,000,000 (Expiry: 19 November 2018, exercisable at \$0.06 each) indirectly held.

Member of the Audit Committee and member of the Nomination and Remuneration Committee

Current directorships Galilee Energy Limited and African Petroleum Corporation. Previous directorships – Robust Resources Limited, Republic Gold Limited and Tengri Resources Limited.

#### Ms Maria Halasz

Qualifications

Experience

Interest in shares and options

Special responsibilities

Other directorships in listed entities held in the previous three years

#### Managing Director (Chief Executive Officer)

MBA, BSc in Microbiology, University of Western Australia, Graduate of the Australian Institute of Company Directors.

22 years experience in biotechnology working in executive positions in private and public biotechnology firms, then managing investment funds and later holding senior positions in corporate finance specialising in life sciences.

Shares: 1,554,375 directly held.

Shares: 12,000,000 directly held in voluntary escrow.

Shares: 10,668,225 indirectly held.

Options: 1,500,000 (Expiry: 23 October 2016, exercisable at \$0.034 each) indirectly held.

Options: 5,000,000 (Expiry: 15 June 2017, exercisable at \$0.032 each) indirectly held.

Managing Director and Chief Executive Officer

None

**Mr Bruce Gordon**

Qualifications

Experience

Interest in shares and options

Special responsibilities

Other directorships in listed entities held in the previous three years

Other

**Director (Non-executive) (Appointed 1 July 2015)**

BA, Macquarie University, Fellow of The Institute of Chartered Accountants Australia and New Zealand, Fellow of The Australian Institute of Company Directors.

An audit and corporate finance specialist, and an experienced finance professional with a career spanning more than 35 years advising and providing financial services to private and publicly listed companies as well as subsidiaries of large multinationals.

Shares: 500,000 indirectly held.

Options: 2,000,000 (Expiry: 19 November 2018, exercisable at \$0.06 each) indirectly held.

Chairman of the Audit Committee and member of the Nomination and Remuneration Committee

None

Former partner of BDO East Coast Partnership, resigned on 30 June 2014. Both Cellmid Limited and BDO East Coast Partnership have confirmed that Mr Gordon's appointment satisfies the independence requirements of the Corporations Act.

**Dr Fintan Walton**

Qualifications

Experience

Interest in shares and options

Special responsibilities

Other directorships in listed entities held in the previous three years

**Director (Non-executive) (Appointed 21 July 2015)**

PhD, Genetics, Trinity College Dublin.

Founder and CEO of PharmaVentures Ltd, a UK based corporate advisory firm that provides advice on all aspects of corporate transactions, business brokering, mergers and acquisitions and licensing deals to a diversified global network.

Shares: 300,000 directly held.

Options: 2,000,000 (Expiry: 19 November 2018, exercisable at \$0.06 each) directly held

Member of the Audit Committee and member of the Nomination and Remuneration Committee

None

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

**Company Secretary****Mrs Aliceson Rourke**

Qualifications

Experience

**Appointed 1 November 2015**

B.Com, University of Wollongong, Graduate Diploma of Applied Corporate Governance, Member of The Institute of Chartered Accountants Australia and New Zealand.

Experienced Chartered Accountant and Company Secretary. Extensive experience in all aspects of public company finance, administration and governance including listings on the Australian Stock Exchange, public capital raisings, and capital restructures, mergers and acquisitions.

# Directors' Report

## Continued

### Company Secretary

#### Mrs Lucy Rowe

**Ceased 1 November 2015**

#### Qualifications

BA, University of Sydney, Grad. Dip Legal Studies, University of New South Wales and PS146 Securities Advisor Accreditation.

#### Experience

Mrs Rowe worked in the financial services sector until 2005 when she joined New Guinea Energy Ltd. Since its incorporation has held various roles including Investor Relations Manager and Company Secretary until August 2015.

### Principal activities and significant changes in nature of activities

The principal activities of the Group during the financial year were:

- The development and commercialisation of diagnostic and therapeutic products for the management of diseases such as cancer and various chronic inflammatory conditions by targeting midkine (Midkine Businesses Lynamid and Kinera); and;
- the development and sale of over the counter (OTC) treatments to alleviate excessive and abnormal hair loss and re-establish the natural hair growth cycle (Consumer Health Business)

There were no significant changes in the nature of the Group's principal activities during the financial year.

## 2. OPERATING RESULTS AND REVIEW OF OPERATIONS FOR THE YEAR

### Operating results

The consolidated loss for the Group increased by 4.84% to \$3,498,916 after providing for income tax (2015: \$3,337,348 loss). This was primarily due to an increase in product development expenditure for the Group's US product range, manufacturing costs for the new évolis® Professional products and an increase in sales and marketing activity. Total revenue and other income increased by 76.32% to \$3,489,546 for the reporting period, not including the R&D tax credit of \$1,121,562. In 2015 total revenue and other income was \$1,979,111 and an R&D tax credit of \$988,451 was received.

### Review of operations

The Group closed a successful FY2016 for the Consumer Health Business in Australia and Japan and commenced product development for the USA market. In Australia, it has increased its pharmacy distribution and broadened its product offerings including new products for the professional and salon market. Japanese distribution channels have grown from hair salon and direct marketing to include television shopping channel (QVC Japan) and various retail channels.

Further development milestones have been achieved in the Group's midkine related businesses, Lynamid and Kinera, with the completion of the first ever toxicology study with a midkine (MK) inhibitor, the Group's humanised antibody CAB102. Cell line and process development have been completed in a non-GMP environment, and CAB102 was produced in sufficient quantities for single and multi-dose toxicology studies. The Group continued its clinical planning for its CAB102 and MK protein human studies.

#### i. Consumer Health Business – Increased distribution and sales growth in Australia and Japan

The Consumer Health Business was set up to commercialise over the counter hair growth products based on the FGF5 inhibition technology developed by Advangen Inc. (Japan). With the acquisition of Advangen Inc. (Japan) in May 2013, the Group became the owner of global rights for the technology.

In Australia the Group has developed a new évolis® Professional branded salon range with 13 SKUs (Stock Keeping Units). The range includes anti-aging, damage protection and colour protection products, all with the Group's proprietary FGF5 inhibitors. The Group transitioned all previous FGF5 inhibitor brands to the évolis® professional brand in Australia.

In Japan the Group's sales increased significantly as a result of several television shopping campaigns and broadening retail channels.

Global business development activities increased during the period and the Group is currently engaged in distribution and licensing discussions with potential partners in several territories. In preparation for entry into overseas markets, the Group has invested significant funds into product development activities and completed the product offerings for the USA, where it formed a distribution partnership with Colour Collective after the closing of the reporting period.

## **ii. Midkine Businesses, Lyramid and Kinera**

### **Progress in preclinical product development and manufacturing**

During the reporting period the Group set up two wholly-owned subsidiary companies to exploit its MK intellectual property, Lyramid and Kinera.

Lyramid is responsible for the commercialisation of the Group's anti-MK antibody portfolio with a focus on inflammatory conditions, fibrosis and cancer. Kinera is focused on developing therapeutics for ischemic conditions of the heart and brain. The Group has expanded on a number of its research collaborations including the program with Complutense University and the bone healing program with Ulm University.

## **iii MK Diagnostic Program**

The Group's licensee, Pacific Edge Limited continued to make significant progress towards commercialisation of their CxBladder® bladder cancer test during the reporting period. Fujikura Kasei, the Group's second licensee has progressed to clinical development of its latex based diagnostic test with the Group's MK antibodies and other diagnostic partnerships and internal diagnostic programs are continuing.

### **a) Pacific Edge Limited – continued commercialisation of CxBladder® in the USA with MK as one of the biomarkers**

The Group signed a license agreement with Pacific Edge Limited in 2010 for the use of the Group's MK marker as one of the biomarkers in CxBladder®, a bladder cancer diagnostic test. In FY2014 the Group received a milestone payment after the launch of the test in the USA.

In FY2015 the Group received its first royalty on sales of \$67,778 and received a further royalty of \$155,287 in FY2016. Pacific Edge advised that they also commenced South East Asian activities in addition to sales in the USA.

### **b) Celera-Quest license**

The Group signed a license agreement with Celera-Quest in October 2009 for the use of MK in their lung cancer diagnostic test. The Group received an upfront payment at the time of signing, and a milestone payment may become payable by Celera-Quest at the time of regulatory clearance and royalties on sales. During the reporting period Celera-Quest has not given the Group a formal report on their activities.

Pursuant to the license agreement Celera-Quest had until 31 October 2014 to commercialise their lung cancer blood test with MK included on an exclusive basis. After that date the Group has the right to terminate exclusivity at any time, however Celera-Quest will maintain their ability to use MK on a non-exclusive basis. The Group did not exercise its right to terminate Celera-Quest's exclusivity during the reporting period, and received no further update from Celera-Quest on the program during FY2016.

# Directors' Report

## Continued

### **c) Fujikura Kasei option to license**

The Group signed an Option to License Agreement with Fujikura Kasei for the exclusive supply of the Group's proprietary MK antibodies for validation in Fujikura's latex diagnostic platform in FY2013. The agreement provided that Fujikura will proceed to exercise its option to license subject to reaching the minimum 500 picogram/ml limit of detection. The validation program was completed successfully and Fujikura Kasei exercised its option to license in FY2014. Since then Fujikura Kasei has continued development of their latex diagnostic test and has continued its clinical studies. The Group is actively assisting Fujikura Kasei to complete clinical validation of its diagnostic test.

### **Intellectual property update**

The Group has a large and valuable patent portfolio which consists of 76 patents across 16 patent families. Of these, 62 patents have been granted, 12 filed or under examination, one in PCT (Patent Cooperation Treaty) and one in provisional filing stage. The Group has received two new grants during the reporting period and one new patent was filed. The Japanese patent office granted the Group's application for its MK patent for the treatment of hair loss in November 2015. The Group's US patent entitled "Antibody recognising C-Domain of MK" was granted in October 2015.

## **3. FINANCIAL REVIEW**

### **Financial position**

The net assets of the Group at 30 June 2016 were \$4,690,050 (\$3,773,909 at 30 June 2015) while current assets increased to \$5,131,104 (\$4,173,616 at 30 June 2015). The Directors believe that the Group is in a stable financial position in order to carry out its current operations.

## **4. OTHER ITEMS**

### **Significant changes in state of affairs**

There have been no significant changes in the state of affairs of the entities in the Group during the year.

### **Dividends paid or recommended**

The Company has not paid or declared any dividends during the financial year (2015: Nil).

### **Events since the end of the financial year**

On 20 July 2016, the Group announced that it has entered into a distribution partnership with Colour Collective for the US launch of its evolvis®, branded hair care products. The US distribution partnership will provide the Group with an accelerated, direct route to the sales channels that have proven successful in Australia and Japan during the Group's proof of concept rollout. These include e-commerce and sampling channels for rapid consumer acquisition, home shopping networks and high-end retail stores. USA sales are expected to commence in 2016 through e-commerce channels with distribution to high-end retail and other direct consumer opportunities to follow in 2017.

On 22 July 2016, the Group announced that Ikon Communications Pty Ltd (Ikon) had filed a claim for \$939,055 pursuant to the services agreement entered into between Advangen International Pty Ltd (Advangen) and Ikon on the 15 June 2015. Advangen intends to vigorously defend its position that Ikon has breached the services agreement, failed to provide certain services at all or adequately and engaged in misleading and dishonest conduct that has caused the Group loss and damage. Advangen intends to file a cross claim for payments made for services not provided or properly provided by Ikon and seek security for costs.



Apart from the matters noted above, no other matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

#### **Likely developments and expected results of operations**

The Group is focused on developing both its Consumer Health and MK related businesses in the coming year. Maximizing market penetration for the Groups' FGF5 inhibitor hair loss products in Australia and internationally will be the focus of the Consumer Health business. The Group will also continue to progress its midkine assets in its dedicated wholly owned subsidiaries, Lyramid and Kinera.

#### **Environmental regulations**

The Group's operations are not regulated by any significant environmental law of the Commonwealth or of a state or territory of Australia or Japan.

#### **Proceedings on behalf of the Company**

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

#### **Indemnification and insurance of officers and auditors**

During the financial year, the Group paid a premium to insure the Directors and officers of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities (other than legal costs) that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for them or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

During or since the end of the financial year, the Group has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums in favour of its Directors as follows:

- a right to access certain Board papers of the Group during the period of their tenure and for a period of seven years after that tenure ends;
- subject to the Corporations Act 2001, an indemnity in respect of liability to persons other than the Company and its related bodies corporate, that they may incur while acting in their capacity as an officer of the Company or a related body corporate, except for specified liabilities where that liability involves a lack of good faith or is for legal costs for defending certain legal proceedings; and
- the requirement that the Group maintain appropriate directors' and officers' insurance for the officer.

No liability has arisen under these indemnities as at the date of the report.

There is no indemnity cover in favour of the auditor of the Group during the financial year.

#### **Non-audit services**

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group is important and relevant where the nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board. There were no additional services provided by BDO during the year.

# Directors' Report

## Continued

### SIC class order 98/100 rounding of amounts

The Company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and Directors' report have been rounded to the nearest dollar, unless otherwise indicated.

### Meetings of Directors

Five meetings of the Directors were held during the financial year. Attendances by each Director during the year were as follows:

	Directors' Meetings		Audit Committee		Nomination and Remuneration Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Dr David King	5	5	4	4	-	-
Ms Maria Halasz	5	5	-	4*	-	-
Mr Bruce Gordon	5	5	4	4	-	-
Dr Fintan Walton	5	5	4	4	-	-

\* by invitation

### Shares under option

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

	Expiry date	Exercise Price	Number under option
Listed options	23 October 2016	\$ 0.034	290,542,770
Unlisted options	15 November 2016	\$ 0.030	3,971,962
Unlisted options	15 June 2017	\$ 0.032	5,000,000
Unlisted options	14 August 2017	\$ 0.034	1,440,000
Unlisted options	1 August 2018	\$ 0.040	4,000,000
Unlisted options	1 August 2018	\$ 0.050	4,000,000
Unlisted options	1 August 2018	\$ 0.060	10,000,000
Unlisted options	19 November 2018	\$ 0.060	11,500,000
Unlisted options	19 November 2018	\$ 0.031	500,000
			<b>330,954,732</b>

No shares were issued on the exercise of options during the financial year ended 30 June 2016. No further shares have been issued on exercise of options since 30 June 2016.

12,000,000 shares are held in escrow and unpaid at 30 June 2016 (2015: 12,000,000 shares). 600,000 options lapsed during the financial year ended 30 June 2016 (2015: 14,602,006 options).

## 5. REMUNERATION REPORT (AUDITED)

The remuneration report details the key management personnel remuneration agreements for the Group in accordance with the requirements of the Corporations Act 2001 and its regulations.

The information provided in this remuneration report has been audited as required by section 308 (3C) of the Corporations Act 2001.

The key management personnel of the Group for the year consisted of the following Directors of Cellmid Limited:

Name of Director	Position	Date Appointed	Date Ceased
Dr David King	Non-executive Chairman	18 January 2008	Current
Mr Bruce Gordon	Non-executive Director	1 July 2015	Current
Dr Fintan Walton	Non-executive Director	21 July 2015	Current
Ms Maria Halasz	CEO and Managing Director	14 April 2007	Current

### Principles used to determine the nature and amount of remuneration

The performance of the Group depends on the quality of its Directors and executives.

To prosper, the Group must attract, motivate and retain highly skilled Directors and executives. To this end, the Group embodies the following principles in its remuneration framework:

- provide competitive rewards to attract high calibre executives; and
- establish appropriate performance hurdles in relation to variable executive remuneration.

The Board assesses the appropriateness of the nature and amount of remuneration of Directors and senior managers of the Group on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

### Group performance and link to remuneration

No performance based bonus or incentive payments are in place, however Maria Halasz has loan shares that are conditional on key milestones being achieved. These milestones are detailed in the equity-based compensation section of this remuneration report.

The Nomination and Remuneration Committee is of the opinion that the continued improved results can be attributed in part to the adoption of performance based compensation and is satisfied that this improvement will continue to increase shareholder wealth if maintained over the coming years.

The table below details the last five years earnings and total shareholders return.

	\$ 2016	\$ 2015	\$ 2014	\$ 2013	\$ 2012
Revenue	3,388,902	1,969,363	1,150,931	541,649	132,826
EBITDA	(3,169,853)	(3,202,134)	(2,165,345)	(2,341,372)	(2,702,954)
EBIT	(3,331,466)	(3,333,472)	(2,277,485)	(2,358,006)	(2,714,373)
<b>Loss after income tax</b>	<b>(3,498,916)</b>	<b>(3,337,348)</b>	<b>(1,480,836)</b>	<b>(1,541,307)</b>	<b>(1,972,483)</b>

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	\$ 2016	\$ 2015	\$ 2014	\$ 2013	\$ 2012
Share price at financial year end	0.03	0.03	0.02	0.02	0.02
Total dividends declared	-	-	-	-	-
Basic earnings per share	(0.38)	(0.43)	(0.21)	(0.27)	(0.46)

# Directors' Report

## Continued

### **Remuneration structure**

In accordance with best practice corporate governance, the structure of Non-executive Director and senior executive remuneration is separate and distinct.

### **Non-executive Director remuneration**

#### Objective

The Board seeks to set aggregate remuneration at a level that provides the Group with the ability to attract and retain Directors of the highest calibre, while incurring costs that are acceptable to shareholders.

#### Structure

Each Non-executive Director receives a fixed fee for being a Director of the Group.

The Constitution and the ASX Listing Rules specify that the maximum aggregate remuneration of Non-executive Directors shall be determined from time to time by a general meeting of shareholders. At the general meeting of shareholders in 2005, the maximum amount was set at \$300,000 per annum. In 2016, the Group paid Non-executive Directors a total of \$222,757 (\$175,925 in 2015).

The amount of aggregate remuneration sought to be approved by shareholders and the fixed fees paid to Directors are reviewed annually. The Board considers fees paid to Non-executive Directors of comparable companies when undertaking the review.

### **Executive remuneration**

#### Objective

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group and so as to:

- reward executives for Group and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders; and
- ensure total remuneration is competitive by market standards.

#### Structure

A policy of the Board is the establishment of employment or consulting contracts with the Chief Executive Officer and other senior executives. Remuneration consists of fixed remuneration under an employment or consultancy agreement and may include long term equity-based incentives that are subject to satisfaction of performance conditions. Details of these performance conditions are outlined in the equity-based payments section of this remuneration report. The equity-based incentives are intended to retain key executives and reward performance against agreed performance objectives.

#### Fixed remuneration

The level of fixed remuneration is set so as to provide a base level of remuneration that is both appropriate to the position and competitive in the market. Fixed remuneration is reviewed annually by the Board and the process consists of a review of Group-wide and individual performance, relevant comparative remuneration in the market, and internal and (where appropriate) external advice on policies and practices.

Senior executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and expense payment plans, such that the manner of payment chosen is optimal for the recipient without creating additional cost for the Group.

## Remuneration policy and performance

Other than the Chief Executive Officer, Ms Halasz, none of the other executive's remuneration is 'at risk' remuneration. Refer below for further information on Ms Halasz's remuneration.

### Remuneration details for the year ended 30 June 2016

Details of the remuneration of the Directors and key management personnel of the Group (as defined in AASB 124 Related Party Disclosures) and the highest paid executives of Cellmid are set out in the following tables.

2016	Short-term benefits		Long-term benefits	Post-employment benefits	Share-based payments	Total
	Cash salary fees	Employee entitlements	Employee entitlements	Superannuation	Options	
	\$	\$	\$	\$	\$	\$
<b>Directors</b>						
<b>Non-executive Directors</b>						
David King	65,000	-	-	6,175	27,200	98,375
Bruce Gordon	50,000	-	-	-	13,600	63,600
Fintan Walton	47,182	-	-	-	13,600	60,782
<b>Total Non-executive Directors</b>	<b>162,182</b>	<b>-</b>	<b>-</b>	<b>6,175</b>	<b>54,400</b>	<b>222,757</b>
<b>Executive Directors and key management</b>						
Maria Halasz	400,000	26,401	13,762	38,000	73,667	551,830
	<b>562,182</b>	<b>26,401</b>	<b>13,762</b>	<b>44,175</b>	<b>128,067</b>	<b>774,587</b>

2015	Short-term benefits		Long-term benefits	Post-employment benefits	Share-based payments	Total
	Cash salary fees	Employee entitlements	Employee entitlements	Superannuation	Options	
	\$	\$	\$	\$	\$	\$
<b>Directors</b>						
<b>Non-executive Directors</b>						
David King	65,000	-	-	6,175	-	71,175
Graeme Kaufman	50,000	-	-	4,150	-	54,750
Martin Rogers	50,000	-	-	-	-	50,000
<b>Total Non-executive Directors</b>	<b>165,000</b>	<b>-</b>	<b>-</b>	<b>10,925</b>	<b>-</b>	<b>175,925</b>
<b>Executive Directors and key management</b>						
Maria Halasz	400,000	23,961	12,511	38,000	73,467	547,939
	<b>565,000</b>	<b>23,961</b>	<b>12,511</b>	<b>48,925</b>	<b>73,467</b>	<b>723,864</b>

Mr Bruce Gordon was appointed as a Director on 1 July 2015 and Dr Fintan Walton was appointed as a Director on 21 July 2015. Mr Graeme Kaufman and Mr Martin Rogers resigned on 30 June 2015.

# Directors' Report

## Continued

### KMP shareholdings

The number of shares held in the Company during the financial year by each Director and key management personnel of Cellmid Limited, including their personally related parties, are set out below.

	Balance at beginning of year	Received as part of remuneration	Other changes	Balance at end of year
<b>2016</b>				
David King	22,500,000	-	-	22,500,000
Maria Halasz	23,270,000	-	952,600	24,222,600
Bruce Gordon	500,000	-	-	500,000
Fintan Walton	-	-	300,000	300,000
<b>2015</b>				
David King	22,500,000	-	-	22,500,000
Maria Halasz	22,500,000	-	770,000	23,270,000
Graeme Kaufman	-	-	-	-
Martin Rogers	5,155,700	-	-	5,155,700

### KMP option holdings

The number of options held in the company during the financial year by each Director and member of key management personnel of Cellmid Limited, including their personally related parties, are set out below.

	Balance at beginning of year	Acquired	Expired/ forfeited	Other changes	Balance at end of year	Vested and exercisable at end of year
<b>2016</b>						
David King	11,250,000	-	-	4,000,000	15,250,000	15,250,000
Maria Halasz	6,500,000	-	-	-	6,500,000	6,500,000
Bruce Gordon	-	-	-	2,000,000	2,000,000	2,000,000
Fintan Walton	-	-	-	2,000,000	2,000,000	2,000,000
<b>2015</b>						
David King	11,250,000	-	-	-	11,250,000	11,250,000
Maria Halasz	13,500,000	-	(7,000,000)	-	6,500,000	6,500,000
Graeme Kaufman	-	-	-	-	-	-
Martin Rogers	44,000,000	-	-	-	44,000,000	44,000,000

## Relationship between remuneration policy and company performance

The proportion of remuneration linked to performance and the proportion that is fixed is as follows:

	Fixed remuneration		At risk STI		At risk LTI	
	2016 %	2015 %	2016 %	2015 %	2016 %	2015 %
<b>Directors</b>						
David King	100.00	100.00	-	-	-	-
Maria Halasz	86.65	86.59	-	-	13.35	13.41
Bruce Gordon	100.00	-	-	-	-	-
Fintan Walton	100.00	-	-	-	-	-
Graeme Kaufman	-	100.00	-	-	-	-
Martin Rogers	-	100.00	-	-	-	-

## Service agreements

The Chief Executive Officer, Maria Halasz, is an employee of the Group under an agreement signed on 21 September 2007. Under the terms of this contract:

- Ms Halasz may resign from her position and thus terminate this contract by giving six months' written notice. On resignation any unvested options will be forfeited.
- The Group may terminate the employment agreement by providing six months' written notice or providing payment in lieu of the notice period (based on the fixed component of Ms Halasz's remuneration).
- The Group may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, the CEO is only entitled to that portion of remuneration which is fixed, and only up to the date of termination. On termination with cause, any unvested options will immediately be forfeited.
- Ms Halasz's employment agreement provides for issuing performance incentives subject to the discretion of the Board. During the 2016 financial year there has been no performance incentive issued to Ms Halasz.

# Directors' Report

## Continued

### Equity-based compensation

Details of the options granted as remuneration to those key management personnel and executives during the year:

	Options Granted & Vested in 2016 No.	Value of options at grant date \$	Value of shares expensed in 2016 \$	Proportion of remuneration %
<b>Share-based payments</b>				
<b>Directors</b>				
David King <sup>1</sup>	4,000,000	27,200	27,200	27.65
Maria Halasz <sup>2</sup>	-	-	73,667	13.35
Bruce Gordon <sup>1</sup>	2,000,000	13,600	13,600	21.38
Fintan Walton <sup>1</sup>	2,000,000	13,600	13,600	22.37

	Options Granted & Vested in 2015 No.	Value of options at grant date \$	Value of shares expensed in 2015 \$	Proportion of remuneration %
<b>Share-based payments</b>				
<b>Directors</b>				
David King	-	-	-	-
Maria Halasz <sup>2</sup>	-	-	73,467	13.41
Graeme Kaufman	-	-	-	-
Martin Rogers	-	-	-	-

1. On 19 November 2015, 8,000,000 unlisted options were granted to Directors under the Cellmid Limited and Controlled Entities Employee Incentive Plan and as approved by shareholders at the annual general meeting on 12 November 2015. The options have an exercise price of \$0.06 per share, and expire three years from the date of grant with no performance or vesting conditions attached to the options.

The fair value at the date of grant is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact on dilution, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options at the date of grant was \$54,400.

No equity-based compensation in the form of options over ordinary shares were issued during the year ended 30 June 2015.

2. On 25 November 2013, 12,000,000 loan shares were granted to Maria Halasz in three equal tranches under the Cellmid Limited and Controlled Entities Employee Incentive Plan and as approved by shareholders at the annual general meeting on 22 November 2013. Ordinary shares were issued under the arrangement funded by a limited recourse loan with the following vesting conditions attached:

Tranche	Vesting date	Shares	Vesting condition
1	25/11/2016	4,000,000	Shares will vest at any time before the vesting date when the Group's operating revenue reaches a total of \$4,000,000 over any consecutive 12 months. The fair value at the date of grant was \$73,200. The conditions in relation to this tranche have been met.
2	25/11/2016	4,000,000	Shares will vest at any time before the vesting date subject to the first patient being recruited into the Group's planned midkine antibody trial. The fair value at the date of grant was \$73,200.
3	25/11/2016	4,000,000	Shares will vest at any time before the vesting date subject to the signing of one of the following agreements for the Group's consumer health products in a territory outside of Australia and Japan: (a) a diagnostic or therapeutic licence; or (b) a distribution agreement. The fair value at the date of grant was \$73,300. The conditions in relation to this tranche have been met.

The effect of the arrangement is akin to an option. The value of the shares at the date of grant was \$0.0183 per share.



**Loans to Directors and other members of key management personnel**

There were no loans to Directors or other members of key management personnel during or since the end of the financial year.

This concludes the remuneration report which has been audited.

**Auditor's independence declaration**

The auditor's independence declaration in accordance with section 307C of the Corporations Act 2001 for the year ended 30 June 2016 has been received and can be found on page 68 of the financial report.

This director's report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.

Director



Dr David King

Dated this 30th day of August 2016

# Corporate Governance Statement

The Board is committed to achieving and demonstrating the highest standards of corporate governance. As such, Cellmid Limited and its Controlled Entities ('the Group') have adopted a corporate governance framework and practices to ensure they meet the interests of shareholders.

The Australian Securities Exchange Corporate Governance Council's Corporate Governance Principles and Recommendations – 3rd edition ('the ASX Principles') are applicable for financial years commencing on or after 1 July 2014, consequently for the Group's 30 June 2016 year end. As a result, the Group has chosen to publish its Corporate Governance Statement on its website rather than in this Annual Report.

The Corporate Governance Statement and governance policies and practices can be found in the corporate governance section of the Company's website at <http://www.cellmid.com.au>.

The Group's Corporate Governance Statement incorporates the disclosures required by the ASX Principles under the headings of the eight core principles. All of these practices, unless otherwise stated, were in place for the full reporting period.

# Annual Financial Report

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# Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2016

	Note	Consolidated	
		2016 \$	2015 \$
Revenue	3	3,120,367	1,842,804
Other revenue	3	268,535	126,559
Other income	3	1,222,206	998,199
		<b>4,611,108</b>	<b>2,967,562</b>
<b>Less Expenditure</b>			
Manufacturing sales expense		(1,219,849)	(671,698)
Advertisement and marketing expense		(1,976,282)	(411,455)
Bad debts expense		(6,411)	(18,890)
Consultancy expense		(222,337)	(181,037)
Conference and meetings expense		(207,436)	(44,674)
Communication expense		(84,248)	(98,561)
Depreciation and amortisation expense		(161,613)	(131,338)
Employee benefits expense		(2,240,356)	(2,140,147)
Finance costs		(195,914)	(27,809)
Loss on foreign exchange		-	(8,441)
Occupancy expense		(214,568)	(210,584)
Professional fees		(315,933)	(164,754)
Research and development expense		(354,881)	(1,302,009)
Share-based compensation		(176,123)	(82,990)
Subscription expense		(96,007)	(84,507)
Travel expense		(273,710)	(235,304)
Other expenses		(353,311)	(487,349)
<b>Loss before income tax expense</b>	4	<b>(3,487,871)</b>	<b>(3,333,985)</b>
Income tax expense	5	(11,045)	(3,363)
<b>Loss for the year after income tax</b>		<b>(3,498,916)</b>	<b>(3,337,348)</b>
<b>Other comprehensive income, net of income tax</b>			
<i>Items that will be reclassified to profit or loss when specific conditions are met</i>			
Exchange differences on translating foreign controlled entities		461,342	89,062
<b>Total comprehensive income for the year</b>		<b>(3,037,574)</b>	<b>(3,248,286)</b>
<b>Loss for the year attributable to:</b>			
Owners of Cellmid Limited		<b>(3,498,916)</b>	<b>(3,337,348)</b>
<b>Total comprehensive income for the year attributable to:</b>			
Owners of Cellmid Limited		<b>461,342</b>	<b>89,062</b>
		<b>(3,037,574)</b>	<b>(3,248,286)</b>
<b>Earnings per share for loss attributable to the owners of Cellmid Limited</b>			
Basic earnings per share (cents)	8	<b>(0.38)</b>	(0.43)
Diluted earnings per share (cents)	8	<b>(0.38)</b>	(0.43)

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

# Statement of Financial Position

As at 30 June 2016

	Note	Consolidated	
		2016	2015
		\$	\$
<b>ASSETS</b>			
CURRENT ASSETS			
Cash and cash equivalents	9	2,686,329	1,582,899
Trade and other receivables	10	298,339	618,647
Inventories	11	2,009,792	1,727,460
Other assets	12	136,644	244,610
<b>TOTAL CURRENT ASSETS</b>		<b>5,131,104</b>	<b>4,173,616</b>
NON-CURRENT ASSETS			
Plant and equipment	13	69,017	74,989
Intangible assets	14	2,214,693	1,898,942
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,283,710</b>	<b>1,973,931</b>
<b>TOTAL ASSETS</b>		<b>7,414,814</b>	<b>6,147,547</b>
<b>LIABILITIES</b>			
CURRENT LIABILITIES			
Trade and other payables	15	1,434,443	1,004,343
Loans and borrowings	16	802,177	1,070,639
Employee provisions	17	223,001	206,836
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,459,621</b>	<b>2,281,818</b>
NON-CURRENT LIABILITIES			
Employee provisions	17	68,336	62,549
Loans and borrowings	16	196,807	29,271
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>265,143</b>	<b>91,820</b>
<b>TOTAL LIABILITIES</b>		<b>2,724,764</b>	<b>2,373,638</b>
<b>NET ASSETS</b>		<b>4,690,050</b>	<b>3,773,909</b>
<b>EQUITY</b>			
Issued capital	18	32,426,826	28,701,311
Reserves	19	2,542,799	1,853,257
Accumulated losses		(30,279,575)	(26,780,659)
<b>TOTAL EQUITY</b>		<b>4,690,050</b>	<b>3,773,909</b>

*The above Statement of Financial Position should be read in conjunction with the accompanying notes.*

# Statement of Changes in Equity

For the year ended 30 June 2016

	Note	Issued Capital \$	General Reserve \$	Share Based Payments Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Total Equity \$
<b>Consolidated</b>							
<b>Balance at 1 July 2015</b>		<b>28,701,311</b>	<b>(131,941)</b>	<b>1,860,777</b>	<b>124,421</b>	<b>(26,780,659)</b>	<b>3,773,909</b>
Loss for the year after income tax		-	-	-	-	(3,498,916)	<b>(3,498,916)</b>
Other comprehensive income	19	-	-	-	461,342	-	<b>461,342</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>461,342</b>	<b>(3,498,916)</b>	<b>(3,037,574)</b>
<b>Transactions with equity holders</b>							
Share based payments	19	-	-	176,123	-	-	<b>176,123</b>
Shares issued during the year – net of transaction costs	18	3,725,515	-	-	-	-	<b>3,725,515</b>
Equity value of loan – net of transaction costs	19	-	52,077	-	-	-	<b>52,077</b>
<b>Balance at 30 June 2016</b>		<b>32,426,826</b>	<b>(79,864)</b>	<b>2,036,900</b>	<b>585,763</b>	<b>(30,279,575)</b>	<b>4,690,050</b>
<b>Consolidated</b>							
<b>Balance at 1 July 2014</b>		<b>27,401,832</b>	<b>(131,941)</b>	<b>1,801,787</b>	<b>35,359</b>	<b>(23,443,311)</b>	<b>5,663,726</b>
Loss for the year after income tax		-	-	-	-	(3,337,348)	<b>(3,337,348)</b>
Other comprehensive income		-	-	-	89,062	-	<b>89,062</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>89,062</b>	<b>(3,337,348)</b>	<b>(3,248,286)</b>
<b>Transactions with equity holders</b>							
Share based payments	19	100,000	-	82,990	-	-	<b>182,990</b>
Shares issued during the year – net of transaction costs	18	1,175,479	-	-	-	-	<b>1,175,479</b>
Shares issued during the year – other	19	24,000	-	(24,000)	-	-	<b>-</b>
<b>Balance at 30 June 2015</b>		<b>28,701,311</b>	<b>(131,941)</b>	<b>1,860,777</b>	<b>124,421</b>	<b>(26,780,659)</b>	<b>3,773,909</b>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

# Statement of Cash Flows

For the year ended 30 June 2016

	Note	Consolidated	
		2016	2015
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		3,803,555	1,599,534
Payments to suppliers and employees		(7,402,022)	(5,729,738)
Interest received		39,509	27,296
Grant income		1,121,562	988,451
Finance costs		(111,316)	(8,907)
<b>Net cash used in operating activities</b>	20	<b>(2,548,712)</b>	<b>(3,123,364)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of non current assets		(32,928)	(60,929)
<b>Net cash (used in) / provided by investing activities</b>		<b>(32,928)</b>	<b>(60,929)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares (net of share issue costs)		3,725,515	1,175,479
Proceeds from Loans and borrowings		962,800	1,099,910
Repayments of Loans and borrowings		(1,044,009)	-
<b>Net cash provided by financing activities</b>		<b>3,644,306</b>	<b>2,275,389</b>
Net (decrease) / increase in cash and cash equivalents held		1,062,666	(908,904)
Cash and cash equivalents at beginning of financial year		1,582,899	2,501,753
Effect of exchange rate changes		40,764	(9,950)
<b>Cash and cash equivalents at end of financial year</b>	9	<b>2,686,329</b>	<b>1,582,899</b>

*The above Statement of Cashflows should be read in conjunction with the accompanying notes.*



# Notes to the Financial Statements

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# Notes to the Financial Statements

## Continued

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Statement of compliance

Cellmid Limited is a public company, listed on the Australian Stock Exchange, limited by shares and incorporated and domiciled in Australia.

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001, as appropriate for for profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB").

The financial statements cover Cellmid Limited as a Group, consisting of Cellmid Limited and the entities it controlled at the end of, or during the year.

The financial statements were authorised for issue by the directors on 30th August 2016.

#### Basis of Preparation

##### Historical Cost Convention

The financial statements have been prepared on an accruals basis and are based on historical costs, except for certain non-current assets and financial instruments that are measured at re-valued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

##### Critical Accounting Estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 1(w).

##### Parent Entity Information

In accordance with the Corporations Act 2001, these financial statements present the results of the Consolidated Group only. Supplementary information about the parent entity is included in Note 2.

#### New, revised or amending Accounting Standards and Interpretations adopted

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

The following Accounting Standards and Interpretations are most relevant to the Group:

##### *AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities*

The Group has applied AASB 2012-3 from 1 July 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of 'currently has a legally enforceable right of set-off'; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement.

## **New, revised or amending Accounting Standards and Interpretations adopted (continued)**

### *AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets*

The Group has applied AASB 2013-3 from 1 July 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. Additionally, if measured using a present value technique, the discount rate is required to be disclosed.

### *AASB 2014-1 Amendments to Australian Accounting Standards (Parts A to C)*

The Group has applied Parts A to C of AASB 2014-1 from 1 July 2014.

These amendments affect the following standards:

AASB 2 'Share-based Payment': clarifies the definition of 'vesting condition' by separately defining a 'performance condition' and a 'service condition' and amends the definition of 'market condition';

AASB 3 'Business Combinations': clarifies that contingent consideration in a business combination is subsequently measured at fair value with changes in fair value recognised in profit or loss irrespective of whether the contingent consideration is within the scope of AASB 9;

AASB 8 'Operating Segments': amended to require disclosures of judgements made in applying the aggregation criteria and clarifies that a reconciliation of the total reportable segment assets to the entity's assets is required only if segment assets are reported regularly to the chief operating decision maker;

AASB 13 'Fair Value Measurement': clarifies that the portfolio exemption applies to the valuation of contracts within the scope of AASB 9 and AASB 139;

AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets': clarifies that on revaluation, restatement of accumulated depreciation will not necessarily be in the same proportion to the change in the gross carrying value of the asset;

AASB 124 'Related Party Disclosures': extends the definition of 'related party' to include a management entity that provides KMP services to the entity or its parent and requires disclosure of the fees paid to the management entity.

## **(a) Going concern**

The Directors have prepared the financial statements on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The cash flow forecast for the next twelve months prepared by management indicates that the Group will have sufficient cash assets to be able to meet its debts as and when they become due.

## **(b) Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Cellmid Limited ("the Company") as at 30 June 2016 and the results of all subsidiaries for the year then ended. Cellmid Limited and its subsidiaries together are referred to in these financial statements as the Group.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

# Notes to the Financial Statements

## Continued

### **(b) Principles of consolidation (continued)**

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

### **(c) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments, is the Board of Directors.

### **(d) Revenue and other income recognition**

Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and after taking into account any trade discounts and volume rebates allowed.

Revenue from the sale of products is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the products and the cessation of all involvement in those products.

Interest revenue is recognised as interest accrues using the effective interest rate method.

Royalties are recognised on a straight-line basis over the period of the agreement.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate, but not before the receipt of the grant is relatively certain.

### **(e) Income tax**

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and adjustments recognised for prior periods where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

**(e) Income tax (continued)**

Current tax assets and liabilities are offset only where a legally enforceable right of set off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur.

Deferred tax assets and liabilities are offset where:

- a. a legally enforceable right of set off exists; and
- b. they relate to the same taxation authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

**(f) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the consolidated statement of financial position.

**(g) Trade and other receivables**

Receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

**(h) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated cost necessary to make the sale.

**(i) Plant and equipment**

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

Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit and loss and other comprehensive income during the financial period in which they are incurred.

**Depreciation**

Depreciation is calculated on a straight line basis over the asset's useful life to the Group 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.

# Notes to the Financial Statements

## Continued

### (i) Plant and equipment (continued)

The depreciation rates used for each class of asset are:

<u>Class of asset</u>	<u>Depreciation Rate</u>
Furniture and fittings	20%
Office equipment	6.7 - 33.33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing disposal proceeds with the carrying amount. These gains and losses are included in the statement of profit or loss and other comprehensive income.

### (j) Intangible assets other than Goodwill

#### Patents and trademarks

Patents and trademarks have a finite life and are measured at cost less any accumulated amortisation and any impairment losses. The Group has determined the useful life of the intangible assets at 20 years.

#### Research and development

Expenditure on research activities is recognised as an expense in the period in which is incurred.

Expenditure on development projects (relating to the design and testing of new or improved products) is capitalised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

### (k) Impairment of assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a re-valued amount in accordance with another Standard (e.g. in accordance with the revaluation model in AASB 116). Any impairment loss of a re-valued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

The Group undertakes a review and assesses potential impairment on a regular basis for all its intangible assets.

### (l) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Due to their short term nature they are measured at amortised cost and are not discounted.

### **(m) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

### **(n) Employee benefits**

Provision is made for the Company's liability for employee benefits arising from services rendered by employees up to the end of the reporting period. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements.

#### Short-term employee benefits

Liability for wages and salaries, including non-monetary benefits, annual leave, long service leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

#### Other long term employee benefits

Liability for annual leave and long service leave not expected to be settled within 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date, using the projected unit credit method. Consideration is given to expected future wage and salary levels, of employee departures and period of service.

#### Retirement benefit obligations

Contributions for retirement benefit obligations are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payment is available. Contributions are paid into the fund nominated by the employee.

### **(o) Share-based payments**

The fair value of options granted is recognised as a benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the Directors and executives become unconditionally entitled to the options.

The fair value at grant date is determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. The benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, and are credited to share capital.

### **(p) Equity settled compensation**

The Group operates an employee share ownership plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using either a Binomial pricing or Black-Scholes option pricing model. The number of shares and options expected to vest is reviewed

# Notes to the Financial Statements

## Continued

### **(p) Equity settled compensation (continued)**

and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, and are credited to share capital.

### **(q) Functional and presentation currency**

The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

#### Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

#### Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed.

### **(r) Goods and Services Tax**

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payable are stated inclusive of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the consolidated statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

### **(s) Financial instruments**

Financial instruments are recognised when the entity becomes a party to the contractual provisions to the instrument and are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are recognised immediately as expenses in profit or loss.

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost.

#### Loans and borrowings

Loans and borrowings are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Financial liabilities are derecognised when the contractual obligation is discharged, cancelled or expires.



### **(s) Financial instruments (continued)**

*Amortised cost* is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the *effective interest method*.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

### **(t) Earnings per share**

#### Basic earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to owners of Cellmid Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

#### Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### **(u) Comparative figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Where the Group has retrospectively applied an accounting policy, made a retrospective restatement of items in the financial statements or reclassified items in its financial statements, an additional statement of financial position as at the beginning of the earliest comparative period will be disclosed.

### **(v) New accounting standards for application in future periods**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2016. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

#### AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch).

# Notes to the Financial Statements

## Continued

### **(v) New accounting standards for application in future periods (continued)**

New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Group will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the Group.

#### AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2017. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The Group will adopt this standard from 1 July 2017 but the impact of its adoption is yet to be assessed by the Group.

### **(w) Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

#### Estimated impairment of intellectual property

The Group tests annually whether intellectual property has suffered any impairment. The recoverable amounts of the intellectual property have been determined based on reviewing the status of the research and development program, progress on its patent applications and projected cash flow calculations. These calculations require the use of assumptions, including estimating timing of cash flows, product development and availability of resources to exploit the assets.

**(w) Critical accounting estimates and judgements (continued)**

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Provision for impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Employee benefits provision

The liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

# Notes to the Financial Statements

## Continued

### 2. PARENT ENTITY INFORMATION

The following information has been extracted from the books and records of the parent, Cellmid Limited, and has been prepared on the same basis as the consolidated financial statements, except as disclosed below.

Investments in subsidiaries and intercompany loans are accounted for at cost in the financial statements of the parent entity.

	<b>Consolidated</b>	
	<b>2016</b>	2015
	<b>\$</b>	<b>\$</b>
<b>Statement Of Financial Position</b>		
<b>ASSETS</b>		
Current assets	<b>3,245,484</b>	1,560,800
Non-current assets	<b>7,156,715</b>	6,563,915
Total Assets	<b>10,402,199</b>	8,124,715
<b>LIABILITIES</b>		
Current liabilities	<b>(1,324,282)</b>	(1,709,264)
Non-current liabilities	<b>(68,071)</b>	(61,467)
Total Liabilities	<b>(1,392,353)</b>	(1,770,731)
<b>EQUITY</b>		
Issued capital	<b>32,426,826</b>	28,701,311
Accumulated losses	<b>(25,505,957)</b>	(24,208,104)
Reserves	<b>2,088,977</b>	1,860,777
Total Equity	<b>9,009,846</b>	6,353,984
<b>Statement Of Profit Or Loss And Other Comprehensive Income</b>		
Loss of the parent entity	<b>(1,297,853)</b>	(2,225,519)
Total comprehensive income	<b>(1,297,853)</b>	(2,225,519)

#### **Contingent liabilities and contingent assets**

##### Bank Guarantees

The parent entity has given bank guarantees as at 30 June 2016 of \$65,829 (30 June 2015: \$65,829) relating to the lease of commercial office space.

##### Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

On 30 June 2016, Cellmid Limited entered into a deed of cross guarantee to support the liabilities and obligations of four of its wholly-owned subsidiaries, Advangen Limited, Advangen International Pty Ltd, Kinera Limited and Lyramid Limited.

By entering into the deed, the wholly-owned unlisted public entities have been relieved from the requirement to prepare a financial report and Directors' report under Class Order 98/1418 issued by the Australian Securities and Investments Commission.

Apart from the items noted above the parent entity had no contingent liabilities or contingent assets at 30 June 2016.

#### **Capital Commitments**

The parent entity had no capital commitments at 30 June 2016 (Nil at 30 June 2015).

### 3. REVENUE AND OTHER INCOME

	Consolidated	
	2016	2015
	\$	\$
<b>Revenue from continuing operations</b>		
<b>Revenue:</b>		
- Consumer health and sale of products	3,120,367	1,842,804
<b>Other revenue:</b>		
- interest received	39,509	27,296
- licence fees and royalties	205,390	99,263
- other revenue	23,636	-
	<u>268,535</u>	<u>126,559</u>
Total Revenue	<u>3,388,902</u>	<u>1,969,363</u>
<b>Other income:</b>		
- Government grants	1,121,562	988,451
- Gain on foreign exchange	95,972	6,140
- Other income	4,672	3,608
Total other income	<u>1,222,206</u>	<u>998,199</u>

### 4. LOSS FOR THE YEAR

	Consolidated	
	2016	2015
	\$	\$
<b>Loss before income tax includes the following specific expenses:</b>		
Manufacturing sales expense	(1,219,849)	(671,698)
Finance costs	(195,914)	(27,809)
Defined contribution superannuation expense	(178,740)	(148,992)
Loss on foreign exchange	-	(8,441)
Rental expense on leased premises	(200,133)	(193,653)
Depreciation and amortisation expense	(161,613)	(131,338)
Research and development expense	(354,881)	(1,302,009)

# Notes to the Financial Statements

## Continued

### 5. INCOME TAX

	Consolidated	
	2016	2015
	\$	\$
<b>(a) The major components of income tax expense comprise:</b>		
Income tax expense	(11,045)	(3,363)
	<u>(11,045)</u>	<u>(3,363)</u>
<b>(b) Numerical reconciliation of income tax expense to accounting loss:</b>		
Loss for year before income tax expense	(3,487,871)	(3,333,985)
Prima facie tax benefit on loss from ordinary activities before income tax at 29.89% (2015: 30.57)	(1,042,630)	(1,019,036)
<b>Add / (less) tax effect of:</b>		
- Share based payment	52,837	54,897
- Sundry items	46,743	52,160
- Research and development expenditure	562,650	756,006
- Research and development core technology expenditure	(190,438)	(190,438)
- Tax losses not brought to account	559,793	343,048
Income tax expense	<u>(11,045)</u>	<u>(3,363)</u>

The Group operates across two tax jurisdictions being Australia and Japan each with different corporate tax rates. The applied tax rate of 29.89% represents the average tax rate applicable to the Group for the financial year ended 30 June 2016.

#### (c) Unused tax losses

	Australia	Japan	Total
	\$	\$	\$
<i>Movements in unused tax losses</i>			
Carried forward unused tax losses at the beginning of the financial year	14,039,273	2,293,187	16,332,460
Current unused tax losses for which no deferred tax asset has been recognised	3,142,423	(124,905)	3,018,518
Prior period differences between tax calculation and income tax return	(138,207)	-	(138,207)
Carried forward unused tax losses at the end of the financial year	<u>17,043,489</u>	<u>2,168,282</u>	<u>19,211,771</u>
Notional tax rate	30.00%	35.64%	
Potential future tax benefit	<u>5,113,046</u>	<u>772,776</u>	<u>5,885,822</u>

This income tax benefit arising from tax losses will only be realised if:

- i. the Group derives future assessable income of a nature and of an amount sufficient to enable the Group to benefit from the deductions for the losses to be realised;
- ii. the Group continues to comply with the conditions for deductibility imposed by tax legislation; and
- iii. no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the losses.

## 6. INTERESTS OF KEY MANAGEMENT PERSONNEL ("KMP")

### (a) Directors and key management personnel

The following persons were Directors or key management personnel of Cellmid Limited during the financial year:

Mr David King	(Non-Executive Chairman)	
Ms Maria Halasz	(CEO and Managing Director)	
Mr Bruce Gordon	(Non-Executive Director)	- appointed 1 July 2015
Dr Fintan Walton	(Non-Executive Director)	- appointed 21 July 2015

### (b) Directors and key management personnel compensation

Refer to the remuneration report contained in the Directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2016.

The totals of remuneration paid to KMP of the company and the Group during the year are as follows:

	Consolidated	
	2016	2015
	\$	\$
Short-term employment benefits	588,583	588,961
Long-term benefits	13,762	12,511
Post-employment benefits	44,175	48,925
Share-based payments	128,067	73,467
	<b>774,587</b>	<b>723,864</b>

## 7. AUDITOR'S REMUNERATION

During the year the following fees were paid or payable for services provided by BDO East Coast Partnership, the auditor of the parent entity, its related practices and unrelated firms:

	Consolidated	
	2016	2015
	\$	\$
Audit or review of the financial statements		
- BDO East Coast Partnership – Australia	56,500	52,500
- BDO Toyo & Co – Japan	10,000	10,640
Audit or review of the Subsidiary Advangen Limited		
- BDO East Coast Partnership – Australia	12,500	-
	<b>79,000</b>	<b>63,140</b>

# Notes to the Financial Statements

## Continued

### 8. EARNINGS PER SHARE

	Consolidated	
	2016	2015
	\$	\$
<b>Basic and diluted earnings per share (in cents)</b>	<b>(0.38)</b>	(0.43)
<b>Reconciliation of earnings to profit or loss from continuing operations</b>		
Loss for the year attributable to the owners of Cellmid Limited	<b>(3,498,916)</b>	(3,337,348)
	No.	No.
<b>Weighted average number of ordinary shares used in calculating basic and dilutive earnings per share</b>	<b>910,130,745</b>	696,596,038

#### Options

Shareholders approved the issue of 8,000,000 options to Directors at the Annual General Meeting held on 12 November 2015. No options were issued to executives or Directors during the 2015 financial year.

For both the year ended 30 June 2016 and 30 June 2015, the options on issue were considered anti-dilutive, and consequently diluted earnings per share is the same as basic earnings per share. The options have not been included in the determination of basic earnings per share.

Details relating to options are set out in Note 18.

### 9. CASH AND CASH EQUIVALENTS

	Consolidated	
	2016	2015
	\$	\$
Cash at bank and in hand	<b>2,686,329</b>	1,582,899
	<b>2,686,329</b>	1,582,899

The effective interest rate on short term bank deposits at 30 June 2016 was 2.65% (2015: 2.5%); these deposits were all at call.

#### Reconciliation of cash

Cash and cash equivalents reported in the statement of cash flows are reconciled to the equivalent items in the statement of financial position as follows:

Cash and cash equivalents	<b>2,686,329</b>	1,582,899
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## 10. TRADE AND OTHER RECEIVABLES

	Consolidated	
	2016	2015
	\$	\$
<b>Current</b>		
Trade receivables	282,047	605,858
Less: Provision for impairment	(21,430)	(15,019)
Other receivables	37,722	27,808
	298,339	618,647

### Impairment of receivables

The Group has recognised a loss of \$6,411 (2015: \$18,890) in profit or loss in respect of impairment of receivables for the year ended 30 June 2016.

	Consolidated	
	2016	2015
	\$	\$
<b>The ageing of the impaired receivables provided for above are:</b>		
Over 6 months overdue	21,430	15,019
	21,430	15,019

### **Movements in the provision for impairment of receivables are as follows:**

Opening balance	15,019	-
Additional provisions recognised	6,411	18,890
Receivables written off during the year as uncollectable	-	(3,871)
Closing balance	21,430	15,019

### Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to \$10,649 as at 30 June 2016 (30 June 2015: \$26,686).

The Group did not consider a credit risk on the aggregate balances after reviewing the credit terms of customers based on recent collection practices.

### Effective interest rates and credit risk

The Group has no significant concentration of credit risk with respect to any single counterparty or Group of counterparties other than those receivables specifically provided for and mentioned within Note 23(a). The class of assets described as 'trade and other receivables' is considered to be the main source of credit risk related to the Group.

There is no interest rate risk for the balances of trade and other receivables. There is no material credit risk associated with other receivables.

# Notes to the Financial Statements

## Continued

### 11. INVENTORIES

	Consolidated	
	2016	2015
	\$	\$
<b>Current</b>		
Midkine and MK ELISA	1,006,471	1,018,995
Finished goods	671,831	662,590
Raw materials	331,490	45,875
	<u>2,009,792</u>	<u>1,727,460</u>

### 12. OTHER ASSETS

	Consolidated	
	2016	2015
	\$	\$
Prepayments	<u>136,644</u>	<u>244,610</u>

### 13. PLANT AND EQUIPMENT

	Consolidated	
	2016	2015
	\$	\$
At cost	515,717	425,892
Accumulated depreciation and foreign exchange movements	(446,700)	(350,903)
	<u>69,017</u>	<u>74,989</u>

#### Movements in carrying amounts of plant and equipment

	\$
<i>Balance at 1 July 2015</i>	<u>74,989</u>
Additions	32,928
Depreciation	(45,051)
Foreign exchange movements	6,151
Balance at 30 June 2016	<u>69,017</u>
<i>Balance at 1 July 2014</i>	43,269
Additions	60,929
Depreciation	(29,209)
<i>Balance at 30 June 2015</i>	<u>74,989</u>

#### 14. INTANGIBLE ASSETS

	Consolidated	
	2016	2015
	\$	\$
<b>Patents and trademarks</b>		
At cost	2,605,267	2,109,775
Accumulated amortisation and foreign exchange movements	(390,574)	(210,833)
	<u>2,214,693</u>	<u>1,898,942</u>

#### Movements in carrying amounts of patents and trademarks

	\$
<i>Balance at 1 July 2015</i>	<u>1,898,942</u>
Additions	-
Amortisation	(116,562)
Foreign exchange movements	432,313
<i>Balance at 30 June 2016</i>	<u>2,214,693</u>
<i>Balance at 1 July 2014</i>	1,911,265
Additions	-
Amortisation	(102,129)
Foreign exchange movements	89,806
<i>Balance at 30 June 2015</i>	<u>1,898,942</u>

Intangible assets, have finite useful lives. The Group has determined the useful life of the intangible assets at 20 years. The remaining useful life is 18 years.

#### 15. TRADE AND OTHER PAYABLES

	Consolidated	
	2016	2015
	\$	\$
Trade payables	655,851	652,927
Other payables	778,592	351,416
	<u>1,434,443</u>	<u>1,004,343</u>

#### 16. LOANS AND BORROWINGS

	Consolidated	
	2016	2015
	\$	\$
Current	802,177	1,070,639
Non-current	196,807	29,271
	<u>998,984</u>	<u>1,099,910</u>

On 25 February 2016, Cellmid Limited entered into an R&D loan advance agreement with Platinum Road for \$700,000. The loan is secured for a period of twelve months from commencement, the date at which the government grant is expected to be received and the loan repaid.

# Notes to the Financial Statements

## Continued

### 16. LOANS AND BORROWINGS (CONTINUED)

The agreement gives the lenders the right to require Cellmid to issue new ordinary fully paid shares at 3.4 cents per share to reduce the principal amount, with the maximum total being 20,588,235 shares. Additionally, the lenders have the right to require Cellmid to issue fully paid ordinary shares in lieu of payment of accrued interest (at an annual rate of 15%, accrued monthly). These shares are to be issued at 2.3 cents per shares, with a maximum total being 4,577,739 shares being issued.

The remaining loan amounts relate to loan facilities with Keiyo Bank Ltd (JPY: 16,759,000) and Chiba Bank Ltd (JPY: 8,831,000) and a lease facility with Business Mitsui Trust Panasonic Finance KK (JPY: 513,324).

The loan facility is secured by a fixed charge over the assets of the Group, and is fully drawn as at 30 June 2016.

### 17. EMPLOYEE PROVISIONS

	Employee Provisions	
	Annual Leave	Long Service Leave
	\$	\$
Balance at 1 July 2015	206,836	62,549
Additional provisions	16,165	5,787
Balance at 30 June 2016	<b>223,001</b>	<b>68,336</b>
	<b>2016</b>	<b>2015</b>
	\$	\$
<b>Analysis of total provisions</b>		
Current	<b>223,001</b>	206,836
Non-current	<b>68,336</b>	62,549
	<b>291,337</b>	<b>269,385</b>

#### Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The amount is presented as current, since the consolidated entity does not have an unconditional right to defer settlement.

### 18. ISSUED CAPITAL

	2016		2015		Consolidated	
	Shares	Shares	Shares	Shares	\$	\$
Ordinary shares – fully paid	<b>928,500,508</b>	795,167,175			<b>31,794,565</b>	28,069,050
Unissued ordinary shares under options	<b>330,954,732</b>	301,054,732			<b>632,261</b>	632,261
					<b>32,426,826</b>	<b>28,701,311</b>

## 18. ISSUED CAPITAL (CONTINUED)

	Issue price \$	2016 No.	2015 No.	2016 \$	2015 \$
<b>(a) Ordinary shares</b>					
At the beginning of the year		795,167,175	735,585,702	28,069,050	26,769,571
Shares issued – September 2015	0.0300	23,333,333	-	700,000	-
Shares issued – August 2015	0.0300	110,000,000	-	3,300,000	-
Shares issued - August 2014	0.0400	-	600,000	-	24,000
Shares issued - December 2014	0.0230	-	54,726,089	-	1,258,700
Shares issued - December 2014	0.0270	-	2,000,000	-	50,000
Shares issued - May 2015	0.0222	-	2,255,384	-	50,000
Shares issue costs, net of tax		-	-	(274,485)	(83,221)
<b>At the end of the year</b>		<b>928,500,508</b>	<b>795,167,175</b>	<b>31,794,565</b>	<b>28,069,050</b>

The holders of ordinary shares are entitled to participate in dividends and the proceeds on winding up of the Company. On a show of hands at meetings of the Company, each holder of ordinary shares has one vote in person or by proxy, and upon a poll each share is entitled to one vote.

The Company does not have a limited amount of authorised capital and the fully paid ordinary shares have no par value.

### (b) Unissued ordinary shares under option

For information relating to the Cellmid Limited and controlled entities employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year end, refer to Note 28 Share based payments.

For information relating to share options issued to key management personnel during the financial year, refer to the remuneration report.

	2016 No.	2015 No.
At the beginning of the year	301,054,732	315,656,738
Options issued - September 2015	18,000,000	-
Options issued - November 2015	12,500,000	-
Options lapsed - November 2015	(100,000)	-
Options lapsed - June 2016	(500,000)	-
Options lapsed - July 2014	-	(5,002,006)
Options lapsed - November 2014	-	(9,000,000)
Options lapsed - February 2015	-	(600,000)
At the end of the year	<b>330,954,732</b>	<b>301,054,732</b>

### (c) Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

# Notes to the Financial Statements

## Continued

### 18. ISSUED CAPITAL (CONTINUED)

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group looks to raise capital when an opportunity to invest in a business or company is seen as value adding relative to the current parent entity's share price at the time of the investment. The Group is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

### 19. RESERVES

	Consolidated	
	2016	2015
	\$	\$
<b>Share-based payment reserve</b>		
Balance at the beginning of the year	1,860,777	1,801,787
Share-based payment expense	176,123	82,990
Shares issued under share-based arrangements	-	(24,000)
Balance at the end of the year	<u>2,036,900</u>	<u>1,860,777</u>
<b>General reserve</b>		
Balance at the beginning of the year	(131,941)	(131,941)
Equity value of loan - net of transaction costs	52,077	-
Balance at the end of the year	<u>(79,864)</u>	<u>(131,941)</u>
<b>Foreign currency translation reserve</b>		
Balance at the beginning of the year	124,421	35,359
Foreign exchange movements	461,342	89,062
Balance at the end of the year	<u>585,763</u>	<u>124,421</u>
<b>Total reserves</b>	<u>2,542,799</u>	<u>1,853,257</u>

#### (a) Share-based payments reserve

This reserve records the cumulative value of employee services received for the issue of share options. When the option is exercised the amount in the share option reserve is transferred to share capital.

#### (b) General reserve

The movement in the reserve is as a result of the recognition of the equity component of the convertible loan.

#### (c) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income, foreign currency translation reserve. The cumulative amount is reclassified to profit or loss when the net investment is disposed.

## 20. CASH FLOW INFORMATION

	Consolidated	
	2016	2015
	\$	\$
<b>Reconciliation of loss after income tax to net cash used in operating activities</b>		
Loss after income tax for the year	<b>(3,498,916)</b>	(3,337,348)
Adjustments for:		
- depreciation and amortisation	<b>161,613</b>	131,338
- share based payments	<b>176,123</b>	182,990
- bad and doubtful debts	<b>6,411</b>	18,890
- interest expense	<b>48,063</b>	-
- finance cost	<b>(40,000)</b>	-
Changes in operating assets and liabilities		
- (increase)/decrease in trade and other receivables	<b>320,308</b>	(398,176)
- (increase)/decrease in prepayments	<b>107,966</b>	(18,095)
- (increase) in inventories	<b>(282,332)</b>	(176,308)
- (decrease) in trade and other payables	<b>430,100</b>	432,476
- (decrease) in employee provisions	<b>21,952</b>	41,869
<b>Net cash used in operating activities</b>	<b>(2,548,712)</b>	(3,123,364)

## 21. EVENTS AFTER THE REPORTING PERIOD

On 20 July 2016, Advangen International Pty Limited (Advangen), Cellmid's wholly owned subsidiary, entered into a distribution partnership with Colour Collective for the USA launch of the Company's évolis® branded hair loss products. Colour Collective, a specialist in the launch of high end hair brands in the US, is based in Dallas, Texas.

The principals of Colour Collective have over 40 years of combined experience in successfully launching and distributing brands in the USA, Europe and Asia for companies such as Revlon, Unilever, LVMH, Bristol-Myers Squibb and Toni & Guy. Since 2012 Colour Collective has launched nine new brands covering 146 products.

The distribution partnership will provide Advangen with accelerated, direct route to the sales channels that have proven successful in Australia and Japan during the Company's commercial proof of concept rollout. These include e-commerce and sampling channels for rapid customer acquisition, home shopping networks and high-end retail stores. USA sales will commence in 2016 through e-commerce channels with distribution to high-end retail and other direct to consumer opportunities to follow.

On 22 July 2016, Ikon Communications Pty Ltd (Ikon), a subsidiary of the WPP AUNZ (ASX: WPP) group of advertising agencies, filed legal action against Advangen, the entity that operates the Australian consumer health business.

Ikon's claim is for the amount of \$939,055 pursuant to the Services Agreement entered into by the parties on 15 June 2015. In the claim Ikon alleges that Advangen has failed to pay certain invoices for services rendered in relation to an advertising campaign.

Advangen strongly disputes that Ikon is entitled to be paid for the work the subject of the invoices. It is Advangen's position that Ikon has breached the Services Agreement, failed to provide certain services at all, or adequately, and engaged in misleading and dishonest conduct that has caused Advangen loss and damage.

# Notes to the Financial Statements

## Continued

### 21. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

Advangen intends to vigorously defend its position and cross claim for payments already made for services not provided or properly provided by Ikon, as well as for any further damages. It will also ensure that there is adequate security for its costs, and if necessary, apply for an order that security for costs be provided by Ikon.

Apart from the matters noted above, no other matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

### 22. RELATED PARTY TRANSACTIONS

#### (a) The Group's main related parties are as follows:

##### Parent entities

Cellmid Limited is the ultimate parent entity.

##### Subsidiaries

For details of disclosures relating to subsidiaries, refer to Note 24. Transactions and balances between subsidiaries and the parent have been eliminated on consolidation of the Group.

##### Key management personnel

For details of disclosures relating to key management personnel, refer to the remuneration report contained within the Director's report.

### 23. FINANCIAL RISK MANAGEMENT

#### (a) Transactions with related parties

There were no related party transactions during the year ended 30 June 2016.

The Group's activities expose it to a number of financial risks as described below. The Group's overall risk management program seeks to minimise potential adverse effects on the financial performance of the Group. To date, the Group has not had the need to utilise derivative financial instruments such as foreign exchange contracts or interest rate swaps to manage any risk exposures identified.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

		Consolidated	
		2016	2015
		\$	\$
<b>Financial Assets</b>			
Cash and cash equivalents	9	<b>2,686,329</b>	1,582,899
Trade and other receivables	10	<b>298,339</b>	618,647
		<b>2,984,668</b>	2,201,546



## 23. FINANCIAL RISK MANAGEMENT (CONTINUED)

		Consolidated	
		2016	2015
		\$	\$
<b>Financial Liabilities</b>			
Financial liabilities at amortised cost			
- Trade and other payables	15	1,434,443	1,004,343
- Loans and borrowings	16	998,984	1,099,910
		<b>2,433,427</b>	<b>2,104,253</b>

The fair value of financial assets and liabilities equate to the carrying value.

### (a) Credit risk

Credit risk is managed on a Group basis. The Group has no significant concentration of credit risk.

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the table above.

Trade and other receivables that are neither past due nor impaired are considered to be of high credit quality.

Credit risk related to balances with banks and other financial institutions is managed by management in accordance with approved board policy. Such policy requires that surplus funds are only invested with counterparties with a Standard & Poor's rating of at least AA .

### (b) Liquidity risk

The Group manages this risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities;
- managing credit risk related to financial assets; and
- only investing surplus cash with major financial institutions.

The Group is not exposed to any material liquidity risk.

Financial liabilities consist of two items, trade and other payables for which the contractual maturity dates are within 6 months of the reporting date and loans and borrowings.

Loans and borrowings at reporting date have contractual maturity dates as follows:

	2016	2015
	\$	\$
Within one year	802,177	1,070,639
One to five years	196,807	29,271

### (c) Market risk

#### Foreign exchange risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the functional currency of the Group, being Australian dollars.

# Notes to the Financial Statements

## Continued

### 23. FINANCIAL RISK MANAGEMENT (CONTINUED)

The maximum exposure to foreign exchange risk is the fluctuation in exchange rates on the USD and JPY denominated bank accounts and also the profit and net assets of the Japanese subsidiary, Advangen Incorporated.

The Group has performed a sensitivity analysis relating to its exposure to foreign currency risk at the end of the financial year. The sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in this risk.

At the end of the financial year, the effect on profit and equity as a result of changes in the foreign exchange rate with all other variables remaining constant would be as follows:

	Profit \$	Equity \$
<b>Year ended 30 June 2016</b>		
+/- 1% in foreign exchange rates	+/-1,249	-/+ 2,153
<b>Year ended 30 June 2015</b>		
+/- 1% in foreign exchange rates	+/-3,215	+/- 6,125

#### Interest rate risk

The Group's main interest rate risk arises from deposits with banks and other financial institutions.

Deposits made at variable rates expose the Group to interest rate risk. Management maintains approximately 100% of deposits with banks at call on variable interest rates.

The Group has performed a sensitivity analysis relating to its exposure to interest rate risk at the end of the financial year. The sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in this risk. At the end of the financial year, the effect on profit and equity as a result of changes in the interest rate with all other variables remaining constant would be as follows:

	Profit \$	Equity \$
<b>Year ended 30 June 2016</b>		
+/- 1% in interest rates	+/- 26,863	+/- 26,863
<b>Year ended 30 June 2015</b>		
+/- 1% in interest rates	+/- 15,829	+/- 15,829

#### Price risk

The Group is not exposed to any material price risk.

## 24. INTERESTS IN SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following wholly-owned subsidiaries in accordance with the accounting policy described in Note 1:

Name	Country of Incorporation	Percentage Owned (%)	Percentage Owned (%)
		2016	2015
<b>Subsidiaries of Cellmid Limited:</b>			
Advangen Limited	Australia	100	100
Kinera Limited	Australia	100	-
Lynamid Limited	Australia	100	-
<b>Subsidiaries of Advangen Limited:</b>			
Advangen International Pty Ltd	Australia	100	100
Advangen Incorporated	Japan	100	100

### Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

On 30 June 2016, Cellmid Limited entered into a deed of cross guarantee to support the liabilities and obligations of four of its wholly-owned subsidiaries, Advangen Limited, Kinera Limited, Lynamid Limited and Advangen International Pty Ltd. By entering into the deed, the wholly-owned unlisted public entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 issued by the Australian Securities and Investments Commission.

The following are the aggregate totals, for each category, relieved under the deed.

	Members of the Closed Group	Parties to the Deed of Cross Guarantee
	2016	2016
	\$	\$
<b>(A) STATEMENT OF FINANCIAL POSITION</b>		
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	2,686,329	2,250,700
Trade and other receivables	298,339	111,325
Inventories	2,009,792	1,567,214
Other assets	136,644	108,317
<b>TOTAL CURRENT ASSETS</b>	<b>5,131,104</b>	<b>4,037,556</b>
<u>NON-CURRENT ASSETS</u>		
Plant and equipment	69,017	27,176
Intangible assets	2,214,693	1,440
Investments in Advangen Inc. Japan	-	3,242,558
<b>TOTAL NON-CURRENT ASSETS</b>	<b>2,283,710</b>	<b>3,271,174</b>
<b>TOTAL ASSETS</b>	<b>7,414,814</b>	<b>7,308,730</b>

# Notes to the Financial Statements

## Continued

### 24. INTERESTS IN SUBSIDIARIES (CONTINUED)

	Members of the Closed Group	Parties to the Deed of Cross Guarantee
	2016 \$	2016 \$
<u>CURRENT LIABILITIES</u>		
Trade and other payables	1,434,443	1,184,649
Loans and borrowings	802,177	655,986
Employee provisions	223,001	223,001
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,459,621</b>	<b>2,063,636</b>
<u>NON-CURRENT LIABILITIES</u>		
Employee provisions	68,336	68,336
Loans and borrowings	196,807	-
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>265,143</b>	<b>68,336</b>
<b>TOTAL LIABILITIES</b>	<b>2,724,764</b>	<b>2,131,972</b>
<b>NET ASSETS</b>	<b>4,690,050</b>	<b>5,176,758</b>
<u>EQUITY</u>		
Issued capital	32,426,826	32,426,826
Reserves	2,542,799	1,944,060
Accumulated losses	(30,279,575)	(29,194,128)
<b>TOTAL EQUITY</b>	<b>4,690,050</b>	<b>5,176,758</b>

#### (B) STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME:

Loss before income tax	(3,487,871)	(3,501,470)
Income tax expense	(11,045)	-
Loss after income tax	(3,498,916)	(3,501,470)
<b>Loss attributable to members of the parent entity</b>	<b>(3,498,916)</b>	<b>(3,501,470)</b>

#### (C) RETAINED EARNINGS:

Retained profits at the beginning of the year	(26,780,659)	(25,692,658)
Loss after income tax	(3,498,916)	(3,501,470)
<b>Retained earnings at the end of the year</b>	<b>(30,279,575)</b>	<b>(29,194,128)</b>

### 25. SEGMENT INFORMATION

#### Identification of reporting segments

The Group is organised into two operating segments:

- research and development of diagnostics and therapeutics; and
- research, development and marketing of hair growth products.

## 25. SEGMENT INFORMATION (CONTINUED)

These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (identified as the Chief Operating Decision Makers (CODM)) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews both adjusted earnings before interest, tax, depreciation and amortisation (segment result) and profit before income tax.

### Types of products and services

The principal products and services of each of these operating segments are as follows:

#### **Midkine Diagnostic and Therapeutic (Midkine Business)**

- Midkine diagnostics and therapeutics for cancer, inflammatory and ischemic conditions.

#### **Research, development and marketing of hair growth products (Consumer Health Business)**

- research, development and marketing of hair growth products.

### Geographical segment information

The primary geographic segment within which the Group operates is Australia as at 30 June 2016. For primary reporting purposes, the Group operates in two geographic segments as described as at 30 June 2016.

	Midkine Australia		Consumer Health Australia		Consumer Health Japan		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenue</b>								
Consumer health and product sales to external customers	158,061	47,790	811,935	658,030	2,150,371	1,136,984	3,120,367	1,842,804
<b>Total</b>	<b>158,061</b>	<b>47,790</b>	<b>811,935</b>	<b>658,030</b>	<b>2,150,371</b>	<b>1,136,984</b>	<b>3,120,367</b>	<b>1,842,804</b>
Interest received	39,342	27,280	131	-	36	16	39,509	27,296
Royalties and licences	205,390	99,263	-	-	-	-	205,390	99,263
Other revenue	-	-	23,636	-	-	-	23,636	-
<b>Total revenue</b>	<b>402,793</b>	<b>174,333</b>	<b>835,702</b>	<b>658,030</b>	<b>2,150,407</b>	<b>1,137,000</b>	<b>3,388,902</b>	<b>1,969,363</b>
<b>Other income</b>								
Government grant received	1,026,172	952,621	95,390	35,830	-	-	1,121,562	988,451
Gain/Loss on disposal of assets	-	5,200	-	-	-	(1,592)	-	3,608
Other income	24,042	6,140	-	-	76,602	-	100,644	6,140
Expenses	(2,370,634)	(3,239,129)	(3,126,861)	(1,365,415)	(2,067,834)	(1,454,866)	(7,565,329)	(6,059,410)
Share based compensation	(176,123)	(82,990)	-	-	-	-	(176,123)	(82,990)
Depreciation and amortisation	(16,007)	(16,638)	(3,445)	(82)	(142,161)	(114,618)	(161,613)	(131,338)
Finance costs	(189,458)	(25,056)	(804)	(649)	(5,652)	(2,104)	(195,914)	(27,809)
<b>Profit / (Loss) before income tax</b>	<b>(1,299,215)</b>	<b>(2,225,519)</b>	<b>(2,200,018)</b>	<b>(672,286)</b>	<b>11,362</b>	<b>(436,180)</b>	<b>(3,487,871)</b>	<b>(3,333,985)</b>
Income tax (expense)							(11,045)	(3,363)
<b>Loss after income tax</b>							<b>(3,498,916)</b>	<b>(3,337,348)</b>
<b>Assets</b>								
Segment assets	3,274,865	2,605,320	747,643	865,258	3,392,306	2,676,969	7,414,814	6,147,547
<b>Total assets</b>							<b>7,414,814</b>	<b>6,147,547</b>
<b>Liabilities</b>								
Segment liabilities	(1,392,353)	(1,770,731)	(739,619)	(188,077)	(592,792)	(414,830)	(2,724,764)	(2,373,638)
<b>Total liabilities</b>							<b>(2,724,764)</b>	<b>(2,373,638)</b>

# Notes to the Financial Statements

## Continued

### 25. SEGMENT INFORMATION (CONTINUED)

#### Major customers

The Group has a number of customers to whom it provides both products and services. The Group supplies a single external customer in the consumer health segment who accounts for 39.94% of external revenue (2015: 18.78%). The next most significant customer accounts for 12.22% (2015: 4.19%) of external revenue.

### 26. COMMITMENTS

	<b>Consolidated</b>	
	<b>2016</b>	2015
	<b>\$</b>	\$
<b>Lease commitments - operating</b>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	<b>140,844</b>	134,508
One to five years	<b>135,037</b>	274,624
Minimum lease payments	<b>275,881</b>	409,132

Operating lease commitments includes contracted amounts for office space under non-cancellable operating lease expiring within five years with no option to extend and business telephone system.

### 27. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

#### Claims

On 22 July 2016, Ikon Communications Pty Ltd (Ikon), a subsidiary of the WPP AUNZ (ASX:WPP) group of advertising agencies, filed legal action against Advangen International Pty Limited (Advangen), Cellmid's wholly owned subsidiary operating the Australian consumer health business.

Ikon's claim is for the amount of \$939,055 pursuant to the Services Agreement entered into by the parties on 15 June 2015. In the claim Ikon alleges that Advangen has failed to pay certain invoices for services rendered in relation to an advertising campaign.

Advangen strongly disputes that Ikon is entitled to be paid for the work the subject of the invoices. It is Advangen's position that Ikon has breached the Services Agreement, failed to provide certain services at all or adequately and engaged in misleading and dishonest conduct that has caused Advangen loss and damage.

Advangen intends to vigorously defend its position and cross claim for payments already made for services not provided or properly provided by Ikon, as well as for any further damages. It will also ensure that there is adequate security for its costs, and if necessary, apply for an order that security for costs be provided by Ikon.

#### Guarantees

The Group has given bank guarantees as at 30 June 2016 of \$65,829 (30 June 2015: \$65,829) relating to the lease of commercial office space.

For information about guarantees given by entities within the group, including the parent entity, please refer to note 2.

Other than the matter noted above, the Group had no contingent liabilities or contingent assets at 30 June 2016. (30 June 2015: Nil)

## 28. SHARE-BASED PAYMENTS

The Cellmid Limited and Controlled Entities Employee Incentive Plan is designed as an incentive for eligible employees of the Group. Under the Plan, participants are granted options which only vest if certain conditions are met.

A summary of the Company options granted under the Plan is as follows:

Expiry Date	Exercise price	Balance at start of the year	Granted	Exercised	Forfeited/ expired	Balance at the end of the year	Exercisable at end of year
15/11/2015	0.100	100,000	-	-	(100,000)	-	-
15/11/2016	0.030	3,971,962	-	-	-	3,971,962	3,971,962
15/06/2017	0.032	5,000,000	-	-	-	5,000,000	5,000,000
14/08/2017	0.034	1,440,000	-	-	-	1,440,000	1,440,000
01/08/2018	0.040	-	4,000,000	-	-	4,000,000	4,000,000
01/08/2018	0.050	-	4,000,000	-	-	4,000,000	4,000,000
01/08/2018	0.060	-	10,000,000	-	-	10,000,000	10,000,000
19/11/2018	0.031	-	500,000	-	-	500,000	500,000
19/11/2018	0.060	-	12,000,000	-	(500,000)	11,500,000	9,500,000
		<b>10,511,962</b>	<b>30,500,000</b>	-	<b>(600,000)</b>	<b>40,411,962</b>	<b>37,911,962</b>

The weighted average exercise price during the financial year was \$0.046 (\$0.034 in 2015). The weighted average remaining contractual life of the options outstanding at the end of the financial year was 1.83 years (1.97 years in 2015).

Refer to Note 1(o) for information as to how the fair value of these options were determined.

30,500,000 options were granted during the 2016 financial year (2015: Nil) and share based payment expense for the period was \$176,123 (2015: Nil).

### Other options on issue

A summary of the Company options not issued under the plan is as follows:

Expiry Date	Exercise price	Balance at start of the year	Granted	Exercised	Forfeited/ expired	Balance at the end of the year	Exercisable at end of year
23/10/2016	0.034	290,542,770	-	-	-	290,542,770	290,542,770
		<b>290,542,770</b>	-	-	-	<b>290,542,770</b>	<b>290,542,770</b>

# Directors'

# Declaration

The directors of the company declare that:

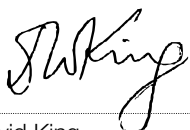
1. the financial statements and notes, as set out on pages 29 to 63, are in accordance with the Corporations Act 2001 and:
  - i. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards; and
  - ii. give a true and fair view of the financial position as at 30 June 2016 and of the performance for the year ended on that date of the consolidated group;
2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
3. the directors have been given the declarations required by s 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer.

The company and its four wholly-owned subsidiaries, Advangen Limited, Kinera Limited, Lyramid Limited and Advangen International Pty Limited, have entered into a deed of cross guarantee under which the company and its subsidiaries guarantee the debts of each other.

At the date of this declaration, there are reasonable grounds to believe that the companies which are party to this deed of cross guarantee will be able to meet any obligations or liabilities to which they are, or may become, subject to by virtue of the deed.

Signed in accordance with a resolution of the Board of Directors made pursuant to Section 295 (5) of the Corporations Act 2001.

Director



Dr David King

Dated this 30th day of August 2016





## INDEPENDENT AUDITOR'S REPORT

To the members of Cellmid Limited

### Report on the Financial Report

We have audited the accompanying financial report of Cellmid Limited, which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the 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-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.

### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Cellmid Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

### Opinion

In our opinion:

- (a) the financial report of Cellmid Limited 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 2016 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 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 the directors' report for the year ended 30 June 2016. 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 Cellmid Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

BDO East Coast Partnership



Gareth Few  
Partner

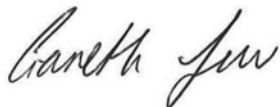
Sydney, 30 August 2016

## DECLARATION OF INDEPENDENCE BY GARETH FEW TO THE DIRECTORS OF CELLMID LIMITED

As lead auditor of Cellmid Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Cellmid Limited and the entities it controlled during the period.



**Gareth Few**  
Partner

Sydney, 30 August 2016

# Additional Information

## for Listed Entities

### ASX ADDITIONAL INFORMATION

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 23 September 2016.

### 20 LARGEST SHAREHOLDERS

Cellmid FPO Voluntary Escrow for 3 years  
Fully Paid Ordinary Shares

Shareholders	Balance	Percent (%)
MR GREGORY GLENN WORTH <WORTH S/F A/C>	36,000,000	3.877
CELL SIGNALS INC	28,000,000	3.016
NATIONAL NOMINEES LIMITED	24,338,660	2.621
SEISTEND (SUPER) PTY LTD <DW KING SUPER FUND A/C>	22,500,000	2.423
MR JAMES PATRICK TUIE & MRS WENDY TUIE <TUIE SUPER 1 A/C>	20,646,462	2.224
INSCAPE SOLUTIONS PTY LTD	17,600,000	1.896
MR DARIN ANJOUL & MRS TANIA ANJOUL <TAN GROUP SUPER FUND A/C>	14,750,000	1.589
MR TREVOR GOTTLIEB	14,510,000	1.563
DR KUEN SENG CHAN	14,000,000	1.508
MR KEVIN PETER HOOPER & MR RONALD LESLIE HOOPER <SATHNASH P/L SUPER FUND A/C>	14,000,000	1.508
MS MARIA HALASZ	13,874,375	1.494
MR SCOTT JEFFREY RICHARD CHAPMAN	11,700,000	1.260
MR HAROLD LEONARD GOTTLIEB & MRS HELEN CYNTHIA GOTTLIEB <H & H GOTTLIEB PSNL S/F A/C>	11,448,028	1.233
MR GREGORY BERNARD HILTON	10,897,000	1.174
MISS REBECCA DERAGOPIAN	10,892,779	1.173
MR MING LOV & MRS CHIU LOV <LOV FAMILY A/C>	10,676,327	1.150
MR TRAFFORD WILLIAM VAGG	9,816,910	1.057
J20 INVESTMENTS PTY LTD <J20 A/C>	9,320,000	1.004
TZ HOLDINGS PTY LTD <TZ HOLDINGS A/C>	9,071,000	0.977
MR IVAN STARESINIC	9,000,000	0.969
<b>Total</b>	<b>313,041,541</b>	<b>33.715</b>
<b>Issued Share Capital</b>	<b>928,500,508</b>	

# Additional Information for Listed Entities

## Continued

### SUBSTANTIAL HOLDERS

There are no current individual substantial shareholders of Cellmid Limited shares, however the ASX has been advised that Mr Paul Ruggiero holds 15.6% of the collective voting rights of like-minded investors.

### ANALYSIS OF HOLDINGS

#### Securities

Cellmid FPO Voluntary Escrow for 3 years  
Fully Paid Ordinary Shares

Holdings Ranges	Holders	Total units	Percent (%)
1-1,000	67	11,126	0.001
1,001-5,000	37	116,970	0.013
5,001-10,000	125	1,155,408	0.124
10,001-100,000	1,113	54,461,968	5.866
100,001-99,999,999,999	821	872,755,036	93.996
<b>Totals</b>	<b>2,163</b>	<b>928,500,508</b>	<b>100.000</b>

### 20 LARGEST SHAREHOLDERS OF QUOTED OPTIONS

Listed Options \$0.034 Expiring 23 October 2016

Holder Name	Balance	Percent (%)
STRUCTURE INVESTMENTS PTY LTD <ROGERS FAMILY A/C>	40,814,930	14.048
PATHOLD NO 77 PTY LTD <ACKERMAN SUPER FUND A/C>	38,201,482	13.148
MR EGAN HARVEY JOHNSON	18,003,220	6.196
MR TREVOR GOTTLIEB	13,255,500	4.562
SEISTEND (SUPER) PTY LTD <DW KING SUPER FUND A/C>	11,250,000	3.872
MR JAMES PATRICK TUIE & MRS WENDY TUIE <TUIE SUPER 1 A/C>	9,523,231	3.278
PROCURE TO REPORT PTY LTD	8,430,110	2.902
MR GREGORY GLENN WORTH <WORTH S/F A/C>	8,000,000	2.753
MR OSCAR DARIO ROSERO <OSCAR ROSERO SUPER FUND A/C>	7,684,153	2.645
MR PAUL PHILIP RANBY	7,575,813	2.607
IQ GLOBAL ASSET PARTNERS PTY LTD <IQ S/F A/C>	5,847,137	2.012
MR DARIN ANJOUL & MRS TANIA ANJOUL	5,000,000	1.721
PAESLER TRADING PTY LTD <PAESLER FAMILY A/C>	5,000,000	1.721
MR DARIN ANJOUL & MRS TANIA ANJOUL <TAN GROUP SUPER FUND A/C>	5,000,000	1.721
MR TRAFFORD WILLIAM VAGG	4,770,178	1.642
DR ROBERT SYLVESTER VAGG & DR KYMBERLEY ANN VICKERY <RSVKAV SUPER FUND A/C>	4,700,000	1.618
TALRIND PTY LTD <WORTH D/T A/C>	4,000,000	1.377
CHAMIER ENDERSBEE PTY LTD <ENDERSBEE FAMILY SUPER A/C>	3,800,000	1.308
MR STEVEN ANDREW COOPER	3,000,000	1.033
ROGERS SF MANAGEMENT PTY LTD <ROGERS SUPER FUND A/C>	3,000,000	1.033
<b>Total</b>	<b>206,855,754</b>	<b>71.196</b>
<b>Issued Quoted Options</b>	<b>290,542,770</b>	

## NUMBER OF HOLDERS AND VOTING RIGHTS IN EACH CLASS OF SECURITIES

Class of Security	No of Holders	Voting Rights
Ordinary Shares	2,162	Yes
Listed Options \$0.034 expiring 23/10/2016	329	No
Unlisted Options \$0.030 expiring 15/11/2016	1	No
Unlisted Options \$0.032 expiring 15/06/2017	1	No
Unlisted Options \$0.034 expiring 14/08/2017	3	No
Unlisted Options \$0.040 expiring 01/08/2018	1	No
Unlisted Options \$0.050 expiring 01/08/2018	1	No
Unlisted Options \$0.060 expiring 01/08/2018	2	No
Unlisted Options \$0.031 expiring 19/11/2018	1	No
Unlisted Options \$0.060 expiring 19/11/2018	8	No
Cellmid FPO Voluntary Escrow for 3 years	1	No

Subject to the ASX Listing Rules, the Company's Constitution and any special rights or restrictions attached to a share, at a meeting of shareholders:

- On a show of hands, each shareholder present (in person, by proxy, attorney or representative) has one vote; and
- On a poll, each shareholder present (in person, by proxy, attorney or representative) has;
  - One vote for each fully paid share they hold; and
  - A fraction of a vote for each partly paid share they hold.

## UNMARKETABLE PARCELS OF SHARES

The number of shareholders with less than a marketable parcel of shares is 343.

## CLASSES OF UNQUOTED SECURITIES

Class of Security	No of Holders	Total Units
Unlisted Options \$0.030 expiring 15/11/2016	1	3,971,962
Unlisted Options \$0.032 expiring 15/06/2017	1	5,000,000
Unlisted Options \$0.034 expiring 14/08/2017	3	1,440,000
Unlisted Options \$0.040 expiring 01/08/2018	1	4,000,000
Unlisted Options \$0.050 expiring 01/08/2018	1	4,000,000
Unlisted Options \$0.060 expiring 01/08/2018	2	10,000,000
Unlisted Options \$0.031 expiring 19/11/2018	1	500,000
Unlisted Options \$0.060 expiring 19/11/2018	8	11,500,000

## GENERAL

There is no current on-market buy-back for the Company's securities.

# Corporate Directory

## COMPANY DETAILS

### The registered office of the company is:

Suite 1802, Level 18  
15 Castlereagh Street  
Sydney NSW 2000 Australia

### The principal places of business are:

Cellmid Limited  
Suite 1802, Level 18  
15 Castlereagh Street  
Sydney NSW 2000 Australia

Advangen International Pty Limited  
Suite 1802, Level 18  
15 Castlereagh Street  
Sydney NSW 2000 Australia

Advangen Incorporated  
Chiba Industry Advancement Centre  
Tokatsu Techno Plaza  
5-4-6 Kashiwanoha, Kashiwa  
Chiba 277-0082 Japan

Advangen Limited  
Suite 1802, Level 18  
15 Castlereagh Street  
Sydney NSW 2000 Australia

Kinera Limited  
Suite 1802, Level 18  
5 Castlereagh Street  
Sydney NSW 2000 Australia

Lynamid Limited  
Suite 1802, Level 18  
15 Castlereagh Street  
Sydney NSW 2000 Australia

## BOARD OF DIRECTORS

### Non-Executive Chairman

DR DAVID KING

### Managing Director and Chief Executive Officer

MS MARIA HALASZ

### Non-Executive Directors

MR BRUCE GORDON  
(Appointed 1 July 2015)

DR FINTAN WALTON  
(Appointed 21 July 2015)

### Company Secretary

MRS ALICESON ROURKE  
(Appointed 1 November 2015)

## AUDITORS, SOLICITORS AND PATENT ATTORNEY

### Auditors

BDO East Coast Partnership  
Level 11, 1 Margaret Street  
Sydney NSW 2000 Australia

### Solicitors

Piper Alderman  
Governor Macquarie Tower  
1 Farrer Place  
Sydney NSW 2000 Australia

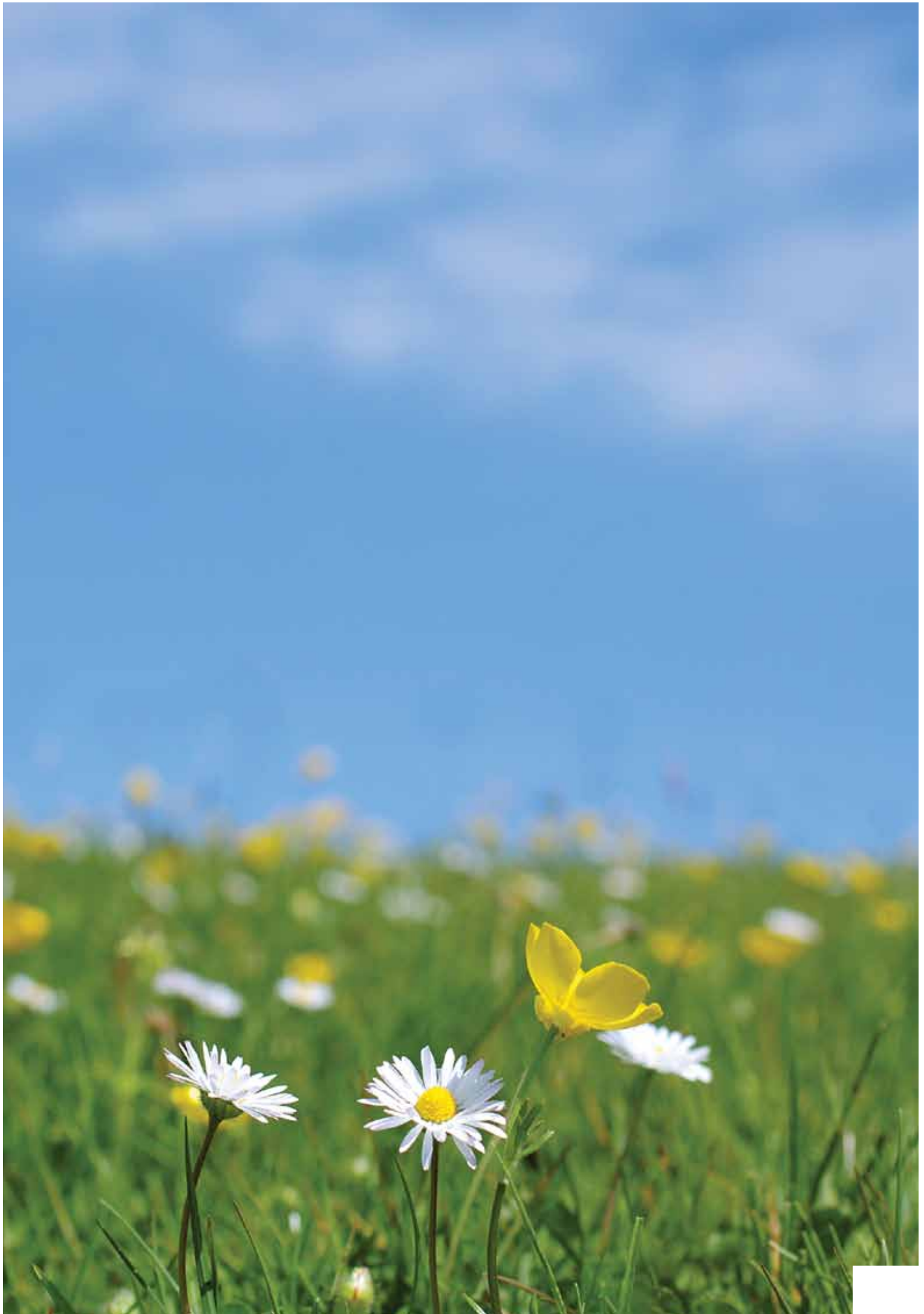
### Patent Attorney

FB Rice & Co  
Level 23, 44 Market Street  
Sydney NSW 2000 Australia

## SHARE REGISTRY

Boardroom Limited  
Grosvenor Place  
Level 12, 225 George Street  
Sydney NSW 2000 Australia







Cellmid Limited  
Suite 1802, Level 18,  
15 Castlereagh Street  
Sydney NSW 2000  
Australia

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W: [www.cellmid.com.au](http://www.cellmid.com.au)

