**16 August 2018**

# Appendix 4E and Financial Report for Year Ended 30 June 2018

**Melbourne, Australia; 16 August 2018:** Acrux Limited (ASX:ACR, "**Acrux**") today released its Appendix 4E and Financial Report for the year ended 30 June 2018.

This announcement comprises information required by the Australian Securities Exchange ('ASX') Listing Rule 4.3A.

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## About Acrux

Acrux (ASX: ACR) is a pharmaceutical company dedicated to developing and commercialising topical pharmaceuticals. Incorporated in 1998 and using in house facilities and capabilities, Acrux has successfully developed and commercialised through licensees a number of topically applied pharmaceutical products in the US and Europe. Acrux is developing of a range of generic products for the US market by leveraging its on-site laboratories, GMP manufacturing suite, clinical and commercial experience to bring affordable products to market. Acrux encourages collaboration and is well positioned to discuss partnering and product development.

For further information on Acrux, visit www.acrux.com.au

**ACRUX LIMITED ABN: 72 082 001 152**
**AND CONTROLLED ENTITIES**

## APPENDIX 4E - PRELIMINARY FINAL REPORT

**REPORTING PERIOD**
Financial year ended 30 June 2018

**COMPARATIVE PERIOD**
Financial year ended 30 June 2017

| Results for announcement to the market | | % Change | $'000 |
|---|---|---|---|
| Revenue from ordinary activities | Down | -86% | 3,432 |
| Loss from ordinary activities after income tax expense | Up | 5736% | (14,182) |
| Net loss for the period attributable to equity holders of the parent | Up | 5736% | (14,182) |

| Dividends | 30 June 2018<br>Cents | 30 June 2017<br>Cents |
|---|---|---|
| Final franked dividend in respect of the financial year ended 30 June per share | Nil | Nil |
| Interim franked dividend in respect of the financial year ended 30 June June per share | Nil | Nil |
| | $'000 | $'000 |
| Total dividend on ordinary securitities paid during the financial year | - | - |

Refer to the Directors' Report within the attached audited financial report for commentary on the results.

Full financial details of the company are also contained in the attached audited financial report.

| Net tangible assets per security | 30 June 2018 | 30 June 2017 |
|---|---|---|
| Net tangible asset backing per ordinary share | $ 0.18 | $ 0.22 |

| | |
|---|---|
| Details of dividend or distribution reinvestment plans in operation | Not Applicable |

| | |
|---|---|
| Details of entities over which control has been gained or lost during the period | Not Applicable |

| | |
|---|---|
| Details of associates and joint ventures | Not Applicable |

The financial report contains an independent audit report that is not subject to a modified opinion, emphasis of matter or other matter paragraph

**ACRUX LIMITED AND CONTROLLED ENTITIES**
**ABN: 72 082 001 152**

**FINANCIAL REPORT FOR THE YEAR ENDED**
**30 JUNE 2018**

## ACRUX LIMITED AND CONTROLLED ENTITIES

## FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

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## DIRECTORS' REPORT

The Directors present their report, together with the Financial Report of the consolidated entity consisting of Acrux Limited (the Company) and its controlled entities (the Group), for the financial year ended 30 June 2018 and independent review report thereon. This Financial Report has been prepared in accordance with Australian Accounting Standards.

### DIRECTORS

The names of directors in office at any time during or since the end of the year are:

| Name | | Appointed/resigned |
|---|---|---|
| Ross Dobinson | Chairman | Appointed 19 March 1998 |
| Timothy Oldham | Non-Executive Director | Appointed 1 October 2013 |
| Michael Kotsanis | Managing Director & Chief Executive Officer | Appointed 3 November 2014 |
| Simon Green | Non-Executive Director | Appointed 1 June 2016 |
| Geoffrey Brooke | Non-Executive Director | Appointed 1 June 2016 |

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

### DIRECTORS' MEETINGS

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

| | | | COMMITTEE MEETINGS | | | |
|---|---|---|---|---|---|---|
| | BOARD | | AUDIT AND RISK | | HUMAN CAPITAL AND NOMINATIONS | |
| | HELD (1) | ATTENDED | HELD (1) | ATTENDED | HELD (1) | ATTENDED |
| Ross Dobinson | 11 | 11 | 3 | 3 | 3 | 3 |
| Timothy Oldham | 11 | 11 | 3 | 3 | 3 | 3 |
| Michael Kotsanis | 11 | 11 | 3 | 3 | 3 | 3 |
| Simon Green | 11 | 11 | 3 | 3 | 3 | 3 |
| Geoffrey Brooke | 11 | 8 | 3 | 2 | 3 | 2 |

(1) The number of meetings held during the period the Director was a member of the Board or Committee.

All Directors who are not members of Committees are invited to attend Committee meetings.

### PRINCIPAL ACTIVITIES

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

| OPERATING RESULTS | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Revenue | **3,432** | 23,934 |
| Net loss after tax | **(14,182)** | (243) |
| Loss per share | **(8.52) cents** | (0.15) cents |
| Cash on hand | **28,470** | 33,974 |

The consolidated loss after income tax attributable to the members of Acrux Limited was $14.182 million (2017 loss: $0.243 million). Loss per share was 8.52 cents (2017: loss per share 0.15 cents).

## DIRECTORS' REPORT

### REVIEW OF OPERATIONS

A review of the operations of the Group during the financial year and the results of these operations are as follows:

**Mission**

Acrux is a pharmaceutical company dedicated to developing and commercialising generic transdermal and topical prescription pharmaceuticals.

**Business Strategy**

Acrux is developing a range of topically applied products with an expanding pipeline of products under active development. Acrux uses its internal development capabilities and know-how to develop generics which target a substantial portion of the US topical market. The development time required for generic products is substantially shorter and less costly than the length of time required for a new drug development.

*Topical generic portfolio*

Acrux submitted its first generic product to the FDA during the 2018 financial year. Acrux filed a Paragraph IV Abbreviated New Drug Application (ANDA) with the U.S. Food and Drug Administration (FDA) for a generic version of Jublia® (efinaconazole) topical solution, 10%. In August 2018, the FDA informed Acrux that its dossier has been accepted for review and the product's first to file status is confirmed. The FDA has notified Acrux that the ANDA submission is sufficiently complete to be accepted for review. The Company's ANDA contains the required data that allows Acrux to demonstrate to the FDA that its generic product is bioequivalent to Jublia®.

Acrux filed a Paragraph IV certification for all Jublia® Orange Book listed patents. Acrux previously announced that it had filed an *inter partes* review (IPR) for US Patent No. 7,214,506 (the '506 patent) which is one of the Jublia® Orange Book listed patents. In a ruling announced recently, the US Patent Trial and Appeal Board (PTAB) ruled in favour of Acrux, holding all claims of the '506 patent invalid.

Once approved by the FDA, and subject to the litigation process typical for first generic products, Acrux will be able to commence marketing and sales of Efinaconazole Topical Solution 10%, providing a lower cost alternative to Jublia® for patients in the United States. Jublia® is indicated for the topical treatment of onychomycosis of the toenail(s). Annual market sales for the 12 months ended March 2018 were US$283 million as measured by IQVIA (Quintiles and IMS Health) sales data.

In relation to another pipeline product, Acrux completed an open-label, single-application, randomized, two-treatment, two-period, four-sequence crossover bioequivalence study in 32 healthy adult male and female subjects. The study successfully confirmed that the Acrux generic topical formulation was bioequivalent to the Reference Listed Drug (RLD).

At the date of this report, Acrux has 13 generic topical products in various stages of development, having initiated development activities on an additional 6 generic products during the 2018 financial year. The addressable market value for the pipeline of 13 products is US$1.4 billion based on IQVIA reported annual sales data at March 2018 with over the half the value of the pipeline and over half the number of products currently having no marketed generic products. Acrux has now engaged with 4 contract manufacturing organisations (CMOs) to manufacture different products from its portfolio of generic topical products. All CMOs are FDA approved.

*Marketed topical portfolio*

The Group's commercialised products include Estradiol spray branded as Evamist® and Lenzetto®. Evamist® is marketed by Perrigo in the US and Lenzetto® is marketed by Gedeon Richter in Europe.

**Key Events During Year**

The following were key events for the Group during the year:

* Submission to the FDA of an Abbreviated New Drug Application (ANDA) of Jublia® (Efinaconazole), topical solution, 10%.
* Solid progress on the Group's topical generic pipeline with thirteen active projects under development including successful completion of a bioequivalence trial on one of its generic pipeline products.
* Lenzetto® continues to be launched progressively in specific countries within the European Union by our licensee (Gedeon Richter).
* Net sales of Axiron® for the 2017/2018 financial year totalled US$15.4 million (2016/17: US$143.0 million). Generic versions of Axiron were launched during the first half of the financial year. With the commercial uncertainty of future sales of Axiron, a declining testosterone market and the long term and unclear financial commitment required to participate in the Post Marketing Requirement (PMR) consortium, Eli Lilly and Company withdrew the Axiron NDA from the US market and the rest of the world.

## DIRECTORS' REPORT

**REVIEW OF OPERATIONS (Continued)**

**Operating Results**

The consolidated loss before tax was $16.125 million (2017: loss $0.094 million) primarily attributable to: a) reduction in Axiron® royalty revenue and b) a non-cash (pre-tax) loss of $5.647 million in relation to the impairment of Axiron® capitalised development costs. The consolidated loss after tax was $14.182 million (2017 loss: $0.243 million).

*Revenue*

Revenue for the financial year decreased $20.502 million (85.7%) to $3.432 million (2017: $23.934 million). Royalty revenue from Axiron® decreased 90.2% to $2.231 million (2017: $22.785 million) reflecting a decline in Axiron® global sales by our partner Eli Lilly and Company due to: a) generic competition for Axiron® and b) the termination of the Axiron® licensing agreement. Royalty revenue from Lenzetto® was $0.327 million (2017: $0.180 million) which is an increase of 81.7% on prior year and interest on cash deposits were $0.671 million (2017: $0.613 million).

*Expenses*

Total expenses for the financial year were $19.557 million (2017: $24.028 million) comprising of: a) a non-cash (pre-tax) loss of $5.647 million (2017: loss $10.680 million) in relation to the impairment of Axiron® capitalised development costs and b) operational expenditure of $13.910 million. The impairment loss is a result of a re-assessment of the estimated future discounted cashflows from the Axiron® product which were impacted by the termination of the licensing agreement with Eli Lilly and Company and the U.S. Court of Appeals for the Federal Circuit affirming all aspects of the judgment by the United States District Court for the Southern District of Indiana.

Total operating expenditure for the financial year increased by 4.2% to $13.910 million (2017: $13.348 million). The increase represents: a) progression of and increased investment in R&D which is consistent with our announced strategy to commercialise topical generic opportunities and b) non-recurring legal fees of $0.729 million associated with the Axiron® patent appeal litigation.

Employee benefits expense totalled $4.720 million (2017: $4.277 million) increasing $0.443 million or 10.4% year on year, reflecting the increased resources required for our development pipeline. The balance of expenses totalled $9.190 million (2017: $9.071 million) remaining flat year on year. Increases in external R&D costs of $0.788 million for contract manufacture engagement, API procurement for the manufacture of exhibit batches and clinical research organisation engagement and non-recurring legal fees of $0.729 million were offset by lower depreciation and amortisation expense of $0.618 million (2017: $1.560 million) and foreign exchange loss of $0.192 million (2017: $0.457 million).

*Income Tax*

Income tax benefit of $1.943 million (2017: expense $0.149 million) was recorded for the financial year. The change from the prior financial year is mainly attributable to the higher operating loss and the reversal of the deferred tax liability associated with the amortisation and impairment of Axiron® capitalised development costs being reversed. Further details of the income tax expense are provided at Note 1(j) of the financial report.

*Cash flow*

Cash received from licensing agreements for the financial year was $7.872 million (2017: $21.822 million). Royalties received from Axiron® were down 66.1% to $7.307 million, reflecting lower sales generated by Eli Lilly and Company and the termination of the Axiron® licensing agreement. The Group paid $12.731 million to suppliers and employees (2017: $10.748 million) as a consequence of increased investment in our R&D pipeline. Interest received on cash reserves of $0.610 million (2017: $0.637 million) was slightly lower in comparison to prior financial year, reflective of lower average cash reserves during the financial year and the maturity profile of invested cash reserves. Income tax payments decreased to $1.033 million from $6.335 million in the prior financial year driven by lower operating results across the Group.

Capital expenditure was $0.296 million, down 52.9% on the prior financial year reflecting the timing of expenditure as the Group carries out upgrades of existing equipment to improve our internal analytical and testing capabilities.

Cash reserves at the end of the period were $28.470 million (2017: $33.974 million).

## DIRECTORS' REPORT

**REVIEW OF OPERATIONS (Continued)**

**Operating Results (Continued)**

*Contributed Equity*

There were no changes to contributed equity during the financial year.

The number of outstanding employee share options on issue at the date of this report was 2,000,000 (30 June 2017: 4,774,000), representing 1.2% of the Company's issued share capital. The number of outstanding employee performance rights on issue at the date of this report was 4,836,000 (30 June 2017: nil), representing 2.9% of the Company's issued share capital.

Further details of share based payments are provided in Note 17 of the Financial Report which follows the Directors' Report.

**SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

There have been no significant changes in the Group's state of affairs during and since the end of the financial year that have not been disclosed elsewhere in this report.

**DIVIDENDS**

The Directors have not declared an interim or final dividend for the 2018 financial year.

**AFTER BALANCE DATE EVENTS**

No matters or circumstances have arisen since the end of the financial year that have significantly affected or may 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**

For the foreseeable future, the Group will continue to pursue and execute its strategy of developing a diversified, on-market, financially attractive portfolio of transdermal and topical generic products.

The Group's financial results will be materially influenced by its ability to commercialise the initial product suite of its development pipeline, and the efficient evaluation and selection of additional generic products.

**ENVIRONMENTAL REGULATION**

The Group's operations are subject to certain environmental regulations under the laws of the Commonwealth and of the State of Victoria. Details of the Group's performance in relation to such environmental regulations are as follows:

*Laboratory Waste*

To ensure compliance with the Environment Protection Act 1970, the Group engages an external waste management consultant. This consultant has ISO 14001:2004 Certification for Environmental Management to comply with the legislative requirements, and issues an EPA Transport Certificate at every collection of waste to ensure safe collection, transport, delivery and disposal/recycling procedures.

*Trade Water Waste*

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

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

## DIRECTORS' REPORT

### SHARE OPTIONS

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

| Date options granted | Number of unissued ordinary shares under option | Issue price of shares | Expiry date of the options |
|---|---|---|---|
| 22 July 2015 | 1,000,000 | $1.11 | July 2018 |
| 22 July 2016 | 1,000,000 | $0.96 | July 2019 |
| | **2,000,000** | | |

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

### SHARES ISSUED ON EXERCISE OF OPTIONS

There were no shares issued during the financial year as a result of the exercise of share options.

### PERFORMANCE RIGHTS

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

| Date performance rights granted | Number of unissued ordinary shares under performance rights | Value at grant date | Exercise price | Expiry date of the performance rights |
|---|---|---|---|---|
| 14 November 2017 | 4,000,000 | $0.09 | $0.00 | November 2024 |
| 25 January 2018 | 836,000 | $0.11 | $0.00 | January 2025 |
| | **4,836,000** | | | |

No performance right holder has the right to participate in any other share issue of the Company.

### SHARES ISSUED ON EXERCISE OF PERFORMANCE RIGHTS

There were no shares issued during the financial year as a result of the exercise of performance rights.

### INFORMATION ON DIRECTORS AND COMPANY SECRETARY

The qualifications, experience and special responsibilities of each person who has been a Director of Acrux Limited at any time during or since 1 July 2017 is provided below, together with details of the company secretary as at the year end. The Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

**Ross Dobinson (Director since March 1998)**

**Responsibilities** From November 2014, Non-Executive Chairman; 1 July 2012 to November 2014, Executive Chairman; prior to 1 July 2012, Non-Executive Chairman. Member of the Audit and Risk Committee and the Human Capital and Nominations Committee.

**Qualifications** BBus Acc

**Experience** Ross has been a Director since 1998 and was appointed Chairman in January 2006 and then Executive Chairman from 1 July 2012 to October 2014. He is a founder and former CEO of Acrux. Ross has a background in investment banking and stockbroking. He is currently Managing Director of TSL Group Ltd, a corporate advisory company specialising in establishing and advising life sciences companies. He is a Director of Reliance Worldwide Corporation (ASX:RWC). He was previously a founding Director of Starpharma Holdings Limited (ASX: SPL), Executive Chairman of Hexima Limited (ASX: HXL), Chairman of TPI Enterprises Limited (ASX:TPE), Director of Roc Oil Company Limited (ASX: ROC) and a Director of Racing Victoria Limited.

## DIRECTORS' REPORT

**INFORMATION ON DIRECTORS AND COMPANY SECRETARY (Continued)**

**Tim Oldham (Director since October 2013)**

| | |
|---|---|
| **Responsibilities** | Non-Executive Director, member of the Audit and Risk Committee and Chair of the Human Capital and Nomination Committee. |
| **Qualifications** | BSc (Hons), LLB(Hons), PhD |
| **Experience** | Tim joined the Board in October 2013. He has more than 15 years of life sciences business development, alliance management and sales and marketing experience in Europe, Asia and Australia. Tim is the Executive Leader of Tijan Ventures, a business focussed on growing life sciences companies though strategic advisory and interim, executive and non-executive leadership services, with a particular focus on regenerative medicine. He was CEO and Managing Director of Cell Therapies Pty Ltd (2014 to 2017), a leading Asia Pacific provider of manufacturing and distribution of cell-based therapeutics. Tim was President of Asia Pacific for Hospira Inc. (2007 to 2012), having held a variety of senior management roles with Mayne Pharma (2002 to 2007) prior to its acquisition by Hospira. These roles encompassed the development and commercialisation of pharmaceuticals, devices, biologics and cellular therapies. Prior to this, Tim was an engagement manager with McKinsey & Co (1997 to 2001). Tim has been chairman of the European Generic Medicines Association Biosimilars and Biotechnology Committee, a Director of the Alliance for Regenerative Medicine, a Director of the Generic Medicines Industry Association and a member of the Pharmaceutical Industry Strategy Group. He has also been a Director of Respiri Ltd (ASX: RSH) and is a current member of AusBiotech’s Regenerative Medicine Advisory Group. |

**Geoff Brooke (Director since June 2016)**

| | |
|---|---|
| **Responsibilities** | Non-Executive Director, Chair of the Audit and Risk Committee and member of the Human Capital and Nomination Committee. |
| **Qualifications** | MMBS, MBA |
| **Experience** | Geoff joined the Board in June 2016. He founded GBS Venture Partners in 1996 and has more than 20 years’ venture capital experience. In January 2014, he reduced his involvement in GBS and is now Special Adviser to the firm and its funds. Geoff was formally President of Medvest Inc., a US-based early-stage venture capital group he founded with Johnson & Johnson. Geoff's experience includes company formation and acquisitions, as well as public listings on the NYSE, NASDAQ and ASX exchanges. He commenced in March 2017 as Chairman of Actinogen Medical Limited (ASX: ACW) and has been a founder, executive and director of private and public companies. From 2009 until 2015, he was an independent director of the Victoria WorkCover Authority. Dr. Brooke is licensed in clinical medicine by the Medical Board of Victoria, Australia and his post-graduate work was in anaesthetics and intensive care. He earned his Bachelor of Medicine/Surgery from the University of Melbourne, Australia and a Master of Business Administration from IMEDE (now IMD) in Lausanne, Switzerland. |

**Simon Green (Director since June 2016)**

| | |
|---|---|
| **Responsibilities** | Non-Executive Director and member of the Human Capital and Nomination Committee. |
| **Qualifications** | BSc (Hons), PhD |
| **Experience** | Simon joined the Board in June 2016. He has 25 years of experience in the biotechnology industry having worked at Genentech and Novartis in San Francisco before joining CSL in 1998. Simon held roles as Senior Vice President in Research and Development and Manufacturing Operations at CSL. He has extensive international experience as a board member for several CSL subsidiary companies in Australia and Germany and for the European Plasma Protein Therapeutics Association. Simon has been a member of the Victorian Biotechnology Advisory Council and acting Chairman of the Northern Innovation and Investment Fund. Simon left CSL in November 2015 to take up the position of Chief Executive Officer and Managing Director for Immunosis Pty Ltd, a biotech company focused on improved diagnostic outcomes for patients with immune deficiencies. He graduated as a biochemist from Monash University and completed his PhD in the field of immunology at Melbourne University in 1992. |

## DIRECTORS' REPORT

### INFORMATION ON DIRECTORS AND COMPANY SECRETARY (Continued)

**Michael Kotsanis (Managing Director since November 2014)**

**Responsibilities** Managing Director and Chief Executive Officer

**Qualifications** BSc, MBus

**Experience** Michael has over 25 years of experience in the pharmaceutical industry and has significant senior leadership experience across the global pharmaceutical markets. Michael was formally the Chief Commercial Officer for Synthon Holding BV, an international pharmaceutical company and a leader in the field of generic medicines, and was based in the Netherlands, a position he held for four years. Prior to Synthon, he served as President, Europe, Middle East and Africa, for Hospira, the global leader in generic injectable pharmaceuticals. Michael joined Hospira following its acquisition of Mayne Pharma in 2007, where he served as President Asia Pacific from 2002. He joined Mayne following their acquisition of Faulding Pharmaceuticals in 2001, where he held responsibility for commercial activities in Australia and New Zealand. Prior to Faulding, Michael held a variety of sales and marketing positions with Boehringer Ingelheim over an 11 year period. Michael earned a Bachelor of Science from Monash University, and a Master of Business from the University of Technology, Sydney.

**Tim Bateman (Company Secretary since October 2016)**

**Responsibilities** Chief Financial Officer and Company Secretary

**Qualifications** BBus (Acc)

**Experience** Tim commenced at Acrux as Chief Financial Officer and Company Secretary in October 2016. He has extensive financial experience, leading finance functions in senior finance roles within ASX listed and private organisations. Tim worked with Vix Technology and Mayne Pharma (before its acquisition by Hospira). His experience spans a range of industry sectors including information technology, pharmaceuticals, automotive manufacturing and health services. Prior to joining Acrux Tim was the Group Chief Financial Officer at Vix Technology for 10 years where his responsibilities included financial management, corporate governance, supporting strategic planning and commercial activities, M&A activities and capital raising. Tim commenced his career at Pannell Kerr Forster (chartered accountants) in 1993. His clients included ASX listed and private entities. He commenced with Mayne in 1998 and held a number of positions within the corporate office and treasury division. Tim is a Chartered Accountant.

### DIRECTORS' AND EXECUTIVES' INTERESTS IN EQUITY INSTRUMENTS

Directors' and Executives' relevant interests in equity instruments of the Company as at the date of this report are detailed below:

| | Total No. of shares | Total No. of options | Total No. of performance rights |
|---|---|---|---|
| **Directors** | | | |
| Ross Dobinson | 1,372,593 | - | - |
| Tim Oldham | 16,150 (1) | - | - |
| Geoff Brooke | 75,750 | - | - |
| Simon Green | 60,600 | - | - |
| Michael Kotsanis | - | 2,000,000 | 4,000,000 |
| **Executives** | | | |
| Tim Bateman | - | - | 155,000 |
| Charles O'Sullivan | - | - | 125,000 |
| Felicia Colagrande | 1,500 | - | 125,000 |
| Nina Webster | 17,100 (2) | - | 80,000 |
| **Total** | **1,543,693** | **2,000,000** | **4,485,000** |

(1) Related party interests of Tim Oldham hold 400 shares of Acrux Limited.

(2) Related party interests of Nina Webster hold 17,100 shares of Acrux Limited.

## DIRECTORS' REPORT

### DIRECTORS' INTERESTS IN CONTRACTS

Directors' interests in contracts are disclosed in Note 24 to the financial statements.

### INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITORS

During the financial year, the consolidated entity has paid premiums in respect of an insurance contract to indemnify officers against liabilities that may arise from their positions as officers of the Group. Officers indemnified include the company secretary, all Directors and all executive officers participating in the management of the Group.

Further disclosure required under section 300(9) of the Corporations Act 2001 is prohibited under the terms of the insurance contract.

### COURT PROCEEDINGS

Formal trial proceedings concluded in November 2017 in the U.S. Court of Appeals for the Federal Circuit against 1) Perrigo Israel Pharmaceuticals Limited ("Perrigo"), 2) Watson Laboratories Inc. ("Actavis"), 3) Amneal Pharmaceuticals LLC ("Amneal") and 4) Lupin Pharmaceuticals Inc. ("Lupin") (collectively, the "Defendants"), respectively for infringement of issued patents covering Axiron®. The U.S. Court of Appeals for the Federal Circuit affirmed all aspects of the judgment by the United States District Court for the Southern District of Indiana. In August 2016, the United States District Court for the Southern District of Indiana ruled that the formulation and axilla application patents granted by the US Patent Office for Axiron® were invalidated and therefore would not be infringed by the commercialisation of generic versions of Axiron® by the generic companies that have challenged these patents. The applicator patent was valid but not infringed by the majority of parties.

Acrux and Eli Lilly and Company are named as defendants in product liability lawsuits in the US which are consolidated in a federal MDL in the U.S. District Court for the Northern District of Illinois. A small number of lawsuits have been filed in State Courts. The cases generally allege cardiovascular and related injuries and are currently stayed by the courts pending ongoing settlement talks. Medical Mutual of Ohio has filed a class action complaint against multiple manufacturers of testosterone products in the Northern District of Illinois, on behalf of third party payers who paid for these products. Acrux and Eli Lilly and Company believe these lawsuits and claims are without merit and are prepared to defend against them vigorously. The conduct of the lawsuits will not have a material impact on the Group's operating expenditure.

## REMUNERATION REPORT (AUDITED)

The Directors present the Group's 2018 remuneration report which details the remuneration information for Acrux Limited's Non-Executive Chairman, Non-Executive Directors and other key management personnel.

### HUMAN CAPITAL AND NOMINATION COMMITTEE

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

(a) recommending to the Board a policy and framework for senior employees' remuneration which aims to set remuneration which:
(i) is competitive, fair and designed to attract employees of high quality, skill and experience;
(ii) motivates senior employees to achieve challenging goals that are linked to the creation of sustainable shareholder returns within the appropriate control framework; and
(iii) establishes a clear relationship between the performance of senior management and their remuneration;

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

(c) reviewing benchmarks against which salary reviews are made;

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

(e) reviewing and making recommendations on the superannuation arrangements of the Group; and

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

### REMUNERATION POLICY

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

- remuneration is set at levels intended to attract, retain, motivate and reward good performers;
- remuneration is structured to reward employees for both superior operational performance and increasing long term shareholder value; and
- rewards are linked to the achievement of business objectives as determined by the Board.

### REMUNERATION STRUCTURE

The remuneration of employees is structured in two parts:

- FIXED REMUNERATION, which comprises salary, superannuation and other benefits in lieu of salary; and
- VARIABLE REMUNERATION, which may comprise a short term incentive in the form of cash and a long term incentive in the form of equity instrument under the omnibus equity plan (OEP), the Chief Executive Officer's (CEO) share option plan (CSOP) or the employee share option plan (ESOP). All permanent staff (including the CEO) are eligible to participate in the short term incentive plan and the OEP. Only the CEO participates in the CSOP and the employees participate in the ESOP. The level of participation varies according to both the level of seniority of the employee and the employee's ability to influence the performance of the business.

The Group aims to set the level of fixed remuneration based on market rates for comparable jobs in the Group's industry sector. The Group aims to set the short and long term incentives to provide for superior achievement to merit higher levels of remuneration, subject to achievement of goals set by the Board.

The aim of both the short term and long term incentive plans is to drive performance to successfully implement annual business plans and to increase shareholder value.

## REMUNERATION REPORT (AUDITED)

**SHORT TERM INCENTIVE PLAN**

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

The business objectives are clearly defined outcomes for product development and commercialisation. The achievement or non-achievement of which can be objectively measured at the end of the financial year.

Each objective is expected to either create value for shareholders or represent material progress towards adding shareholder value.

Under the short term incentive plan senior executives (other than the Chief Executive Officer) are able to achieve annual cash incentives of up to 24% of their fixed remuneration. The Chief Executive Officer is able to achieve annual cash incentives of 25% of his fixed remuneration, which can be varied by Board discretion.

The key principles of the plan are:

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

**LONG TERM INCENTIVE PLANS**

The purpose of the long term incentive plan is to align the interests of senior executives and other employees more closely with those of the shareholders in terms of sustainable, long term superior performance. Long term incentive plans are designed to comply with both the requirements of ASX Listing Rules and the Pooled Development Funds Act 1992. At the time of signing there are two long term incentive plans, providing incentives through options to acquire ordinary shares.

The first plan, the Omnibus Equity Plan, is for all employees including the Chief Executive Officer was approved by shareholders at the 2017 Annual General Meeting and it is subject to the following terms:

*A. Chief Executive Officer ('CEO')*

- The Board issued 4 million performance rights for nil cash consideration and each performance right may give rise to the right to acquire one ordinary share in the Company;
- The 4 million performance rights will vest in 4 equal tranches, with each successive tranche vesting at the end of each of the 4 years after grant, provided that the CEO is still employed and that the total return to shareholders (TSR) over the year preceding the vesting of each tranche is equal to or greater than 12%.
- Tranches that do not vest in any year of the cycle may be "rolled over" into the next year of the cycle and will be subject to an additional 12% TSR hurdle. There will be no "roll-over" after the fourth year; and
- The rights will expire 7 years after grant;

*B. Employees*

- The Board has chosen to issue performance rights to employees that are granted on the basis of a four-year cycle at nil cost;
- Each performance right may give rise to the right to acquire one ordinary share in the Company;
- Each grant of performance rights will vest after one year, provided that the total return to shareholders (TSR) over that period is equal to or greater than 12% and the employee remains employed.
- Tranches that do not vest in any year of the cycle may be "rolled over" into the next year of the cycle and will be subject to an additional 12% TSR hurdle. There will be no "roll-over" after the fourth year; and
- The rights will expire 7 years after grant;

For further details refer to Note 17 to the accounts.

## REMUNERATION REPORT (AUDITED)

### LONG TERM INCENTIVE PLANS (Continued)

The second plan is the Chief Executive Officer Share Option Plan and it is subject to the following terms:

- The options vest on grant and expire three years after grant;
- The options lapse on termination of employment, other than through death or redundancy; and
- The exercise price is set at a 25% premium to the volume weighted average market price of the Company's shares 5 days prior to grant and comprise 3 tranches.

  - Tranche 1 was granted on 3 February 2015, expired on 3 February 2018 with options not being exercised;
  - Tranche 2 was granted on 22 July 2015, expired on 22 July 2018 with options not being exercised; and
  - Tranche 3 was granted on 22 July 2016.

In prior years, equity based long term incentives were awarded to employees under an Employee Share Option Plan (ESOP) approved by shareholders at 2015 Annual General Meeting. In the ordinary course of reviewing the appropriateness of employee remuneration, the Board and Human Capital and Nominations Committee (HCNC) has determined that the existing grants under the ESOP no longer provide adequate or appropriate long term incentives and are to be replaced by awards under the Omnibus Equity Plan.

The Board continues to re-evaluate the effectiveness of long term incentive plans as the business environment changes.

### GROUP PERFORMANCE

The following table summarises the Group's performance and key performance indicators:

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Revenue ($'000) | 3,432 | 23,934 | 28,557 | 25,368 | 53,859 |
| % increase in revenue | -86% | -16% | 13% | -53% | 226% |
| (Loss)/profit before tax ($'000) | (16,125) | (94) | 18,092 | 16,806 | 43,857 |
| % increase in loss/profit before tax | 17054% | -101% | 8% | -62% | 337% |
| Change in share price (%) | -32% | -69% | -15% | -16% | -71% |
| Dividend paid to shareholders ($'000) | - | - | 9,991,303 | 13,321,737 | 33,304,342 |
| Total remuneration of Key Management | 2,021,723 | 2,032,539 | 1,909,941 | 2,114,293 | 1,644,449 |
| Total performance based remuneration | 269,328 | 198,179 | 209,110 | 176,603 | 103,891 |

### REMUNERATION AND TERMINATION ENTITLEMENTS OF SENIOR MANAGEMENT

Senior executives have no fixed term of employment and either party to management employment contracts may terminate the contract on periods of written notice ranging between one and six months. The employment contracts contain no other entitlement to termination benefits beyond statutory entitlements.

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

| Executive | | |
|---|---|---|
| Michael Kotsanis | Chief Executive Officer | Commenced 3 November 2014 |
| Tim Bateman | Chief Financial Officer & Company Secretary | Commenced 3 October 2016 |
| Felicia Colagrande | Product Development and Technical Affairs Director | Commenced 15 February 2015 |
| Charles O'Sullivan | Portfolio Director | Commenced 1 July 2015 |
| Nina Webster | Commercial Director | Commenced 1 July 2013 |

### SHARE OPTIONS

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

No options over ordinary shares were granted during or since the end of the financial year.

## REMUNERATION REPORT (AUDITED)

**REMUNERATION AND TERMINATION ENTITLEMENTS OF SENIOR MANAGEMENT (Continued)**

**SHARE OPTIONS (Continued)**

*(b) Shares issued on exercise of options*

No ordinary shares were issued to Directors or Executives on the exercise of options held by those parties during or since the end of the financial year.

**PERFORMANCE RIGHTS**

*(a) Compensation Performance Rights: Granted and vested during the year*

A total of 4,000,000 performance rights were issued by Acrux Limited to the Chief Executive Officer, Mr. Kotsanis, on 14 November 2017 under the Omnibus Equity Plan, approved by shareholders at 2017 Annual General Meeting. Performance rights issued to Mr. Kotsanis vest upon the Group achieving performance metrics approved by the Board and his continued employment.

A total of 836,000 performance rights were issued by Acrux Limited to eligible employees on 25 January 2018 under the Omnibus Equity Plan, approved by shareholders at 2017 Annual General Meeting. Performance rights issued to eligible employees vest upon the Group achieving performance metrics approved by the Board and their continued employment.

*(b) Shares issued on exercise of performance rights*

No ordinary shares were issued to Directors or Executives on the exercise of performance rights held by those parties during or since the end of the financial year.

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

| | Primary | | | | Share Based Payments | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Salary | Bonus * | Post-employment super | Termination Benefits | Options | Performance Rights | Total | Equity as a % of total | Bonus as a % of total |
| **2018** | $ | $ | $ | $ | $ | | $ | % | % |
| Michael Kotsanis (1) | **406,332** | **129,877** | **20,048** | **-** | **-** | **133,618** | **689,875** | **19%** | **19%** |
| Tim Bateman (2) | **234,702** | **49,593** | **20,048** | **-** | **6,987** | **7,029** | **318,359** | **4%** | **16%** |
| Felicia Colagrande (4) | **185,821** | **34,667** | **18,252** | **-** | **6,620** | **5,669** | **251,029** | **5%** | **14%** |
| Charles O'Sullivan (5) | **185,821** | **34,667** | **18,252** | **-** | **6,620** | **5,669** | **251,029** | **5%** | **14%** |
| Nina Webster (6) | **122,036** | **20,524** | **13,248** | **-** | **4,045** | **3,628** | **163,481** | **5%** | **13%** |
| | **1,134,712** | **269,328** | **89,848** | **-** | **24,272** | **155,613** | **1,673,773** | **11%** | **16%** |
| **2017** | | | | | | | | | |
| Michael Kotsanis (1) | 399,713 | 99,517 | 19,616 | - | 183,000 | - | 701,846 | 26% | 14% |
| Tim Bateman (2) | 173,019 | 26,375 | 14,789 | - | 5,823 | - | 220,006 | 3% | 12% |
| Sharon Papworth (3) | 75,209 | - | 6,436 | - | - | - | 81,645 | 0% | 0% |
| Felicia Colagrande (4) | 182,356 | 27,594 | 20,002 | - | 12,912 | - | 242,864 | 5% | 11% |
| Charles O'Sullivan (5) | 182,356 | 27,273 | 20,031 | - | 12,912 | - | 242,572 | 5% | 11% |
| Nina Webster (6) | 122,792 | 17,420 | 13,404 | - | 8,039 | - | 161,655 | 5% | 11% |
| | 1,135,445 | 198,179 | 94,278 | - | 222,686 | - | 1,650,588 | 13% | 12% |

* Bonus relates to achievement of objectives for the financial year.

1 Appointed Chief Executive Officer and Managing Director 3 November 2014.

2 Appointed Chief Financial Officer and Company Secretary 10 October 2016.

3 Appointed Chief Financial Officer and Company Secretary 29 September 2014 and last day of employment 28 October 2016.

4 Appointed Product Development and Technical Affairs Director 15 February 2015.

5 Appointed Portfolio Director 1 July 2015.

6 Appointed Commercial Director 1 July 2013. Commercial Director is employed on a part time basis.

## REMUNERATION REPORT (AUDITED)

### REMUNERATION OF DIRECTORS

The Human Capital and Nomination Committee determines the level of remuneration necessary to attract and retain Directors with the skills and experience required by the Group at its stage of development. The Committee makes recommendations to the Board, which subsequently puts those recommendations for approval by the shareholders at the next Annual General Meeting.

The director services of the Non-Executive Chairman Ross Dobinson are provided by Espasia Pty Ltd. The contract for services can be terminated by either party by giving three months' notice in writing. For the 2017/18 financial year the contract provided for fees of $118,000 per annum in respect of director services.

For the 2017/18 financial year Non-Executive Directors' fees were $70,000 per annum, plus superannuation, for each Non-Executive Director. At the 2004 Annual General Meeting shareholders set the maximum aggregate amount of Non-Executive Directors' fees at $450,000. In addition Non-Executive Directors are entitled to reimbursement of reasonable expenses incurred by them on Group business.

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

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

| | Primary | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Fees | Bonus | Post-employment super | Termination Benefits | Share Based Payments | Total | Equity as a % of total | Bonus as a % of total |
| **2018** | $ | $ | $ | $ | $ | $ | % | % |
| Ross Dobinson [1] | **118,000** | - | - | - | - | **118,000** | - | - |
| Timothy Oldham [3] | **70,000** | - | **6,650** | - | - | **76,650** | - | - |
| Geoff Brooke [4] | **70,000** | - | **6,650** | - | - | **76,650** | - | - |
| Simon Green [4] | **70,000** | - | **6,650** | - | - | **76,650** | - | - |
| | **328,000** | - | **19,950** | - | - | **347,950** | - | - |
| **2017** | | | | | | | | |
| Ross Dobinson [1] | 118,000 | - | - | - | - | 118,000 | - | - |
| Bruce Parncutt [2] | 31,051 | - | 2,950 | - | - | 34,001 | - | - |
| Timothy Oldham [3] | 70,000 | - | 6,650 | - | - | 76,650 | - | - |
| Geoff Brooke [4] | 70,000 | - | 6,650 | - | - | 76,650 | - | - |
| Simon Green [4] | 70,000 | - | 6,650 | - | - | 76,650 | - | - |
| | 359,051 | - | 22,900 | - | - | 381,951 | - | - |

1 Appointed Non-Executive Chairman post appointment of the Chief Executive Officer, November 2014. Previously Executive Chairman from 1 July 2012.

2 Resigned 7 December 2016.

3 Appointed Non-Executive Director 1 October 2013.

4 Appointed Non-Executive Director 1 June 2016.

Mr. Kotsanis was appointed Chief Executive Officer and Managing Director, November 2014. The remuneration details of Mr. Kotsanis have been disclosed in the executive remuneration table.

## REMUNERATION REPORT (AUDITED)

**EQUITY INSTRUMENTS HELD BY KEY MANAGEMENT PERSONNEL**

**ORDINARY SHARES**

The number of ordinary shares held by key management personnel at financial year end is set out in the following table:

| Directors and Executives | Balance 1/07/17 | Granted as remuneration | Options exercised | Net change other | Balance 30/06/18 |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Ross Dobinson (1) | 1,372,593 | - | - | - | 1,372,593 |
| Timothy Oldham (2) | 16,150 | - | - | - | 16,150 |
| Geoff Brooke (3) | 75,750 | - | - | - | 75,750 |
| Simon Green (3) | - | - | - | 60,600 | 60,600 |
| **Executives** | | | | | |
| Nina Webster (4) | 6,100 | - | - | 11,000 | 17,100 |
| Felicia Colagrande (5) | 1,500 | - | - | - | 1,500 |
| **Total** | **1,472,093** | **-** | **-** | **71,600** | **1,543,693** |

1 Appointed Non-Executive Chairman post appointment of the Chief Executive Officer, November 2014. Previously Executive Chairman from 1 July 2012.

2 Appointed Non-Executive Director 1 October 2013.

3 Appointed Non-Executive Director 1 June 2016.

4 Appointed Commercial Director 1 July 2013. Commercial Director is employed on a part time basis.

5 Appointed Product Development and Technical Affairs Director 15 February 2015.

**SHARE OPTIONS**

The number of employee share options held by key management personnel at financial year end is set out in the following table:

| Executives | Balance 1/07/17 | Granted as remuneration | Options exercised | Net change other | Balance 30/06/18 | Value of options granted during the year at grant date | Value of options expensed in 30/06/2018 |
|---|---|---|---|---|---|---|---|
| **Executives** | | | | | | | |
| Michael Kotsanis (1) | 4,000,000 | - | - | (2,000,000) | 2,000,000 | - | - |
| Tim Bateman (2) | 95,000 | - | - | (95,000) | - | - | 6,987 |
| Nina Webster (3) | 55,000 | - | - | (55,000) | - | - | 4,045 |
| Felicia Colagrande (4) | 90,000 | - | - | (90,000) | - | - | 6,620 |
| Charles O'Sullivan (5) | 90,000 | - | - | (90,000) | - | - | 6,620 |
| **Total** | **4,330,000** | **-** | **-** | **(2,330,000)** | **2,000,000** | **-** | **24,272** |

1 Appointed Chief Executive Officer and Managing Director 3 November 2014.

2 Appointed Chief Financial Officer and Company Secretary 10 October 2016.

3 Appointed Commercial Director 1 July 2013. Commercial Director is employed on a part time basis.

4 Appointed Product Development and Technical Affairs Director 15 February 2015.

5 Appointed Portfolio Director 1 July 2015.

## REMUNERATION REPORT (AUDITED)

**EQUITY INSTRUMENTS HELD BY KEY MANAGEMENT PERSONNEL (Continued)**

**PERFORMANCE RIGHTS**

The number of employee performance rights held by key management personnel at financial year end is set out in the following table:

| Executives | Balance 1/07/17 | Granted as remuneration | Rights exercised | Net change other | Balance 30/06/18 | Value of performance rights at grant date | Value of performance rights expensed in 30/06/2018 |
|---|---|---|---|---|---|---|---|
| **Executives** | | | | | | | |
| Michael Kotsanis [1] | - | 4,000,000 | - | - | 4,000,000 | 370,296 | 133,618 |
| Tim Bateman [2] | - | 155,000 | - | - | 155,000 | 16,447 | 7,029 |
| Nina Webster [3] | - | 80,000 | - | - | 80,000 | 8,489 | 3,628 |
| Felicia Colagrande [4] | - | 125,000 | - | - | 125,000 | 13,263 | 5,669 |
| Charles O'Sullivan [5] | - | 125,000 | - | - | 125,000 | 13,263 | 5,669 |
| **Total** | **-** | **4,485,000** | **-** | **-** | **4,485,000** | **421,758** | **155,613** |

1 Appointed Chief Executive Officer and Managing Director 3 November 2014.

2 Appointed Chief Financial Officer and Company Secretary 10 October 2016.

3 Appointed Commercial Director 1 July 2013. Commercial Director is employed on a part time basis.

4 Appointed Product Development and Technical Affairs Director 15 February 2015.

5 Appointed Portfolio Director 1 July 2015.

**USE OF REMUNERATION CONSULTANTS**

The Human Capital and Nomination Committee (HCNC) employed the services of Egan Associates Pty Limited to provide guidance to assist the HCNC and Board in the redesign of long term incentive plans for:

- Non-Executive Directors (NEDs);
- Managing Director & CEO and senior staff; and
- Other employees of the Group.

Under the terms of the engagement, Egan Associates Pty Limited was paid $20,090 for these services.

Egan Associates Pty Limited was engaged by, and reported directly to, the Chair of the HCNC. The agreement for the provision of remuneration consulting services was executed by the Chair of the HCNC under delegated authority on behalf of the Board. The report containing the remuneration recommendations was provided directly to the chair of the HCNC.

Egan Associates Pty Limited was permitted to speak to management throughout the engagement to understand Company processes, practices and other business issues and obtain management perspectives. However, Egan Associates Pty Limited was not permitted to provide any advice or recommendations to members of management before advice or recommendations was given to members of the HCNC and not unless Egan's Associates Pty Limited had approval to do so from members of the HCNC. As a consequence, the Board is satisfied that the recommendations were made free from undue influence from any members of the Key Management Personnel. The OEP approved at the 2017 AGM was the first step to implementing these recommendations. A further proposal relating to Board remuneration will be put to the 2018 AGM.

**VOTING AND COMMENTS MADE AT THE COMPANY'S 2017 ANNUAL GENERAL MEETING (AGM)**

At the Company’s 2017 AGM, a resolution to adopt the prior year's Remuneration Report was put to the vote and 47% of votes cast were cast in favour of the adoption of that Report. Accordingly a 'first strike' was recorded. No comments were made at the AGM by shareholders in relation to the Remuneration Report. As a result of the concerns raised by shareholders, the Company has increased engagement with shareholders and potential investors regarding the Company's strategy, including the remuneration policies. An investor relations firm has been appointed to enhance investor liaison regarding the Company's strategy.

**THIS IS THE END OF THE AUDITED REMUNERATION REPORT**

## DIRECTORS' REPORT

### NON-AUDIT SERVICES

Non-audit services are approved by resolution of the Audit and Risk Committee and approval is provided in writing to the Board of Directors. Non-audit services were provided by the auditors, namely Pitcher Partners (Melbourne) and their network firms and other non-related audit firms, as detailed below. The Directors are satisfied that the provision of the non-audit services during the year by the auditors is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 for the following reasons:

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

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Amounts paid or payable to Pitcher Partners (Melbourne) for non-audit services | **32,255** | 104,888 |
| Amounts paid or payable to network firms of Pitcher Partners for non-audit services | **27,297** | - |
| **Total auditors' remuneration for non-audit services** | **59,552** | 104,888 |

### AUDITORS' INDEPENDENCE DECLARATION

A copy of the Auditors' Independence Declaration as required under section 307C of the Corporation Act 2001 in relation to the audit for the financial year is provided with this Financial Report.

### ROUNDING OF AMOUNTS

In accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* the amounts in the Directors' Report have been rounded to the nearest one million dollars and in the Financial Report have been rounded to the nearest one thousand dollars, or in certain cases, to the nearest dollar (where indicated).

Signed in accordance with a resolution of the Directors:

.....................................................................

**Ross Dobinson**
Non-Executive Chairman

Melbourne
Dated this 16th day of August 2018

.....................................................................

**Geoff Brooke**
Non-Executive Director

Melbourne
Dated this 16th day of August 2018

**ACRUX LIMITED**

**AUDITOR'S INDEPENDENCE DECLARATION**
**TO THE DIRECTORS OF ACRUX LIMITED**

In relation to the independent audit for the year ended 30 June 2018, to the best of my knowledge and belief there have been:

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

(ii) No contraventions of APES 110 *Code of Ethics for Professional Accountants*.

This declaration is in respect of Acrux Limited and the entities it controlled during the year.

S SCHONBERG
Partner

16 August 2018

PITCHER PARTNERS
Melbourne

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

**FOR THE YEAR ENDED 30 JUNE 2018**

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Revenue** | 4 | **3,432** | 23,934 |
| Employee benefits expense | 5 | **(4,720)** | (4,277) |
| Directors' fees | | **(348)** | (382) |
| Share options expense | | **(228)** | (279) |
| Depreciation and amortisation expense | 5 | **(618)** | (1,560) |
| Impairment losses | 5 | **(5,647)** | (10,680) |
| Occupancy expense | | **(498)** | (493) |
| External research and development expense | | **(4,027)** | (3,239) |
| Professional fees | | **(2,683)** | (1,827) |
| Royalty expense | | **(50)** | (136) |
| Foreign exchange loss | 5 | **(192)** | (457) |
| Other expenses | | **(546)** | (698) |
| Total expenses | | **(19,557)** | (24,028) |
| Loss before income tax | | **(16,125)** | (94) |
| Income tax benefit/(expense) | 6 | **1,943** | (149) |
| **Net loss for the year** | | **(14,182)** | (243) |
| **Total comprehensive (loss)/income for the year** | | **(14,182)** | (243) |
| **Total comprehensive (loss)/income attributable to:** | | | |
| Members of the parent entity | 18(b) | **(14,182)** | (243) |
| Non-controlling interest | 20 | **-** | - |
| | | **(14,182)** | (243) |
| **Loss per share for profit attributable to the equity holders of the parent entity:** | | | |
| Basic loss per share | 8 | **(8.52) cents** | (0.15) cents |
| Diluted loss per share | 8 | **(8.52) cents** | (0.15) cents |

**The statement should be read in conjunction with the notes to these financial statements**

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**AS AT 30 JUNE 2018**

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 9 | **28,470** | 33,974 |
| Receivables | 10 | **261** | 5,532 |
| Current tax asset | 6 | **51** | - |
| Other current assets | 11 | **179** | 91 |
| **Total current assets** | | **28,961** | 39,597 |
| **Non-current assets** | | | |
| Plant & equipment | 12 | **845** | 778 |
| Intangible assets | 13 | **803** | 6,839 |
| Deferred tax asset | 6 | **1,881** | 92 |
| **Total non-current assets** | | **3,529** | 7,709 |
| **Total assets** | | **32,490** | 47,306 |
| **Current liabilities** | | | |
| Payables | 14 | **1,966** | 1,819 |
| Current tax payable | 6 | **-** | 1,136 |
| Provisions | 15 | **518** | 407 |
| **Total current liabilities** | | **2,484** | 3,362 |
| **Non-current liabilities** | | | |
| Provisions | 15 | **35** | 19 |
| **Total non-current liabilities** | | **35** | 19 |
| **Total liabilities** | | **2,519** | 3,381 |
| **NET ASSETS** | | **29,971** | 43,925 |
| **EQUITY** | | | |
| Contributed equity | 16 | **95,873** | 95,873 |
| Reserves | 18(a) | **581** | 1,215 |
| Retained earnings | 18(b) | **(66,483)** | (53,163) |
| **Equity attributable to equity holders of the Parent** | | **29,971** | 43,925 |
| Non-controlling interests | 20 | **-** | - |
| **TOTAL EQUITY** | | **29,971** | 43,925 |



**The statement should be read in conjunction with the notes to these financial statements**

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**FOR THE YEAR ENDED 30 JUNE 2018**

| | Notes | Contributed equity $'000 | Reserves $'000 | Retained earnings $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| **Balance as at 1 July 2016** | | 95,873 | 1,454 | (53,438) | 43,889 |
| Loss for the period | | | | (243) | (243) |
| **Total comprehensive income for the year** | | - | - | (243) | (243) |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Employee share scheme | 18(a) | - | 279 | - | 279 |
| Employee share options that lapsed during period | 18(a) | - | (518) | 518 | - |
| **Balance as at 30 June 2017** | | 95,873 | 1,215 | (53,163) | 43,925 |
| **Balance as at 1 July 2017** | | **95,873** | **1,215** | **(53,163)** | **43,925** |
| Loss for the period | | | | **(14,182)** | **(14,182)** |
| **Total comprehensive income for the year** | | **-** | **-** | **(14,182)** | **(14,182)** |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Employee share scheme | 18(a) | | **228** | | **228** |
| Employee share options that lapsed during period | 18(a) | | **(862)** | **862** | **-** |
| **Balance as at 30 June 2018** | | **95,873** | **581** | **(66,483)** | **29,971** |

## CONSOLIDATED STATEMENT OF CASHFLOWS

**FOR THE YEAR ENDED 30 JUNE 2018**

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Receipts from product agreements | | **7,872** | 21,822 |
| Payments to suppliers and employees | | **(12,731)** | (10,748) |
| Interest received | | **610** | 637 |
| Income tax paid | | **(1,033)** | (6,335) |
| **Net cash (used in)/provided by operating activities** | 19(a) | **(5,282)** | 5,376 |
| **Cash flow from investing activities** | | | |
| Payment for property, plant and equipment | | **(296)** | (629) |
| **Net cash used in investing activities** | | **(296)** | (629) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(5,578)** | 4,747 |
| Cash and cash equivalents at beginning of year | | **33,974** | 29,360 |
| Foreign exchange differences on cash holdings | | **74** | (133) |
| **Cash and cash equivalents at end of the year** | 19(b) | **28,470** | 33,974 |

**The statement should be read in conjunction with the notes to these financial statements**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

### 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies adopted by the Group in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

**(a) Basis of preparation**

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

The financial report covers Acrux Limited and its controlled entities as a Group. Acrux Limited is a company limited by shares, incorporated and domiciled in Australia. The address of Acrux Limited's registered office and principal place of business is 103-113 Stanley Street, West Melbourne, Vic, 3003, Australia. Acrux Limited is a for-profit entity for the purpose of preparing the financial report. The financial report was approved by the Directors as at the date of the Directors' Report.

*Compliance with IFRS*

The financial report also complies with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

*Historical cost convention*

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

*Significant accounting estimates and judgements*

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

**(b) Going concern**

The financial report has been prepared on a going concern basis. During the year ended 30 June 2018 the Group reported an operating loss after tax of $14.182 million (2017: loss $0.243 million) and at the reporting date total assets exceeded total liabilities by $29.971 million (2017: $43.925 million).

**(c) Principles of consolidation**

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

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

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

## 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**(c) Principles of consolidation (continued)**

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as non-controlling interests. Non-controlling interests are initially recognised either at fair value or at the non-controlling interests' proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Non-controlling interests in the results of subsidiaries are shown separately in the Consolidated Statement of Profit or Loss and Other Comprehensive Income and Consolidated Statement of Financial Position respectively.

**(d) Revenue**

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

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

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

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

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

**(e) Cash and cash equivalents**

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

**(f) Plant and equipment**

*Cost and valuation*

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation and any accumulated impairment losses. At each balance date the carrying amount of each asset is reviewed to ensure that it does not differ materially from the asset's fair value at reporting date. Where necessary, the asset is revalued to reflect its fair value.

*Depreciation*

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

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

The useful lives for each class of assets are:

| | **2018** | **2017** |
|---|---|---|
| Leasehold improvements | **5 to 20 years** | 5 to 20 years |
| Plant and equipment | **2.5 to 16 years** | 2.5 to 14 years |

## 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**(g) Leases**

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

*Operating Leases*

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

**(h) Intangibles**

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

*Intellectual Property*

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

*Research and Development*

Expenditure during the research phase of a project is recognised as an expense when incurred. Product development costs are capitalised only when all of the following specific criteria can be demonstrated:

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

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

The estimated useful life and total economic benefit for each asset are reviewed at least annually. The useful life of capitalised development costs for Estradiol, for which amortisation has commenced, is approximately 7 years. Amortisation expense is included in 'Depreciation and amortisation expenses' of the Consolidated Statement of Comprehensive Income.

**(i) Impairment of non-financial assets**

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

An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to dispose and its value in use. Impairment loss is disclosed as a separate line item on the Consolidated Statement of Comprehensive Income.

## 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Income tax

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

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

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

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

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

The subsidiary companies of Acrux Limited are subject to the general corporate company tax rate of 27.5%.

Income tax benefit for the financial year was $1.943 million (2017: expense $0.149 million). The change from the prior financial year is mainly attributable to the higher operating loss and the reversal of the deferred tax liability associated with the amortisation and impairment of Axiron® capitalised development costs being reversed.

### (k) Provisions

Provisions are recognised when the Group has a 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.

### (l) Employee benefits

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

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

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

*Bonus*

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

**1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(l) Employee benefits (Continued)**

*Share-based payments*

The Group operates an Employee Share Option Plan, Chief Executive Option Plan and an Omnibus Equity Plan. The fair value of the options and performance rights are recognised as an expense in the Consolidated Statement of Comprehensive Income in the period(s) during which the employee becomes entitled to exercise the options. The fair value of options at grant date is determined using a binomial option pricing model, and is recognised as an employee expense over the period during which the employees became entitled to the option (the vesting period). The fair value of performance rights at grant date is determined using a Monte Carlo simulation pricing model, and is recognised as an employee benefit expense over the period during which the employees became entitled to the performance right (the vesting period).

*Termination benefits*

Termination benefits are payable when employment of an employee is terminated before the normal retirement date. The Group recognises a provision for termination benefits when entitlement to contractual benefits arises or when the entity can no longer withdraw the offer of non-contractual benefits.

**(m) Comparatives**

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

**(n) Financial instruments**

*Non-derivative Financial Instruments*

*Financial Assets*

Non-derivative financial assets consist of trade and other receivables and cash and cash equivalents. Financial assets are tested for impairment at each financial year end to establish whether there is any objective evidence for impairment. Trade receivables are carried at full amounts due less any provision for impairment. A provision for impairment is recognised when collection of the full amount is no longer probable. Amounts receivable from other debtors are carried at full amounts due. Other debtors are normally settled 30 days from month end unless there is a specific contract which specifies an alternative date. Amounts receivable from related parties are carried at full amounts due.

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

*Financial Liabilities*

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

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

*Derivative Financial Instruments*

In prior years the Group had used and may continue to use derivative financial instruments to hedge its risk exposures from foreign currency exchange rate movements. Such derivatives are measured at fair value and changes in value are recognised immediately in profit or loss.

**1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(o) Foreign currency translations and balances**

*Functional and presentation currency*

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

*Transactions and balances*

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

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year. Except for any currency hedges, all resulting exchange differences arising on settlement or re-statement are recognised as revenues or expenses for the financial year.

**(p) Goods and services tax (GST)**

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

Cash flows are presented in the Consolidated Statement of Cashflows on a gross basis.

**(q) Rounding amounts**

The Company and the Group have applied the relief available under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and accordingly, the amounts in the consolidated financial statements and in the Directors' Report have been rounded to the nearest thousand or million dollars, or in certain cases, to the nearest dollar (where indicated).

**(r) Accounting standards issued but not yet effective at 30 June 2018**

*AASB 15 Revenue from contracts with customers*

AASB 15 introduces a five step process for revenue recognition with the core principle being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services.

The five step approach is as follows:

- Step 1: Identify the contracts with the customer;
- Step 2: Identify the separate performance obligations;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price; and
- Step 5: Recognise revenue when a performance obligation is satisfied.

AASB 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The effective date is annual reporting periods beginning on or after 1 January 2018.

A preliminary assessment undertaken by the Group shows that it does not expect material changes to arise from this new standard.

## 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (r) Accounting standards issued but not yet effective at 30 June 2018

*AASB 9: Financial Instruments*

This standard will replace *AASB 139: Financial Instruments: Recognition and Measurement* . The key changes that may affect the Group on initial application of AASB 9 and associated amending Standards include:

- Simplifying the general classifications of financial assets into those carried at amortised cost and those carried at fair value;
- Permitting entities to irrevocably elect on initial recognition to present gains and losses on an equity instrument that is not held for trading in other comprehensive income (OCI);
- Simplifying the requirements for embedded derivatives, including removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- Requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in OCI, except when it would create an 'accounting mismatch';
- Introducing a new model for hedge accounting that permits greater flexibility in the ability to hedge risk, particularly with respect to non-financial items; and
- Requiring impairment of financial assets carried at amortised cost based on an expected loss approach.

A preliminary assessment undertaken by the Group shows that it does not expect material changes to arise from this new standard.

*AASB 16 Leases*

AASB 16 introduces a single lessee accounting model that will require a lessee to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Right-of-use assets are initially measured at their cost and lease liabilities are initially measured on a present value basis. Subsequent to initial recognition:

- Right-of-use assets are accounted for on a similar basis to non-financial assets, whereby the right-of-use asset is accounted for in accordance with a cost model unless the underlying asset is accounted for on a revaluation basis, in which case if the underlying asset is:
  - investment property, the lessee applies the fair value model in *AASB 140: Investment Property* to the right-of-use asset; or
  - property, plant or equipment, the lessee can elect to apply the revaluation model in *AASB 116: Property, Plant and Equipment* to all of the right-of-use assets that relate to that class of property, plant and equipment; and
- Lease liabilities are accounted for on a similar basis as other financial liabilities, whereby interest expense is recognised in respect of the liability and the carrying amount of the liability is reduced to reflect lease payments made.

The Group has one operating lease that relates to office, laboratory and warehouse facilities.

The Group, after its initial assessment of the impact arising from AASB 16 anticipates that upon adoption of this standard:

- The Group's Consolidated Statement of Financial Position will be grossed up (both assets and liabilities) to reflect the rights and obligations relating to the Group's lease. For leased properties occupied by the Group, the Consolidated Statement of Financial Position will hold a depreciating non-financial asset and the associated payable under the lease. Refer to the current lease expenditure existing commitments Note 21 in the financial report for an indicator of the impact of the gross up.
- In the Consolidated Statement of Comprehensive Income, net rental expense will be replaced by a 'front-loaded' net interest expense and a straight-lined depreciation expense.

## 2 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

**(b) Impairment testing**
The Group uses discounted cash flow models to determine that the capitalised development costs in the Group are not being carried at a value that is materially in excess of recoverable value. The models value each product by estimating future cash flows, risk adjusted as appropriate and discounting the future net cash flows for the risks specific to the assets as well as for the time value of money. The following approach and assumptions have been applied:

- Revenue from a product is estimated using current market data and projections of market volumes, product price and market share, adjusted for the impact of generics entering the market based on external analysis of the market effect of generics.
- The cash flow forecasts are over 7 years.
- The cash flows have been discounted using a post-tax rate of 12%.

The Group recorded a non-cash impairment loss of $5.647 million (2017: $10.680 million) for the financial year. This is a result of a re-assessment of the estimated future discounted cashflows from the Axiron® product negatively impacted by the termination of the licensing agreement with Eli Lilly and Company and the U.S. Court of Appeals for the Federal Circuit affirming all aspects of the judgment by the United States District Court for the Southern District of Indiana.

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

**(d) Share based payments**
The Group operates two employee share option plans and an omnibus equity plan for issuance of performance rights. The bonus element over the exercise price for the grant of options is recognised as an expense in the Consolidated Statement of Comprehensive Income in the period(s) when the benefit is earned. The value of the bonus element is calculated using a binomial option pricing model. The value of performance rights issued is recognised as an expense in the Consolidated Statement of Comprehensive Income in the period(s) when the benefit is earned. The value of the performance right is calculated using a Monte Carlo simulation pricing model. These pricing models require the input of a number of variables including an estimate of future volatility and a risk free interest rate. Volatility is estimated based on the historical movements in the Company's share price since listing on the Australian Stock Exchange. The risk free interest rate is the Reserve Bank of Australia's cash rate at the options grant date(s).

## 3 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to a variety of financial risks comprising:

(a) Interest rate risk
(b) Currency risk
(c) Credit risk
(d) Liquidity risk
(e) Fair Values

The Board of Directors have overall responsibility for identifying and managing operational and financial risks.

### (a) Interest rate risk

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

The Group's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities at 30 June 2018 are shown in the table on the following page. Cash is the only financial asset or liability that is exposed to interest rate risk. A change in the average effective interest rate of 1% would change the net profit and equity of the Group by approximately $0.3 million (2017: $0.3 million).

At 30 June 2018 the Group had financial instruments with carrying amounts as shown in the following table:

| Financial Instruments | Floating Interest Rate | | Fixed interest rate maturing in: 1 Year or less | | Non interest bearing | | Total carrying amount per balance sheet | | Weighted average effective interest rate * | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | % | % |
| *(i) Financial Assets* | | | | | | | | | | |
| Cash | 869 | 10,126 | 27,600 | 23,847 | 1 | 1 | 28,470 | 33,974 | 2.1 | 1.9 |
| Receivables | - | - | - | - | 261 | 5,532 | 261 | 5,532 | | |
| **Total Financial Assets** | **869** | **10,126** | **27,600** | **23,847** | **262** | **5,533** | **28,731** | **39,506** | | |
| (ii) Financial Liabilities | | | | | | | | | | |
| Trade Creditors | - | - | - | - | 731 | 564 | 731 | 564 | | |
| Sundry Creditors and Accruals | - | - | - | - | 1,235 | 1,255 | 1,235 | 1,255 | | |
| **Total Financial Liabilities** | **-** | **-** | **-** | **-** | **1,966** | **1,819** | **1,966** | **1,819** | | |

* The weighted average interest rate is calculated by dividing interest income for the year over the average cash balance held

### (b) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is exposed to currency risks due to revenue denominated in US dollars and Euro. Currency risk management strategies are regularly reviewed.

Bank accounts denominated in US dollars are maintained in order to facilitate receipts and payments. US denominated cash reserves at 30 June 2018 totalled A$0.2 million (2017: A$9.4 million). A change of 10% in the AUD/USD exchange rate at 30 June 2018 would result in an immaterial change the net profit and equity of the Group (2017: approximately $(1.0) million).

### 3 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

**(b) Currency risk (Continued)**

The balance of receivables at 30 June 2018 includes the right to receive US$0.02 million (2017: US$4.00 million) of USD denominated royalties and EUR0.06 million (2017: EUR0.10 million) of EUR denominated royalties in relation to the fourth quarter of the 2017/18 financial year. A change of 10% in the AUD/USD and AUD/EUR exchange rate at 30 June 2018 would change the consolidated net profit/(loss) and equity immaterially (2017: $0.50 million).

The Group does not enter into forward exchange contracts. At balance date, there were nil (2017: nil) forward exchange contracts. The accounting policy for forward exchange contracts is detailed in Note 1(n).

In future periods, amounts of revenue are expected to be received, and costs are expected to be incurred, in foreign currency.

**(c) Credit risk**

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

Cash reserves form the majority of the Group's financial assets at 30 June 2018. Acrux Limited is a Pooled Development Fund. The Pooled Development Fund Act restricts the investment of cash reserves to deposits with an Australian bank licensed to take deposits. This policy is also followed for all cash held by the other companies within the Group.

**(d) Liquidity risk**

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

The financial liabilities of the Group at the balance date are all expected to mature within three months of the balance date. The Group has sufficient cash reserves, $28.470 million (2017: $33.974 million), to settle these liabilities and to fund operating expenditure for at least two years based on current cashflow forecasts. The Group does not have an overdraft or loan facility. The maturity profile of the Group's cash term deposits is actively managed and compared with forecast liabilities to ensure that sufficient cash is available to settle liabilities as they fall due.

**(e) Fair values**

The fair value of financial assets and financial liabilities approximates their carrying amounts as disclosed in the Consolidated Statement of Financial Position and notes to the consolidated financial statements. Financial assets and liabilities measured and recognised at fair value have been determined by the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: Input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Inputs for the asset or liability that are not based on observable market data

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **4 REVENUE** | | |
| **Revenue from operating activities** | | |
| Revenue from licensing agreements | **2,687** | 23,321 |
| **Other revenues** | | |
| Interest | **671** | 613 |
| Foreign exchange gain | **74** | - |
| Total revenues from non-operating activities | **745** | 613 |
| **Total revenue from continuing operations** | **3,432** | 23,934 |

**5 LOSS FROM CONTINUING OPERATIONS**

Loss from continuing operations before income tax has been determined after the following specific expenses:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Employee benefits expense | | |
| Wages and salaries | **4,108** | 3,541 |
| Superannuation costs | **314** | 292 |
| Other employee benefits expense | **298** | 444 |
| Total employee benefits expense | **4,720** | 4,277 |
| Depreciation of non-current assets | | |
| Plant and equipment | **226** | 111 |
| Buildings | **3** | 2 |
| Total depreciation of non-current assets | **229** | 113 |
| Amortisation of non-current assets | | |
| Intellectual property | **-** | 62 |
| Capitalised research and development | **389** | 1,385 |
| Total amortisation of non-current assets | **389** | 1,447 |
| Total depreciation and amortisation expenses | **618** | 1,560 |
| Impairment losses | **5,647** | 10,680 |
| Rental expense on operating leases | **303** | 303 |
| Foreign exchange loss | **192** | 457 |

**(a) Research and development related costs**

The Company incurs the following expenditure, which is related to product research and development including direct costs and indirect management and overhead costs.*

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Employee costs | **4,190** | 3,981 |
| Laboratory costs | **3,921** | 2,829 |
| Facility costs | **943** | 831 |
| Other costs | **1,525** | 1,606 |
| Research and development related costs | **10,579** | 9,247 |

* This differs from the classification of research and development costs pursuant to AASB138 which only comprises direct costs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

### 6 INCOME TAX

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **(a) Income tax recognised in profit or loss:** | | |
| Current tax | - | 4,197 |
| Deferred tax | **(1,789)** | (3,819) |
| (Over)/under provision in prior years | **(154)** | (229) |
| Income tax (benefit)/expense attributable to profit or loss | **(1,943)** | 149 |
| **(b) Reconciliation of income tax (benefit)/expense** | | |
| The prima facie tax payable on loss before income tax is reconciled to the income tax (benefit)/expense as follows: | | |
| Loss before tax from continuing operations | **(16,125)** | (94) |
| Prima facie income tax payable on loss before income tax at 27.5% (2017: 30.0%) | **(4,434)** | (28) |
| Add/(subtract) tax effect: | | |
| Non-deductible expenses | **66** | 63 |
| (Over)/under provision in prior years | **(154)** | (229) |
| Effective change in tax rates | **(288)** | - |
| Tax losses utilised not previously brought to account | - | (136) |
| Tax losses not brought to account net of deferred tax liability reversed in relation to the amortisation and impairment of Axiron® capitalised development costs | **2,917** | - |
| Parent entity net adjustment and tax losses and temporary differences not brought to account | **(50)** | 479 |
| | **2,491** | 177 |
| Income tax (benefit)/expense attributable to loss | **(1,943)** | 149 |
| **(c) Current tax** | | |
| Opening balance | **1,136** | 3,503 |
| (Over)/under provision in prior years | **(154)** | (229) |
| Provision for current year | - | 4,197 |
| Prior year refund received | **36** | 296 |
| Tax payments | **(1,069)** | (6,631) |
| Current tax (assets)/liability | **(51)** | 1,136 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **6 INCOME TAX (Continued)** | | |
| **(d) Deferred tax** | | |
| Deferred tax relates to the following: | | |
| *Deferred tax assets* | | |
| The balance comprises: | | |
| Accruals and provisions | **136** | 114 |
| Leasehold improvements | **146** | 168 |
| Patent expenses | **786** | 1,141 |
| Exchange differences | **9** | 38 |
| Tax losses/research and development tax offset | **820** | 741 |
| | **1,897** | 2,202 |
| *Deferred tax liabilities* | | |
| The balance comprises: | | |
| Exchange differences | **-** | 48 |
| Intangible assets | **-** | 2,052 |
| Prepayments | **5** | 7 |
| Accrued interest | **11** | 3 |
| | **16** | 2,110 |
| Net deferred tax assets/(liabilities) | **1,881** | 92 |
| **(e) Deferred tax assets not brought to account** | | |
| Temporary differences | **(157)** | 33 |
| Tax losses | **13,517** | 10,992 |
| | **13,360** | 11,025 |
| **7 DIVIDENDS** | | |
| **(a) Dividends paid and declared** | | |
| Nil dividends were paid during the financial year (2017: nil) | - | - |
| **(b) Franking account** | | |
| Balance of franking account on a tax paid basis at financial year-end adjusted for franking credits arising from payment of income tax and dividends recognised as receivables, franking debits arising from payment of dividends and any credits that may be prevented from distribution in subsequent years: | **43,870** | 42,837 |
| **8 LOSS PER SHARE** | | |
| Loss from continuing operations | **(14,182)** | (243) |
| Loss used in calculating basic and diluted earnings per share | **(14,182)** | (243) |
| | **No. of shares** | **No. of shares** |
| Weighted average number of ordinary shares used in calculating basic earnings per share | **166,521,711** | 166,521,711 |
| Effect of dilutive securities: | | |
| Employee Share Options and Performance Rights | **-** | - |
| Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share | **166,521,711** | 166,521,711 |
| Basic loss per share (cents) | **(8.52)** | (0.15) |
| Diluted loss per share (cents) | **(8.52)** | (0.15) |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **9 CASH AND CASH EQUIVALENTS** | | |
| Cash at bank | **870** | 10,127 |
| Deposits at call | **27,600** | 23,847 |
| | **28,470** | 33,974 |

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **10 RECEIVABLES** | | |
| Trade receivables | **155** | 5,487 |
| Other receivables | **106** | 45 |
| | **261** | 5,532 |

**(a) Provision for impairment**

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

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **11 OTHER CURRENT ASSETS** | | |
| Prepayments | **179** | 91 |
| | **179** | 91 |

| **12 PLANT AND EQUIPMENT** | **NOTES** | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| *Leasehold improvements* | | | |
| At cost | | **1,151** | 1,145 |
| Accumulated amortisation | | **(1,121)** | (1,118) |
| Total leasehold improvements | 12 (a) | **30** | 27 |
| *Plant and equipment* | | | |
| At cost | | **1,213** | 924 |
| Accumulated depreciation | | **(398)** | (173) |
| Total plant and equipment | 12 (a) | **815** | 751 |
| Total plant and equipment | | **845** | 778 |

**(a) Reconciliations**

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

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| *Leasehold improvements* | | |
| Carrying amount at beginning | **27** | 21 |
| Additions | **6** | 8 |
| Amortisation expense | **(3)** | (2) |
| | **30** | 27 |
| *Plant and equipment* | | |
| Carrying amount at beginning | **751** | 241 |
| Additions | **290** | 621 |
| Depreciation expense | **(226)** | (111) |
| | **815** | 751 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

| 13 INTANGIBLE ASSETS | NOTES | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| Intellectual Property | | | |
| At cost | | **1,200** | 1,200 |
| Accumulated amortisation | | **(1,200)** | (1,200) |
| | 13 (a) | **-** | - |
| Capitalised development | | | |
| *Estradiol* | | | |
| External development expenditure capitalised | | **1,071** | 1,071 |
| Accumulated amortisation | | **(268)** | (160) |
| | 13 (a) | **803** | 911 |
| *Axiron ®* | | | |
| External development expenditure capitalised | | **23,171** | 23,171 |
| Accumulated amortisation and impairment losses | | **(23,171)** | (17,243) |
| | 13 (a) | **-** | 5,928 |
| Net carrying amount | | **803** | 6,839 |
| Total intangible assets | | **803** | 6,839 |

**(a) Reconciliations**

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

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| *Intellectual Property* | | |
| Carrying amount at beginning | **-** | 62 |
| Amortisation | **-** | (62) |
| | **-** | - |
| *Capitalised development* | | |
| *Estradiol* | | |
| Carrying amount at beginning | **911** | 1,017 |
| Additions | **-** | - |
| Amortisation | **(108)** | (106) |
| | **803** | 911 |
| *Axiron ®* | | |
| Carrying amount at beginning | **5,928** | 17,887 |
| Additions | | - |
| Amortisation | **(281)** | (1,279) |
| Impairment losses recognised | **(5,647)** | (10,680) |
| | **-** | 5,928 |

The remaining useful life of Estradiol Capitalised Development is approximately 7 years.

Further details of the impairment loss please see note 2(b) of the financial report.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

### 14 PAYABLES

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Current | | |
| Trade creditors | **731** | 564 |
| Sundry creditors and accruals | **1,235** | 1,255 |
| | **1,966** | 1,819 |

### 15 PROVISIONS

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Current | | |
| Employee entitlements | **518** | 407 |
| Non-current | | |
| Employee entitlements | **35** | 19 |
| Aggregate employee entitlements liability | **553** | 426 |

### 16 CONTRIBUTED EQUITY

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | No. of shares | $'000 | No. of shares | $'000 |
| **(a) Issued and paid up capital** | | | | |
| Ordinary shares fully paid | **166,521,711** | **95,873** | 166,521,711 | 95,873 |
| **(b) Movements in shares on issue** | | | | |
| Beginning of the financial year | **166,521,711** | **95,873** | 166,521,711 | 95,873 |
| Issued during the year: | | | | |
| - Employee share option plans | - | - | - | - |
| Less Capital Raising Expenses | - | - | - | - |
| Fair value of shares issued on exercise of employee share options | - | - | - | - |
| Contributions from share issues | - | - | - | - |
| At reporting date | **166,521,711** | **95,873** | **166,521,711** | **95,873** |

**(c) Share options and performance rights**

Employee Share Option Plan

The Group operates two Employee Share Option Plans. During the financial year no options were exercised (2017: Nil), nil new options were issued under the plans during the financial year (2017: 1,800,000). Options hold no participation rights, but shares issued on exercise of options rank equally with existing shares. At 30 June 2018, 2,000,000 options were held by key management personnel (2017: 4,330,000).

Omnibus Equity Plan

The Group operates an Omnibus Equity Plan, approved by shareholders at the 2017 Annual General Meeting. During the financial year 4,836,000 performance rights were issued under the plan (2017: nil). Performance rights hold no participation rights, but shares issued on exercise of performance rights rank equally with existing shares. At 30 June 2018, 4,485,000 performance rights were held by key management personnel (2017: nil).

The closing market value of an ordinary Acrux Limited share on the Australian Stock Exchange at 29 June 2018 was $0.15.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

### 16 CONTRIBUTED EQUITY (Continued)

| | 2018 No. | 2017 No. |
|---|---|---|
| **(i) Movement in the number of share options held under Employee Share Option Plan are as follows:** | | |
| Opening balance | **4,774,000** | 5,139,000 |
| Granted during the financial year | **-** | 1,800,000 |
| Exercised during the financial year | **-** | - |
| Lapsed during the financial year | **(2,774,000)** | (2,165,000) |
| Closing balance | **2,000,000** | 4,774,000 |

| | $'000 | $'000 |
|---|---|---|
| **(ii) Details of share options exercised during the financial year:** | | |
| Proceeds from shares issued | **-** | - |
| Fair value as at issue date of shares issued during the financial year | **-** | - |

| | 2018 No. | 2017 No. |
|---|---|---|
| **(iii) Details of lapsed options** | | |
| Key management personnel | **2,330,000** | 1,260,000 |
| Employees | **444,000** | 905,000 |
| Lapsed during the year | **2,774,000** | 2,165,000 |

| | 2018 No. | 2017 No. |
|---|---|---|
| **(iv) Movement in the number of performance rights held under Omnibus Equity Plan: are as follows:** | | |
| Opening balance | **-** | - |
| Granted during the financial year | **4,836,000** | - |
| Exercised during the financial year | **-** | - |
| Lapsed during the financial year | **-** | - |
| Closing balance | **4,836,000** | - |

| | $'000 | $'000 |
|---|---|---|
| **(v) Details of performance rights exercised during the financial year:** | | |
| Proceeds from shares issued | **-** | - |
| Fair value as at issue date of shares issued during the financial year | **-** | - |

| | 2018 No. | 2017 No. |
|---|---|---|
| **(vi) Details of lapsed performance rights** | | |
| Key management personnel | **-** | - |
| Employees | **-** | - |
| Lapsed during the year | **-** | - |

**(d) Capital management**

When managing capital, the Directors' objective is to ensure the entity continues as a going concern and optimises returns to shareholders and benefits for other stakeholders. During 2018 financial year, the Board paid dividends of nil (2017: nil). The amounts and ratio of future dividends have not been determined.

## 17 SHARE BASED PAYMENTS

### (a) Employee Share Option Plans

Details of the options granted are provided below:

| Grant date | Expiry date | Exercise price | Balance at beginning of the year | Granted during the year | Exercised during the year | Expired during the year | Balance at end of the year | Exercisable at end of the year |
|---|---|---|---|---|---|---|---|---|
| 03-Feb-15 | 03-Feb-18 | $ 1.32 | 2,000,000 | - | - | (2,000,000) | - | - |
| 22-Jul-15 | 22-Jul-18 | $ 1.11 | 1,000,000 | - | - | - | 1,000,000 | 1,000,000 |
| 22-Jul-16 | 22-Jul-19 | $ 0.96 | 1,000,000 | - | - | - | 1,000,000 | 1,000,000 |
| 25-Jan-17 | 25-Jan-21 | $ 0.36 | 774,000 | - | - | (774,000) | - | - |
| | | | 4,774,000 | - | - | (2,774,000) | 2,000,000 | 2,000,000 |

The weighted average remaining contractual life for share options outstanding at the end of the period was 0.56 years.

The fair value of the options granted on 25 January 2017 was 15 cents per option at the date of grant. Fair value was determined using the binomial option pricing model. The following inputs were utilised:
Exercise price: $0.36
Grant date: 25 January 2017
Performance period: 12 months from grant date
Expiry date: 25 January 2021, assuming performance metrics achieved
Share price at grant date: $0.32
Expected price volatility of the Company's shares: 64%
Expected dividend yield: nil

The fair value of the options granted on 22 July 2016 was 19 cents per option at the date of grant. Fair value was determined using the binomial option pricing model. The following inputs were utilised:
Exercise price: $0.96
Grant date: 22 July 2016 Expiry date: 22 July 2019
Share price at grant date: $0.78
Expected price volatility of the Company's shares: 44%
Expected dividend yield: nil

The fair value of the options granted on 22 July 2015 was 23 cents per option at the date of grant. Fair value was determined using the binomial option pricing model. The following inputs were utilised:
Exercise price: $1.11
Grant date: 22 July 2015 Expiry date: 22 July 2018
Share price at grant date: $0.94
Expected price volatility of the Company's shares: 64%
Expected dividend yield: 8.99%

The fair value of the options granted on 3 February 2015 was 38 cents per option at the date of grant. Fair value was determined using the binomial option pricing model. The following inputs were utilised:
Exercise price: $1.32
Grant date: 3 February 2015 Expiry date: 3 February 2018
Share price at grant date: $1.45
Expected price volatility of the Company's shares: 57%
Expected dividend yield: 8.99%

## 17 SHARE BASED PAYMENTS (Continued)

### (b) Omnibus Equity Plan

Details of the performance rights granted are provided below:

| Grant date | Expiry date | Balance at beginning of the year | Granted during the year | Exercised during the year | Expired during the year | Balance at end of the year | Exercisable at end of the year |
|---|---|---|---|---|---|---|---|
| 14-Nov-17 | 14-Nov-24 | - | 4,000,000 | - | - | 4,000,000 | - |
| 25-Jan-18 | 25-Jan-25 | - | 836,000 | - | - | 836,000 | - |
| | | - | 4,836,000 | - | - | 4,836,000 | - |

The weighted average remaining contractual life for share options outstanding at the end of the period was 6.48 years.

The fair value of the performance rights granted on 14 November 2017 was 9 cents per performance right at the date of grant. Fair value was determined using the Monte Carlo simulation pricing model. The following inputs were utilised:
Grant date: 14 November 2017
Expiry date: 14 November 2024
Share price at grant date: $0.17
Expected price volatility of the Company's shares: 63%
Expected dividend yield: nil
Risk free rate: 2.24%

The fair value of the performance rights granted on 25 January 2018 was 11 cents per performance right at the date of grant. Fair value was determined using the Monte Carlo simulation pricing model. The following inputs were utilised:
Grant date: 25 January 2018
Expiry date: 25 January 2025
Share price at grant date: $0.17
Expected price volatility of the Company's shares: 64%
Expected dividend yield: nil
Risk free rate: 2.45%

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **(c) Expenses recognised from share-based payment transactions** | | |
| The expense recognised in relation to the share-based payment transactions was recorded within share options expense in the statement of comprehensive income were as follows: | | |
| Options issued under the Employee Share Option Plans | **57** | 275 |
| Performance rights issued under the Omnibus Equity Plan | **171** | - |
| Total expenses recognised from share based payment transactions | **228** | 275 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

| 18 RESERVES AND ACCUMULATED LOSSES | Notes | 2018 | 2017 |
|---|---|---|---|
| Share based payment reserve | 18 (a) | **581** | 1,215 |
| Accumulated losses | 18 (b) | **(66,483)** | (53,163) |

**(a) Share based payment reserve**

*(i) Nature and purpose of reserve*

This reserve is used to record the value of equity benefit provided to employees and Directors as part of their remuneration. Refer note 16 for details.

*(ii) Movement in reserve*

| | 2018 | 2017 |
|---|---|---|
| Balance at the beginning of year | **1,215** | 1,454 |
| Employee share option expense for the year (including adjustment for service conditions not met) | **-** | 279 |
| Employee performance rights expense for the year | **228** | - |
| Employee share options previously expensed, that lapsed during the year | **(862)** | (518) |
| Balance at end of year | **581** | 1,215 |

**(b) Accumulated losses**

| | 2018 | 2017 |
|---|---|---|
| Balance at the beginning of year | **(53,163)** | (53,438) |
| Employee share options that lapsed during the year | **862** | 518 |
| Net loss attributable to members of Acrux Limited | **(14,182)** | (243) |
| Accumulated losses at reporting date | **(66,483)** | (53,163) |

### 19 CASH FLOW INFORMATION

**(a) Reconciliation of the cash flow from operations with loss after income tax:**

| | 2018 | 2017 |
|---|---|---|
| Loss from ordinary activities after income tax | **(14,182)** | (243) |
| **Non-Cash Items** | | |
| Depreciation and amortisation | **618** | 1,560 |
| Share options expense | **228** | 279 |
| Unrealised foreign exchange (gains)/losses | **(74)** | 133 |
| Impairment losses | **5,647** | 10,680 |
| **Changes in assets and liabilities** | | |
| Decrease in tax liabilities | **(1,187)** | (2,367) |
| Decrease/(Increase) in trade and other receivables | **5,271** | (822) |
| Increase in other current assets | **(88)** | (18) |
| Increase/(decrease) in payables | **147** | (81) |
| Increase in employee entitlements | **127** | 74 |
| Increase in deferred tax assets | **(1,789)** | (3,819) |
| | **8,900** | 5,619 |
| Net cash (outflows)/inflows from operating activities | **(5,282)** | 5,376 |

## 19 CASH FLOW INFORMATION (Continued)

### (b) Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position is as follows:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| - Cash at bank | **870** | 10,127 |
| - At call deposits with financial institutions | **27,600** | 23,847 |
| Closing cash balance | **28,470** | 33,974 |

### (c) Credit stand-by arrangement and loan facilities

The Group has credit card facilities with financial institutions available to the extent of $120,000 (2017: $120,000). As at 30 June 2018 the Group had unused facilities of $108,631 (2017: $100,029).

## 20 NON-CONTROLLING INTERESTS

The Group holds nil (2017: nil) non-controlling interests at balance date.

## 21 COMMITMENTS

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Lease expenditure commitments** | | |
| Operating leases non-cancellable and contracted for but not capitalised in the accounts | | |
| - Not later than one year | **315** | 312 |
| - Later than one year and not later than five years | **994** | - |
| Aggregate lease expenditure contracted for at reporting date | **1,309** | 312 |

The operating lease relates to office, laboratory and warehouse facilities for which the lease was renewed by Acrux DDS Pty Ltd for a period of 4 years from 1 June 2018, with options to extend for a further two periods of 2 years each. Acrux DDS Pty Ltd does not have an option to purchase the leased asset at the expiry of the lease period.

## 22 KEY MANAGEMENT PERSONNEL COMPENSATION

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

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Compensation by category:** | | |
| Short-term employment benefits | **1,732,040** | 1,692,675 |
| Post-employment benefits | **109,798** | 117,178 |
| Equity | **179,885** | 222,686 |
| | **2,021,723** | 2,032,539 |

## 23 LOANS TO KEY MANAGEMENT PERSONNEL

There were no loans made to Key Management Personnel during the financial year.

## 24 RELATED PARTY DISCLOSURES

**Wholly owned group transactions**

**Loans**

Loans were made between Acrux Limited and its subsidiaries under normal terms and conditions. The aggregate amounts receivable from controlled entities by the parent entity at the end of the reporting period was $105,503 (2017 payable: $8,028,827).

Non-interesting bearing loans were made by Acrux Commercial Pty Ltd to its subsidiary, Fempharm Pty Ltd. The aggregate amount receivable from Fempharm Pty Ltd at the end of the reporting period was $40,023 (2017: $5,233,091).

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

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

## 25 AUDITOR'S REMUNERATION

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Amounts paid and payable to Pitcher Partners for: | | |
| (i) Audit and other assurance services | | |
| - An audit or review of the financial report of the entity and any other entity in the Group | **111,984** | 110,294 |
| - Taxation compliance and consulting | **31,955** | 49,490 |
| - Other non-audit services | **300** | 55,398 |
| | **144,239** | 215,182 |

## 26 SEGMENT REPORTING

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

| **Geographical segment information** | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| *Revenue* | | |
| Australia | **745** | 613 |
| Switzerland (1) | **2,231** | 22,785 |
| United States | **129** | 356 |
| Other | **327** | 180 |
| | **3,432** | 23,934 |

*(1) Axiron revenue is receivable from a Swiss subsidiary of Eli Lilly and Company*

All assets are located in Australia.

| **Product information** | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| *Revenue by product group / service* | | |
| Axiron | **2,231** | 22,785 |
| Other | **1,201** | 1,149 |
| | **3,432** | 23,934 |

## 27 CONTROLLED ENTITIES

| | COUNTRY OF INCORPORATION | PERCENTAGE OWNED 2018 | 2017 |
|---|---|---|---|
| **Parent Entity** | | | |
| Acrux Limited | Australia | | |
| **Subsidiaries of Acrux Limited** | | | |
| Acrux DDS Pty Ltd | Australia | **100%** | 100% |
| Acrux Pharma Pty Ltd | Australia | **100%** | 100% |
| Acrux Commercial Pty Ltd | Australia | **100%** | 100% |
| **Subsidiaries of Acrux Commercial Pty Ltd** | | | |
| Fempharm Pty Ltd | Australia | **100%** | 100% |

## 28 PARENT ENTITY DETAILS

| | PARENT ENTITY 2018 | 2017 |
|---|---|---|
| Summarised presentation of the parent entity, Acrux Limited, financial statements: | **$'000** | **$'000** |
| **(a) Summarised statement of financial position** | | |
| **Assets** | | |
| Current assets | **8,304** | 18,429 |
| Non-current assets (1) | **8,855** | 19,000 |
| Total assets | **17,159** | 37,429 |
| **Liabilities** | | |
| Current liabilities | **866** | 10,501 |
| Non-current liabilities | **8** | - |
| Total liabilities | **874** | 10,501 |
| **Net assets** | **16,285** | 26,928 |
| **Equity** | | |
| Share capital | **95,873** | 95,873 |
| Profit reserve | **7,390** | 7,390 |
| Accumulated losses | **(87,559)** | (77,550) |
| Share based payments reserve | **581** | 1,215 |
| **Total equity** | **16,285** | 26,928 |
| **(b) Summarised statement of comprehensive income** | | |
| Loss for the financial year | **(10,871)** | (1,001) |
| Other comprehensive income for the financial year | **-** | - |
| Total comprehensive income for the financial year | **(10,871)** | (1,001) |

(1) Investment in subsidiaries are recognised initially at cost and subsequently carried at the lower of cost or recoverable amount. If the carrying value exceeds the recoverable amount, an impairment loss is recognised in the profit or loss of the parent which can subsequently be reversed in certain conditions.

During the financial year, as a result of an internal restructure of subsidiary activities the parent entity re-assessed the carrying value of its investment in Acrux DDS Pty Ltd which resulted in a non-cash impairment loss of $10.145 million. This impairment loss is eliminated on consolidation. It has no impact on the Group's current and future financial performance.

## 29 CONTINGENCIES

There were no contingencies at 30 June 2018 (2017: Nil).

## 30 SUBSEQUENT EVENTS

There has been no matter or circumstance which has arisen since 30 June 2018 that has significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to 30 June 2018, of the Group, or
(b) the results of those operations, or
(c) the state of affairs, in financial years subsequent to 30 June 2018, of the Group.

## 31 COMPANY DETAILS

The registered office of the company is:
Acrux Limited
103 – 113 Stanley Street
West Melbourne VIC 3003

## DIRECTORS' DECLARATION

The directors declare that:

1 In the Directors' opinion, the financial statements and notes thereto, as set out on pages 2 to 46, are in accordance with the Corporations Act 2001, including:

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

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

(c) giving a true and fair view of the financial position of the Group as at 30 June 2018 and of its performance for the year ended on that date.

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

This declaration has been made after receiving the declarations required to be made by the Chief Executive Officer and Chief Financial Officer to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2018.

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

| | |
|---|---|
| ............................................ | ............................................ |
| **Ross Dobinson** | **Geoff Brooke** |
| Non-Executive Chairman | Non-Executive Director |
| Melbourne | Melbourne |
| Dated this 16th day of August 2018 | Dated this 16th day of August 2018 |

**ACRUX LIMITED**
**AND CONTROLLED ENTITIES**
**ABN 72 082 001 152**

**INDEPENDENT AUDITOR'S REPORT**
**TO THE MEMBERS OF**
**ACRUX LIMITED**

## Report on the Audit of the Financial Report

*Opinion*

We have audited the financial report of Acrux Limited "the Company" and its controlled entities "the Group", which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

*Basis for Opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* "the Code" that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**ACRUX LIMITED**
**AND CONTROLLED ENTITIES**
**ABN 72 082 001 152**

**INDEPENDENT AUDITOR'S REPORT**
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| Key Audit Matter | How our audit addressed the key audit matter |
|---|---|
| Assessment of impairment of Intangible Assets<br><br>Refer to page 20 consolidated balance sheet, note 2(b) on page 30 and note 13 on page 37. | |
| The Group has $0.8 million ($6.8 million as at 30 June 2017) of capitalised development costs as at 30 June 2018 after impairment loss. An impairment loss of $5.6 million was recorded during the financial year in relation to the capitalised Axiron development costs. We view intangible assets in relation to capitalised development costs to be a Key Audit Matter due to the management judgement required in making Discounted Cash Flow (DCF) model assumptions such as discount rate, growth rate, foreign exchange rate and forecast cashflows. | Our procedures included amongst others:<br>• Critically evaluating management's DCF model methodology and their key assumptions utilised;<br>• Testing the mathematical accuracy of the DCF model and assessing forecast cash flows to external data;<br>• Performing sensitivity analysis around the discount rate, growth rates and foreign exchange rate used in the DCF model;<br>• Understanding and evaluating management's processes and controls around the impairment of intangible assets; and<br>• Assessing the appropriateness of the disclosures included in Notes 2 and 13 to the financial report in respect of impairment testing and sensitivity analysis. |

| **Key Audit Matter** | **How our audit addressed the key audit matter** |
|---|---|
| Recoverability of Deferred Tax Assets<br><br>Refer to note 1(j) on page 26, note 2(a) on page 30 and note 6 on page 35. | |
| The Group has $1.8 million of deferred tax assets recognised at 30 June 2018 ($2.2 m at 30 June 2017) relating to timing differences and Research and Development offset incurred by the subsidiary Acrux DDS Pty Ltd.<br><br>The ability to recognise the deferred tax assets is dependent upon the probable generation of sufficient future taxable profit in order for the benefits of the deferred tax assets to be realised, in accordance with AASB 112. These benefits are realised by reducing tax payable on future taxable profits.<br><br>We view the deferred tax assets as a Key Audit Matter due to the management judgement required in forecasting future taxable profit. Management's assumptions include but are not restricted to:<br>• Ongoing profitable contract research and development activities;<br>• Successful commercialisation of generics; and<br>• The number of competitors in the market, market share and royalty rates. | Our procedures included but were not limited to:<br><br>• Reviewing and assessing management's key assumptions relating to the forecasts of future taxable profit and evaluating the reasonableness of these assumptions;<br>• Undertaking sensitivity analysis around the forecast cashflows in order to challenge management's assumptions;<br>• Understanding and evaluating management's processes around the recognition of deferred tax assets; and<br>• Assessing the appropriateness of the disclosures included in Note 6 in respect of current and deferred tax balances. |

*Other Information – The annual report is not complete at the date of the audit report*

The directors are responsible for the other information. The other information comprises the Directors Report which was obtained as at the date of our audit report, and any additional other information included in the Company's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received as identified above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgment to determine the appropriate action to take.

*Responsibilities of the Directors 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 preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

*Auditor's Responsibilities for the Audit of the Financial Report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on the Remuneration Report**

*Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 10 to 16 of the directors' report for the year ended 30 June 2018. In our opinion, the Remuneration Report of Acrux Limited and its controlled entities, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

*Responsibilities*

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.

S SCHONBERG
Partner

PITCHER PARTNERS
Melbourne

16 August 2018